

The Long Term Impact of a Decade of Pension Reforms in Italy: A Microsimulation Study

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Extended Abstract

The rapid population aging of most Oecd countries is increasingly putting pressure on the sustainability of public pension systems. Italy adds to this picture a very low labour market participation of the elderly, so that most projections of the impact of ageing on the labour market and the public budget are rather pessimistic. Estimates of the implicit pension debt for Italy in the mid '90s ranged between 240 and 350% of GDP (Holzmann et al., 2001), with a level of the annual expenditure for public pensions of more than 13% of GDP (Italian Ministry of Finance, 2002). These values were among the highest in Oecd countries, and were expected to rise to unsustainable levels as the baby-boom generation would approach retirement age. As a response, in the years 1992-2004 Italy has experienced a significant wave of reforms – under the Amato (1992), Dini (1995), Prodi (1997), D'Alema (1999), Amato again (2000) and Berlusconi (2004) governments. The main changes are the passage from a defined-benefit to a defined-contributions system, and the introduction, aside of the first (state) pillar, of a second (occupational) and a third (individual) pillars. Workers who have started working before 1995 are now in a mixed regime, while workers who have started working after 1995 are in a defined-contributions regime. Moreover, the eligibility criteria have also become more stringent, although the change is smoothed along a transition period that will last until 2015.

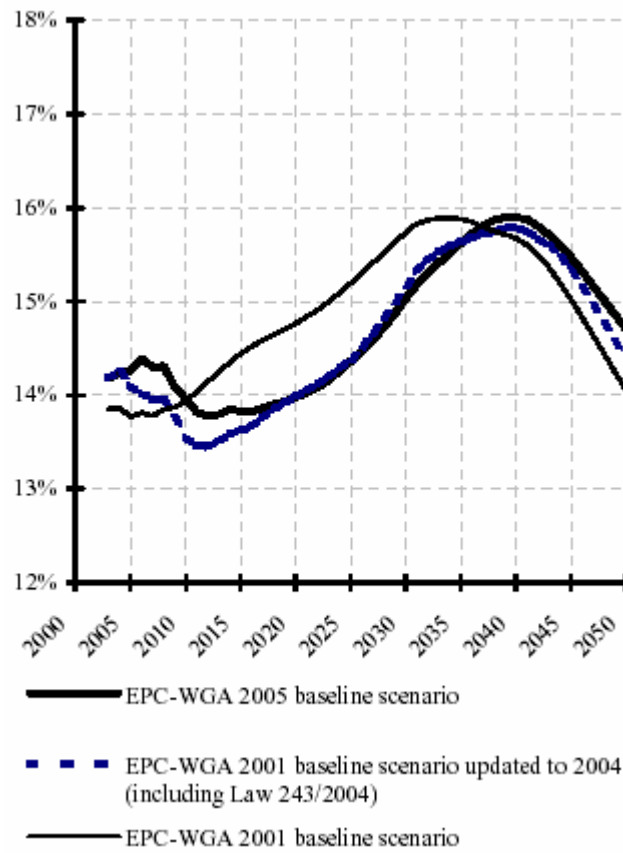
However, as a consequence of the public perception about the direction of the change, and the uncertainty about the reform process, many workers decided to retire as early as possible. Thus, the level of public pension expenditure has greatly increased during the period, reaching 14.2% of GDP in 2004 (RGS, 2006), the highest among EU 25 countries (the EU 25 and EU 15 average is 10.6%) (EPC 2006).

Due to the long transition period (workers in the new defined-contribution scheme will retire with a full 40-year seniority no earlier than in 2035), the effects of the reforms will show up only in the medium run. Although there is no doubt that they will be significant (figure 1 shows how the projections about public pension expenditures have changed between 2001 and 2005), the fact that the system is still financially based on a pay-as-you-go scheme will still pose a threat to its financial sustainability.

In this paper we use *LABORsim* – a dynamic ageing, discrete-event, probabilistic agent-based microsimulation model of labour supply (Leombruni and Richiardi, 2006) – to assess the impact of the reforms. *LABORsim* integrates current demographic projections with simulation modules modelling retirement rules, retirement behaviours, migration, education and participation choices, and has allowed to substantially challenge the received view (OECD, 2004; EC, 2003) on the likely evolution of the labor force in the forthcoming decades in Italy. This allows an evaluation of the impact of the Berlusconi 2004 reform (also called Maroni reform, after the name of the Welfare Minister) along its transition path. Figures 2, 3 and 4 show that the impact is going to become significant only after 2020, at a moment however when it will be most needed.

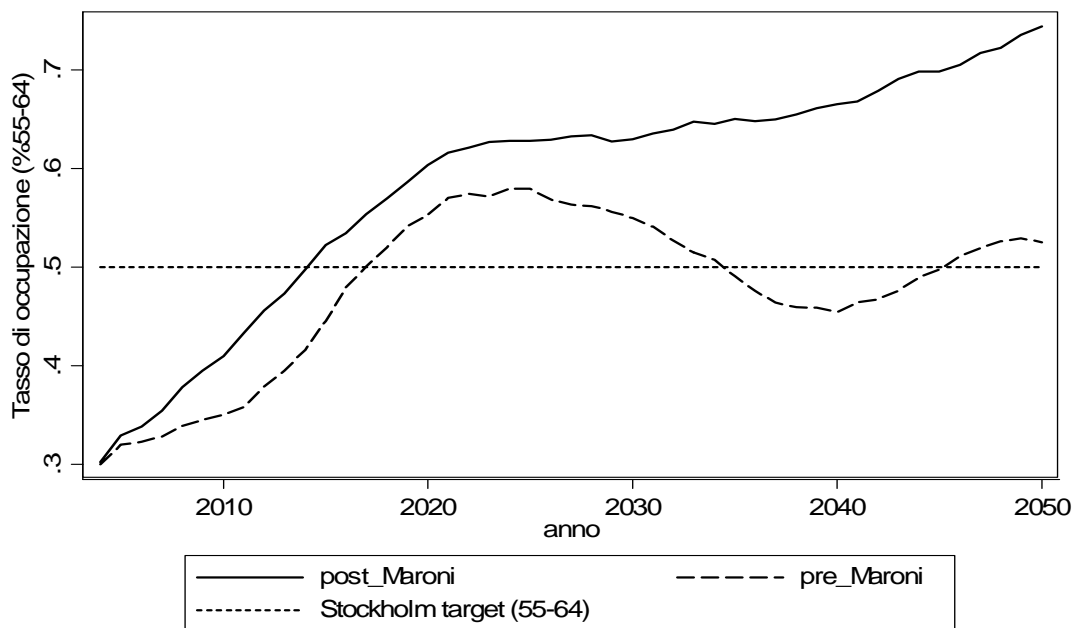
Moreover, we reconstruct the counterfactual evolution of the number of eligible and retired workers without the reforms and under the different waves of reform, and – neglecting what happened during the transition period – compare it with the projections under the current law. We thus provide a first comprehensive and homogenous assessment of the impact of a decade of pension reforms in Italy.

Figure 1: Expenditure for public pensions, % of GDP (EPC-WGA projections)



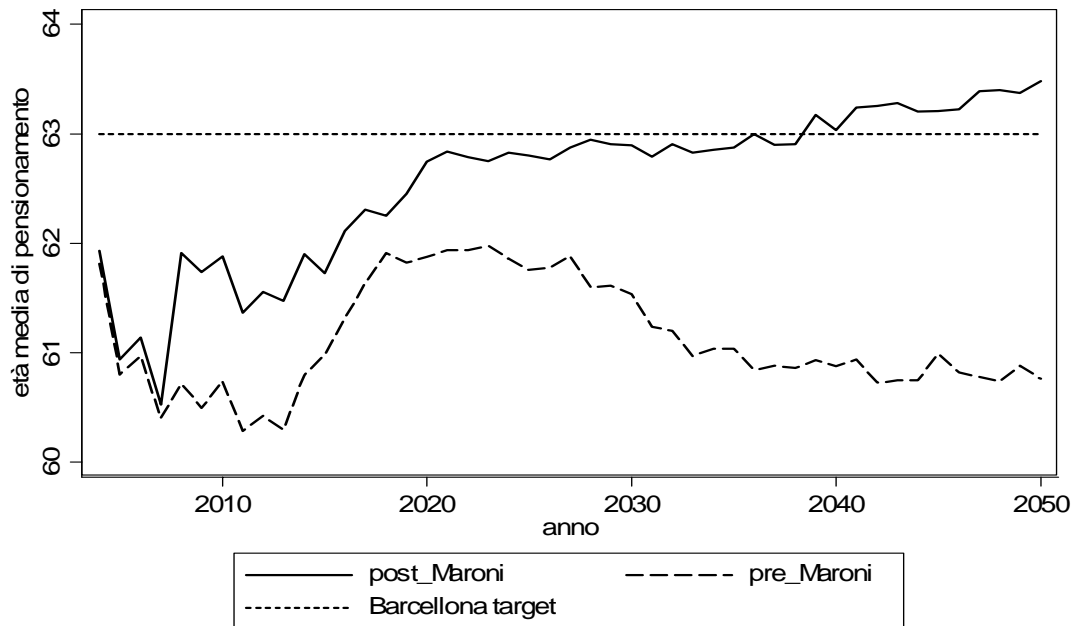
Source: EPC (2006)

Figure 2: Employment rate, workers aged 55-64



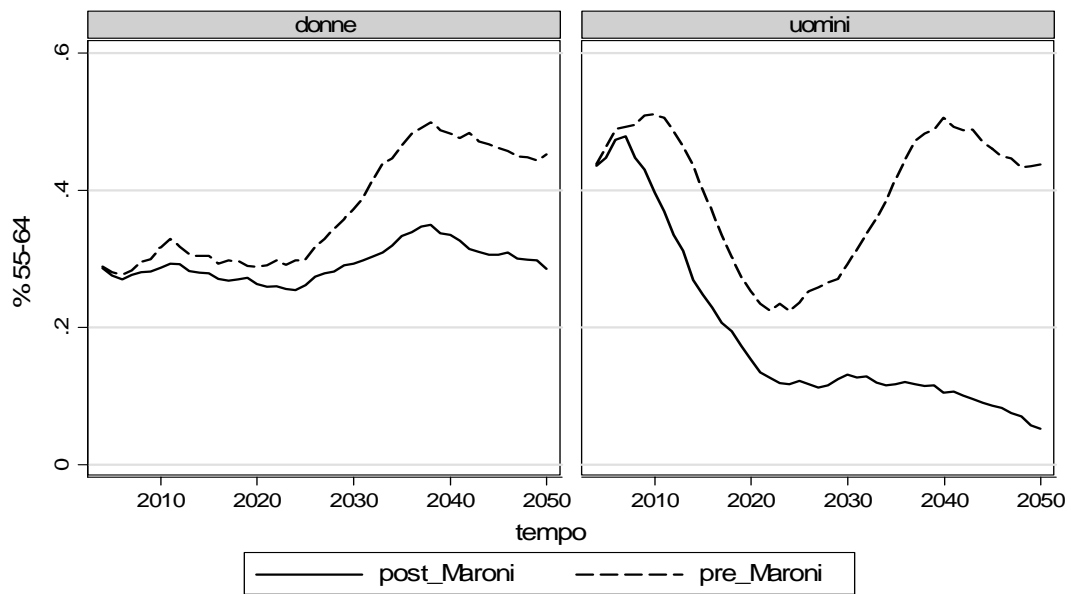
Source: *LABORsim* projections

Figure 3: Average retirement age



Source: *LABORsim* projections

Figure 4: Share of people aged 55-64 who are pension holders, males (left) and females (right)



Graphs by genere

Source: *LABORsim* projections

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