Private pensions in Italy
Is there life beyond the first pillar?

Mario Padula
Ca’ Foscari University of Venice and CSEF

October 4, 2023

CEPR European Conference on Household Finance 2023, Collegio Carlo Alberto, University of Turin
Institutional background

- Enrollments and contributions are voluntary. Private pensions start being regulated in 1993 (Legislative Decree 124, April 21, 1993), but at time pension funds were already available for selected workers categories (mostly in the banking and insurance industries): the so-called Pre-existing pension funds.

- The system takes-off at the end of the nineties: the biggest (in terms of asset under management) Italian pension fund (Fondo Cometa, for metal workers and mechanical engineers) has been founded in 1997.

- Beyond the pension funds already available at the time of the reform, the so-called pre-existing pension funds, the system is made of:
  - Closed pension funds, similar to US 401(k), but anchored to national labor contracts, collective enrollment;
  - Open pension funds, offered by banks, insurance and asset management companies, collective and individual enrollment;
  - Individual pension plans (PIP), offered by insurance companies, individual enrolment.
## Enrollments, assets and contributions

<table>
<thead>
<tr>
<th>Pension funds</th>
<th>Accounts</th>
<th>Members</th>
<th>Assets</th>
<th>Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed pension funds</td>
<td>33</td>
<td>3,806,064</td>
<td>3,695,940</td>
<td>61,101</td>
</tr>
<tr>
<td>Open pension funds</td>
<td>40</td>
<td>1,841,702</td>
<td>1,796,429</td>
<td>28,047</td>
</tr>
<tr>
<td>Individual pension plans (PIP)</td>
<td>68</td>
<td>3,698,145</td>
<td>3,526,638</td>
<td>45,492</td>
</tr>
<tr>
<td>Pre-existing pension funds</td>
<td>191</td>
<td>676,092</td>
<td>647,564</td>
<td>64,338</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>332</strong></td>
<td><strong>10,022,003</strong></td>
<td><strong>8,972,305</strong></td>
<td><strong>198,978</strong></td>
</tr>
</tbody>
</table>

*Note: asset under management and contributions in millions euro. Source, COVIP 2022 annual report.*

- **332 pension funds** operate in the system;
- over **10 millions of accounts**;
- just below **9 millions of members**;
- about **200 billions of assets under management**.
Participation rates and average contributions

- As of the most recent COVIP annual report, the participation rate, computed as number of members divided by the labor force, is 36.2%, and contributions are on average 2,770 euro.

- But there are large geographical differences.

Note: Source, COVIP 2022 annual report.
Is the system big?

Note: asset under management divided by GDP. Source: COVIP 2022 annual report.
Asset under management and contributions to the first pillar

*Note:* *x-axis* asset under management divided by GDP, *y-axis* first pillar contribution rate. Source: COVIP 2022 annual report.
Tax and financial regulation

- The **tax regulation** is national, the **financial regulation** is both national and European.

- The **same** tax and financial regulation applies to **all pension funds**.

- The **ETT model** applies: contributions are **tax-deductible** up to 5,164.57 euro, **returns** (20%) and **benefits** (from 15% to 9% depending on years of enrollment) are taxed.

- **Financial regulation** is based on the **prudent man approach**, though there are some portfolio constraints on **illiquid assets** (really not binding!).
How the system works

Pension funds in Italy:

- are defined contribution schemes (a part from very few exceptions among the pre-existing pension funds);
- rely on the individual capitalization of contributions through their investment in financial markets;
- directly or indirectly (closed pension funds) invest members’ contributions in financial markets;
- pay pension benefits as a lump-sum (up to 50% of the capitalized sum of contributions) or as an annuity when the members retire or after retirement;
- provide a limited number of additional benefits, beyond pension benefits;
- offer up to 4 investment choices, according to the exposure to equity, ranging from the Guaranteed Contract Investment (no equity) to the Bond-oriented (less than 30% equities), the Balanced (equities between 30 and 50%), and the Equity-oriented (at least 50% equities) sub-funds.
Investment choices

Average annualized returns, 2013-2022

The Guaranteed Investment Contract is the default option.

There is some inertia in investment choices, though there are no limits to switch between investment lines and to spread contributions across investment lines simultaneously (a very tiny minority of members actually does it).

Investing in the Guaranteed Investment Contract seems to exhibit a positive age-gradient, but impossible to disentangle age, cohort and time effect (without imposing further restrictions).
Note: asset under management composition by asset class. Source: COVIP 2022 annual report.
Conclusions

- The Italian private pension system is small by international standards, but not that small, given the size of the first pillar.
- The exposure to equity is limited: a large fraction of members invest in the Guaranteed Investment Contract only, in spite of the low returns.
- There is room for improving households portfolio choice: financial education or financial architecture?