Private pensions in Italy

Is there life beyond the first pillar?

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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

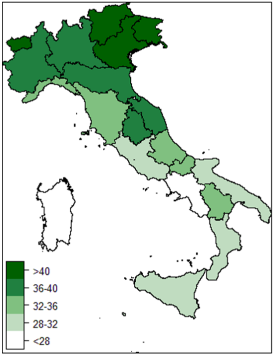
	Pension funds	Accounts	Members	Assets	Contributions
Closed pension funds	33	3,806,064	3,695,940	61,101	6,051
Open pension funds	40	1,841,702	1,796,429	28,047	2,846
Individual pension plans (PIP)	68	3,698,145	3,526,638	45,492	4,985
Pre-existing pension funds	191	676,092	647,564	64,338	4,103
Total	**332**	**10,022,003**	**8,972,305**	**198,978**	**17,985**

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

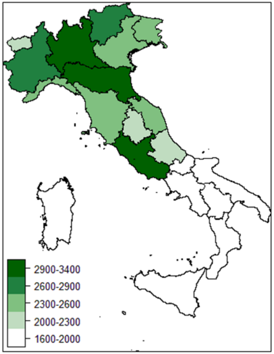
- **332 pension funds** operate in the system;
- over **10** millions of **accounts**;
- just below **9** millions of **members**;
- about **200** billions of **assets under management**.

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**.



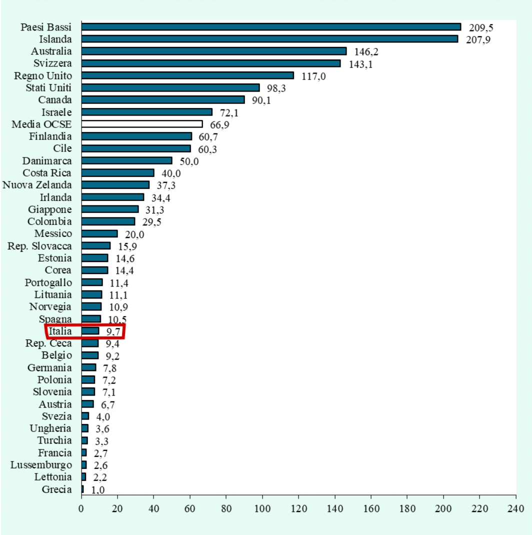
Participation rates



Average contributions

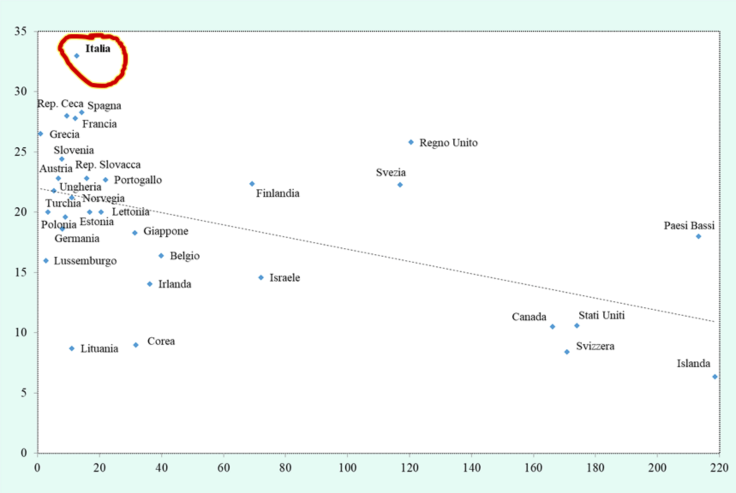
Note: Source, COVIP 2022 annual report.

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

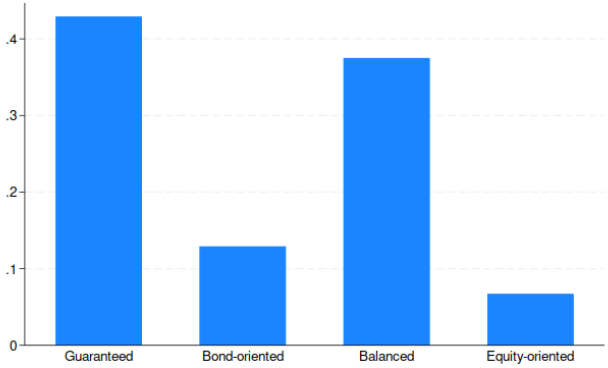
- The **tax regulation** is national, the **financial regulation** is both national and European.
- The **same** tax and financial regulation applies to **all pension funds**.
- The **ETT** model applies: **contributions** are **tax-deductible** up to $5,164.57$ euro, **returns** (20%) and **benefits** (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:

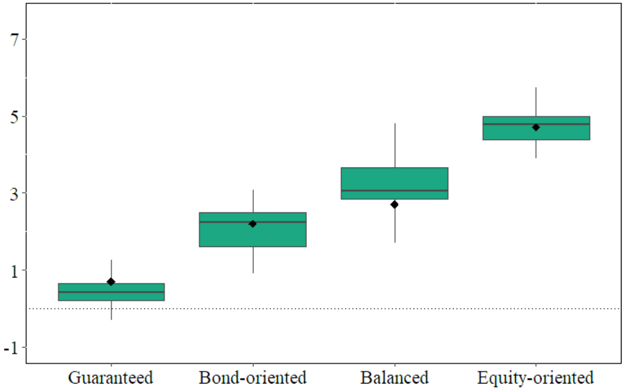
- are **defined contribution** schemes (a part from very few exceptions among the pre-existing pension funds);
- rely on the **individual capitalization** of contributions through their investment in financial markets;
- **directly** or **indirectly** (closed pension funds) invest members' contributions 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



Note: "Portfolio Choices of Pension Fund Members in Italy: An Analysis Based on a Large Administrative Dataset", Ceccarelli, Guaraldo, Padula and Rossi, 2023.

Average annualized returns, 2013-2022

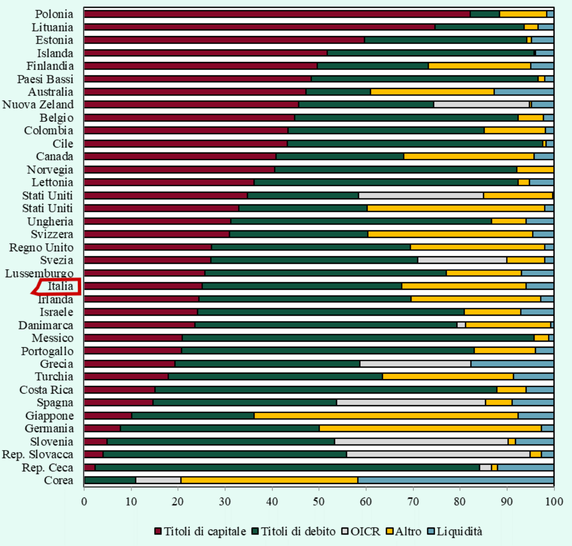


Note: "Portfolio Choices of Pension Fund Members in Italy: An Analysis Based on a Large Administrative Dataset", Ceccarelli, Guaraldo, Padula and Rossi, 2023.

Guaranteed Investment Contract

- 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).

Asset under management, composition by asset class



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**?