Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

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The European Federation of Investors and Financial Services Users

Fédération Européenne des Épargnants et Usagers des Services Financiers

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The Real Return of Long-term and Pension Savings

2024 Edition — Italy

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the "fairer deal" that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

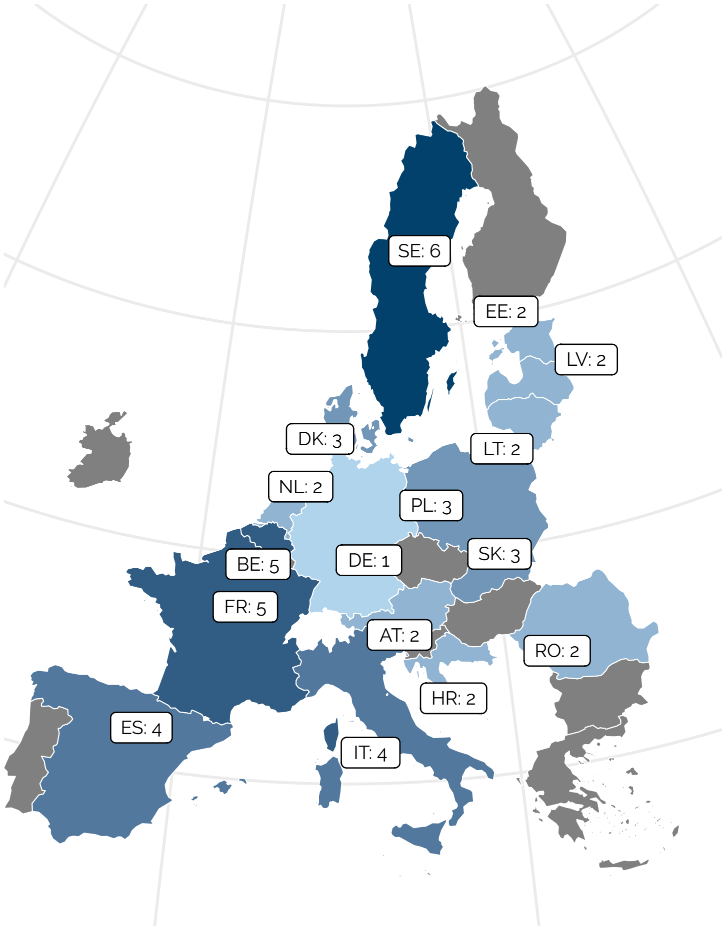
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – Countries and number of product categories included in the report

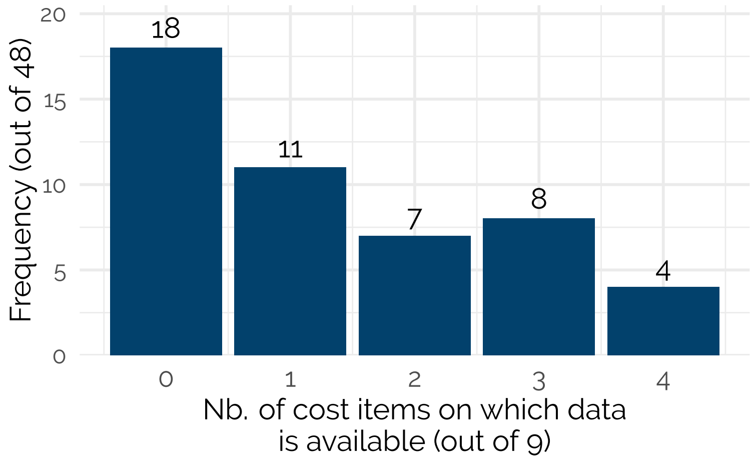


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – Availability of cost and charges data for 2023



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

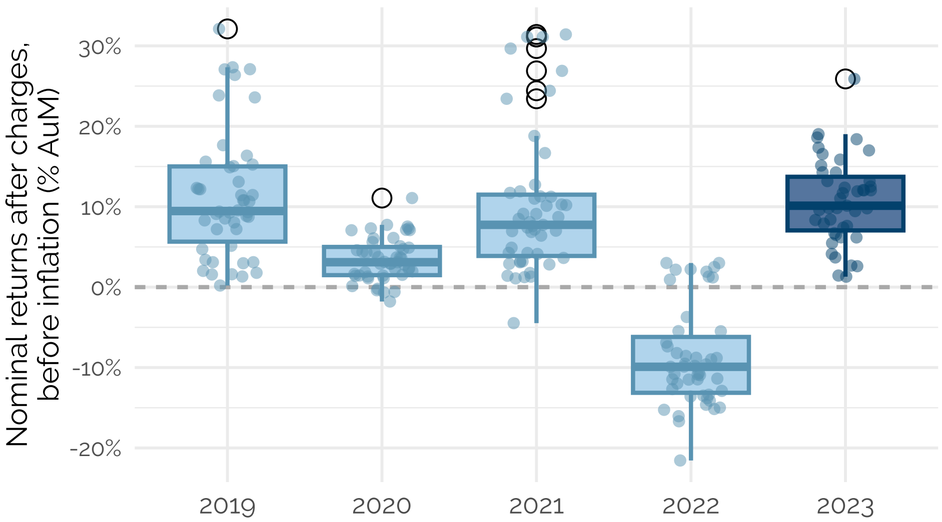
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – **Average 1-year return rates of analysed product categories (2019–2023)**



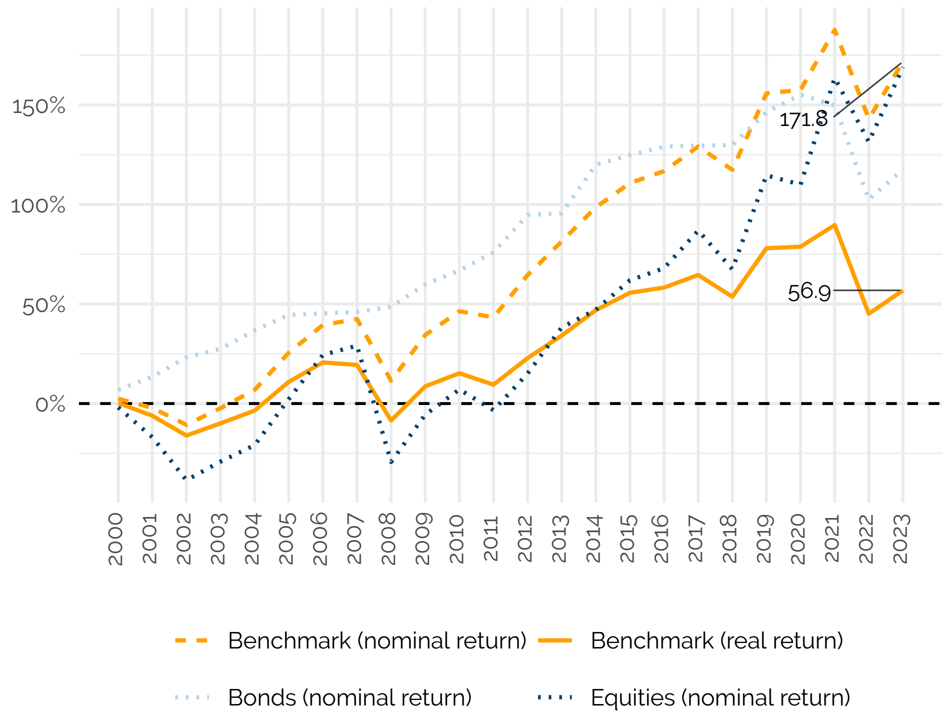
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

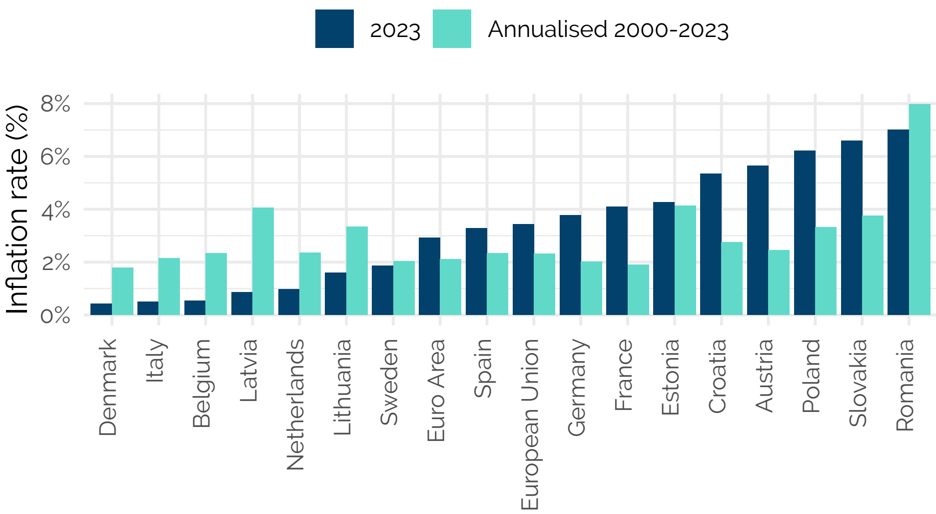
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the "1% fee cap", that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

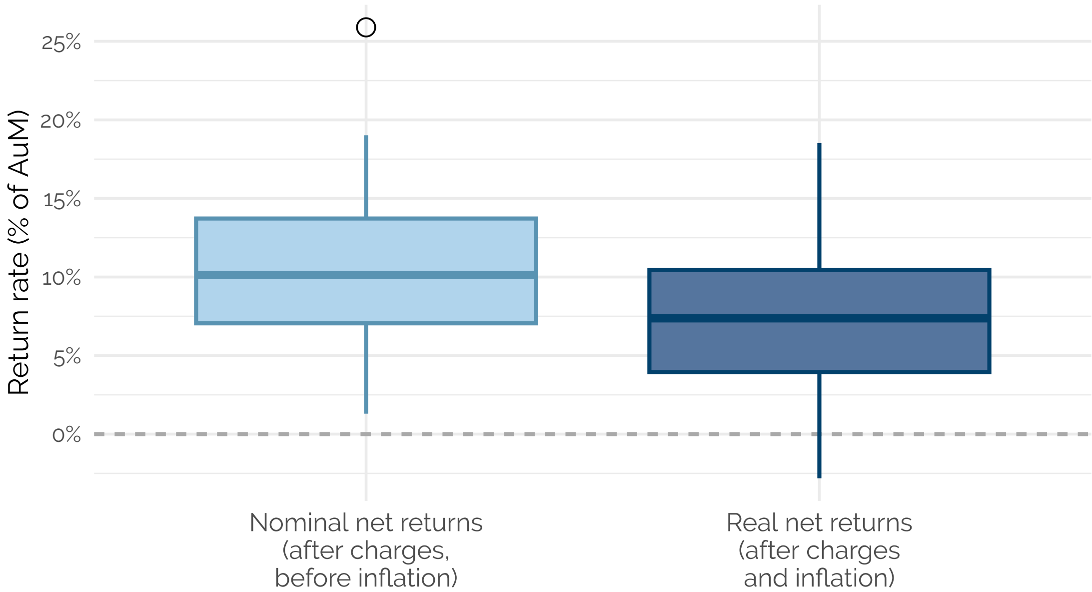
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – **Inflation 2023 vs. 2000–2023 annual average**



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – **Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)**

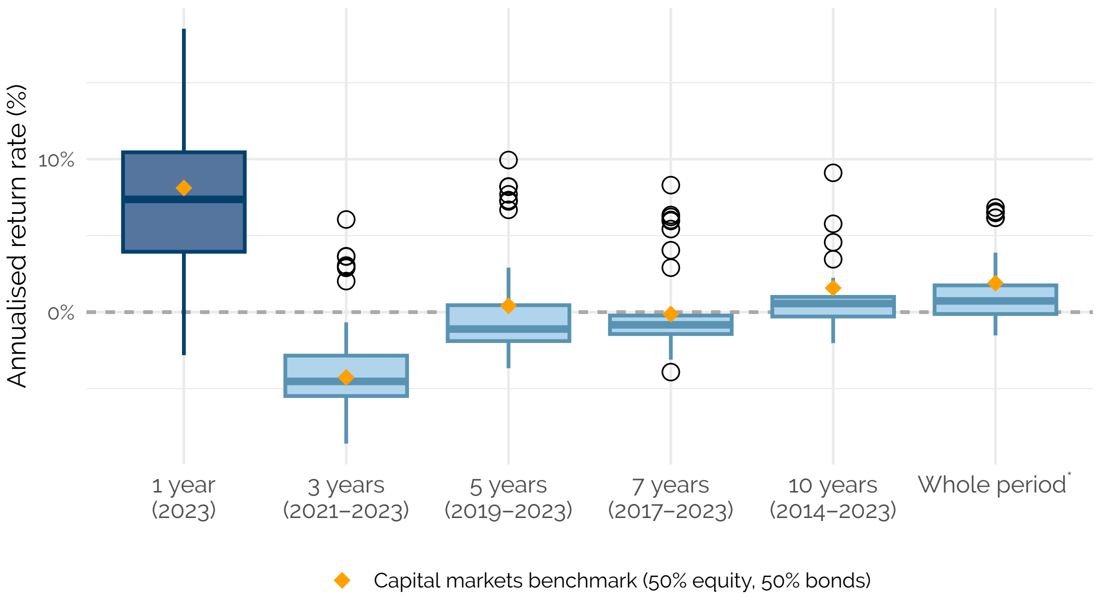


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Devia-tion	Best perfor-mance	Worst perfor-mance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

Calculations: BETTER FINANCE

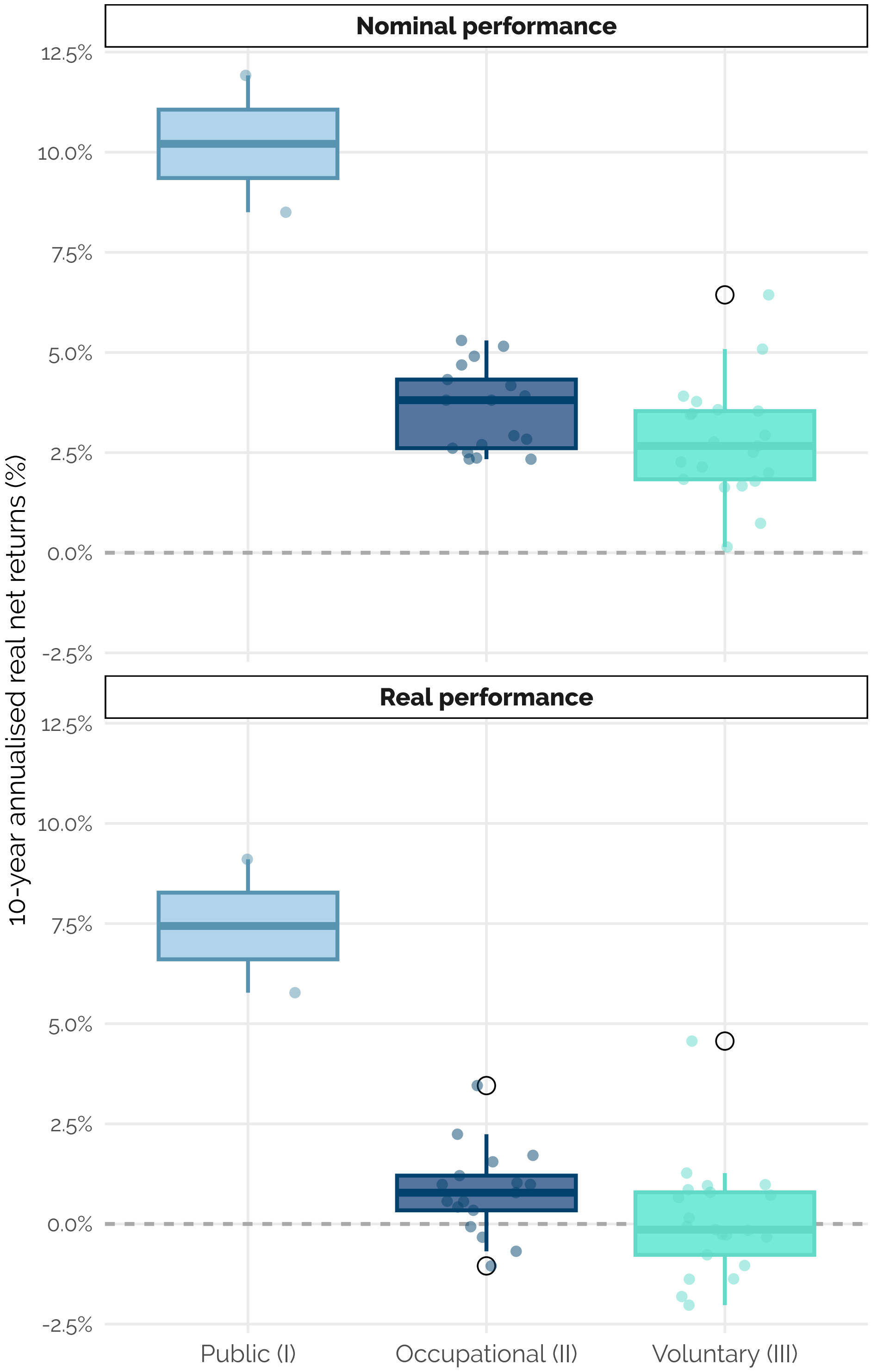
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – **Average 10-year annualised performance per Pillar**



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.

- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 7

Italy

Sintesi

Il sistema pensionistico italiano rimane essenzialmente organizzato attorno al suo pilastro pubblico: la pensione statale costituisce il reddito pensionistico primario e spesso l'unico; i fondi pensione complementari coprono solo una minoranza della forza lavoro italiana. Tuttavia, l'invecchiamento della popolazione e i livelli strutturalmente elevati di debito e deficit pubblico mettono a dura prova il sistema pensionistico pubblico: Una serie di riforme ha cercato di limitare l'aumento delle passività pensionistiche dello Stato e di sviluppare schemi pensionistici professionali e individuali a capitalizzazione come alternativa credibile. Queste riforme, tuttavia, non sembrano convincere gli italiani, che investono ancora relativamente poco dei loro risparmi nei fondi pensione contrattuali o aperti, o nei PIP "nuovi", i principali strumenti di risparmio previdenziale che analizziamo in questo capitolo. L'analisi della performance di lungo periodo di questi prodotti sembra dar loro ragione: Su un periodo di 24 anni (2000–2023), i fondi pensione contrattuali riescono a offrire solo un rendimento reale netto dello +0,5%, i fondi pensione aperti è negativo, pari a -0.3%, mentre le due principali categorie di PIP, i piani con "gestione separata" e i piani *unit-linked*, mostrano un rendimento reale netto rispettivamente dello 0,5% e dello -0,2% per cento su 16 anni (2008–2024). Un'allocazione eccessivamente conservativa degli asset e—con la relativa eccezione dei fondi pensione contrattuali—costi elevati appaiono come i principali fattori di sottoperformance in termini nominali. L'inflazione, che ha avuto un'impennata nel 2021-2022, dopo quasi un decennio di virtuale assenza, ha divorato ciò che restava dei risparmi pensionistici degli italiani.

Summary

The Italian pension system remains essentially organised around its public pillar: the state pension constitutes the primary and often the only pension income; complementary pension funds cover only a minority of the Italian labour force. However, an ageing population and structurally high levels of public debt and deficit put the public pension system under strain: a series of reforms have attempted to limit the increase in state pension liabilities and to develop funded occupational and individual pension schemes as a credible alternative. These reforms, however, do not seem to convince Italians, who still invest relatively little of their savings in Contractual or open-ended pension funds, or in PIP, the main retirement savings instruments that we analyse in this chapter. The analysis of the long-term performance of these products seems to prove them right: over a period of 24 years (2000–2023), Contractual pension funds manage to offer only a net real return of +0.5%, open pension funds a negative -0. 3%, while the two main categories of PIP, *with profits* plans and unit-linked plans, show a net real return of 0.5% and -0.2% respectively over 16 years (2008–2024). Overly conservative asset allocation and—with the relative exception of Contractual pension funds—high costs appear as the main drivers of underperformance in nominal terms. Inflation, which surged in 2021-2022 after almost a decade of virtual absence, devoured what was left of Italians' pension savings.

Introduction: The Italian pension system

In this chapter about Italian private pensions, we will analyse the four product categories listed in Table IT.1. Within the occupational pillar, we will analyse separately the returns obtained by Contractual pension funds and open pension funds over 24 years (2000–2024). Our reporting period will be shorter for PIP, the individual pension plans constituting the third pillar of the Italian pension system: we will analyse performance since 2008, distinguishing between PIP "with profit" and unit-linked PIP. Whenever possible, we will also analyse available cost and performance data for sub-categories within these four products (see Page 7).

Table IT.1 – Long-term and pension savings vehicles analysed in Italy

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
Contractual pension funds	Occupational (II)	2000	2023
Open pension funds	Occupational (II)	2000	2023
PIP with profits	Voluntary (III)	2008	2023
PIP unit-linked	Voluntary (III)	2008	2023

2023 was a good year for Italian pension savings: As shown in Table IT.2, the 1-year returns after charges and inflation of all four product categories offered positive returns after charges and inflation. We note, however that, while still positive, the performance of PIP "with profits" does not reach 1%, reflecting the relatively poor performance of bond markets, in which these products are invested, compared to equity markets.

Table IT.2 – Annualised real net returns of Italian long-term and pension savings vehicles (before tax, % of AuM)

	Contractual pension funds	Open pension funds	PIP with profits	PIP unit-linked
1 year (2023)	6.2%	7.4%	0.8%	7.9%
3 years (2021–2023)	-5.0%	-4.5%	-4.1%	-3.3%
5 years (2019–2023)	-1.1%	-0.6%	-1.9%	0.2%
7 years (2017–2023)	-1.1%	-0.9%	-1.2%	-0.8%
10 years (2014–2023)	0.4%	0.6%	-0.1%	0.7%
Whole period	0.5%	-0.3%	0.5%	-0.2%

Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE.

The pluriannual real performance, however, offers a sobering perspective: over the past 23 years, Contractual pension funds barely manage to beat inflation (+0.5% real net return), Open pension funds fail to beat it (-0.3%), and since 2008 (first full year of data after inception in 2007), PIP returned a meagre +0.5% for the "with profits" branch[1], and a real net loss of (-0.2%) for savers in PIP unit-linked products.

In the remainder of this section, we will briefly present the Italian pension system, including its Pillar I State pension, before delving into our analysis of the four private pension categories. We will then report on the costs and charges levied on savings accumulated in these products, the fiscal regime applicable to them, before analysing their performance over the reporting period.

Pension system in Italy: An overview

The Italian pension system is organised around the classic three-pillar World Bank model:

- Pillar I is a public pension scheme managed by the Italian State;
- Pillar II is composed of occupational pension arrangements, to which enrolment is mandatory;
- Pillar III is composed of individual pension saving products, subscribed on a voluntary basis.

Both Pillar II and Pillar III pension funds and plans are supervised by COVIP, whose data constitutes the basis of our analysis of costs and performance.

Pillar I: The State pension

The first pillar remains the main pension vehicle in Italy. It is composed of two tiers: zero and first. The zero tier consists of a social pension ensuring a minimum level of income for the elderly. The first tier covers employed individuals and for those who entered the labour market before 1995, functions as a defined benefit (DB) system. The "Dini reform" of 1995 however changed the nature of the first tier for all those who entered the labour market after 1995: the system is now organised as a notional defined contribution (NDC) system and pension entitlements are no longer computed according to an earnings-related system (Riforma del sistema pensionistico obbligatorio e complementare (legge 335/1995), 1995).

Further reforms and adjustments of the Italian public pension system were adopted in the 2010s, in order to restore sustainability, in the context of an ageing population and massive pension expenditure. In 2011, Elsa Fornero, minister for Welfare and Social Policy under Mario Monti's "technical" government, implemented a reform intended to bring the system close to equilibrium. The main eligibility criterion became the number of years worked rather than one's age, with early retirement legally possible but subject to penalties. Nevertheless, the Italian Constitutional Court stated in April 2015 that the suppression of indexation of pensions on inflation included in the "Fornero law" was unconstitutional: the indexation of pensions on inflation was estimated to add EUR 500 millions to the costs of the State pension.

This judicial reversal was succeeded by the adoption of measures facilitating early

[1] Decidedly a very unfortunate translation by COVIP for the Italian *gestione separata*, which would rather translate as "separate management" and is close to the French life insurance's *fonds en euros*.

retirement, such as the "Ape Sociale", "Opzione Donna" and, most notably, the "Quota 100" measure, effective from January 1, 2019. This measure enables employees with a minimum of 38 years of service to retire early if the combined total of their age and years of service reaches 100. The "Quota 100" has since been reviewed, becoming "Quota 102" in 2022 and "Quota 103" as per the budget law for 2024: Italians can now retire as early as 62 years old, provided they have at least 41 years of contributions. Under "Quota 103", however, the anticipated state pension is calculated entirely based on the amounts of contributons effectively paid, and does not include any redistributive element, which could represent a substantial reduction of beneficiaries' income (Acquaviva, 2023). The 2024 budget law generally tightens the conditions of access to anticipated pensions, with, for instance, early retirement windows (amount of time which one must wait to receive their first payment) extend from 3 to 7 months for private sector workers and from 6 to 9 months for public servants.

Pillar II: Occupational pensions

The second pillar of Italian pensions is composed of collective complementary pension plans. These can be "Contractual" pension funds (*Fondi pensione negoziali*—occupational funds managed by social partners under collective bargaining agreements (CBAs)—or "open" pension funds ("Fondi pensione aperti") constituted by various types of financial institutions, which welcome members on an individual or collective basis (Commissione di Vigilanza sui Fondi Pensione [COVIP], 2022).

Besides pension funds, the *Trattamento di Fine Rapporto* (TFR) is also part of the second pillar. The TFR is a deferred indemnity: each year the employer is required to set aside a portion of the employee's salary, to be accumulated and returned to the employee upon termination of the employment contract.

Pillar III: Voluntary individual pensions

The third pillar is composed of voluntary contributions to individual complementary pension schemes, PIP. Individuals can also make contributions to open funds in the case of individual affiliations. Given the strong component of mandatory contributions within the state pension system, both collective and individual complementary pension funds play a small role in the financing of future retirees' income. While the savings in collective complementary pension funds are rather small, private savings are still consistent. If all pension contributions and home ownership were transformed into an annuity, the corresponding stream of generated income at retirement would be very high.

To summarise the information of the pension system set-up and to obtain a basic overview of the pension system in Italy, the table below presents key data on the multi-pillar pension system.

Long-term and pension savings vehicles in Italy

At the end of 2023, 9.4 million Italians were enrolled into at least one collective or individual pension plan (Pillar II or III), covering 36.9% of the working population, and

Table IT.3 – Overview of the Italian pension system

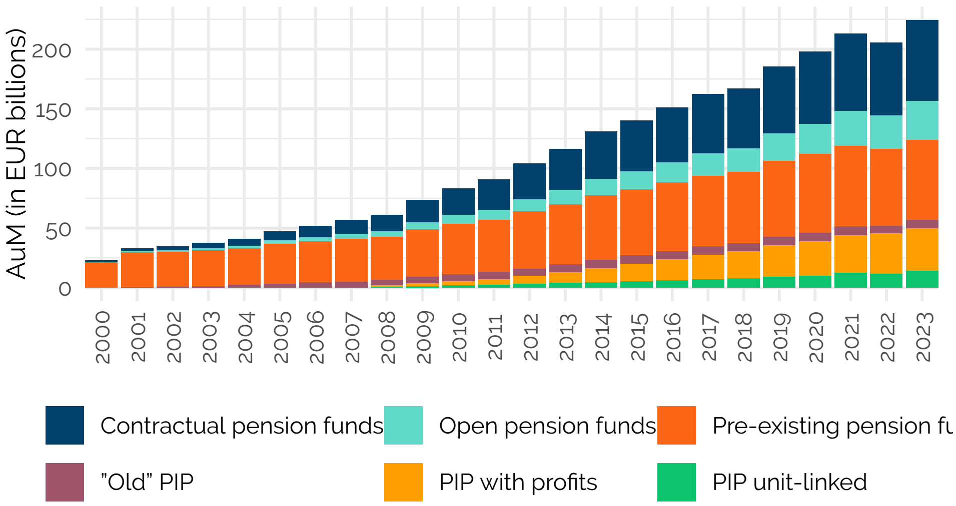
Pillar I	Pillar II	Pillar III
State pension	Occupational funded pension (Contractual, Open and Pre-existing pension funds)	Individual funded pensions (PIP *vecchi* and *nuovi*)
"Dini law" (1995) and "Fornero law" (2011)	Legislative Decree 124/93 on complementary pension plans implemented in 1993, and Reform on complementary pension (Legislative Decree 252/2005)	
Instituto Nazionale Previdenza Sociale (INPS)	Pension accumulation companies	Insurance companies and other financial institutions
Mandatory	Voluntary	Voluntary
Publicly managed	Privately managed	Privately managed
pay-as-you-go (PAYG)	Partially or fully funded	Fully funded
notional defined contribution (NDC)	defined contribution (DC)	DC
Quick facts		
Number of old-age pensioners: 10.7 mln.[a]	Funds: 234	Funds (new PIP only): 68
Average old-age pension (2022): EUR 1 393	AuM: EUR 167.6 bln.	AuM (old and new PIP): EUR 56.8 bln.
Monthly household average income (net): EUR 2 492	Participants in 2023: 6.5 mln.	Participants in 2022: 3.9 mln.
Net replacement ratio (end-2022):76.1%[b]	Coverage ratio: 22.14%[c]	Coverage ratio: 12.54%[c]

Data: (COVIP, 2023);
[a] Eurostat data; the number of old-age pensioners excludes pension survivors (4.1 mln.) and anticipated old-age pensions(1.7 mln.).
[c] Organisation for Economic Co-operation and Development (2023).
[b] Total number of employed or self-employed participants to active population (25.527 million people at end-2023), the calculation does not take into account potential duplicates (participants with accounts in more than one form of supplementary pension within the same pillar).

a total in AuM reaching EUR 224.4 bln. (COVIP, 2024). This represents an increase of 330 thousand participants from end-2022. Open pension funds had the strongest increase in members (+5.9%), but the largest increase in contributions was to Contractual funds (+7.7%).

Figure IT.1 displays the total amounts of savings in the four product categories here analysed, as well as in two legacy product categories—so-called "Pre-existing" pension funds (occupational) and "old" PIP—which can still receive contributions and pay benefits, although new funds or plans cannot be opened any more. As we can see from this figure, Contractual pension funds within Pillar II and PIP with profits within Pillar III are the two categories of products which increased fastest, in terms of accumulated capital. With EUR 67.9 bln. in AuM at end-2023 (30.2% of all Italian pension savings), Contractual pension funds for the first time overcome Pre-existing funds (EUR 67.1 bln, 29.9% of total) as the main retirement savings vehicle in Italy. Open funds and PIP with profits still see a steady growth of AuM to EUR 32.6 bln (14.5% of total) and EUR 35.9 bln (16% of total). PIP unit-linked, however, seem to remain quite confidential with EUR 14.1 billion in AuM at end 2023, a mere 6.3% of Italian pension savings.

Figure IT.1 – AuM of Italian long-term and pension savings vehicles



Data: COVIP; *Calculations:* BETTER FINANCE.

Over the past twenty-three years covered in our report, the number of pension funds and plans on offer in Italy was reduced dramatically: From 739 funds and plans in operation in 1999, only 302 remained active at the end of 2023. As the supervisor, COVIP explains:

> The reduction in the number of pension forms operating in the system, especially for pre-existing funds, is primarily driven by concentration in the financial sector, which led to the formation of banking and insurance groups within which several supplementary pension schemes dedicated

> to employees of individual banks coexisted. Schemes dedicated to the employees of individual banks and insurance companies later merged into these groups. In many cases, the ensuing reorganisation process led to the concentration of the pension schemes of individual companies in one or two group funds, separated according to the type of scheme. (COVIP, 2023, p. 16)

The concentration trend particularly affected the "pre-existing" funds, and to a lesser extent Contractual and open pension funds. The number of PIP *nuovi*, individual pension plans introduced in 2007, remained relatively stable.

Management types: COVIP's typology

Within the broad categories of Contractual pension funds, Open pension funds, and PIP, COVIP distinguishes four main types of "management" (COVIP, 2022, p. 23):

- *Gestione garantita* ("guaranteed management"): Funds "which offer a guarantee of a minimum return or return of the paid-up capital upon the occurrence of certain events (e.g. upon retirement)";
- *Gestione obbligazionaria* ("bond management"): Funds "that invest exclusively or primarily in bonds"; for Contractual and Open pension funds, a further distincion is made between *obbligazionaria pura* (pure bond management) and *obbligazionaria mista* (mixed bond management);
- *Gestione bilanciata* ("balanced management"): Funds "which in principle invest in shares and bonds in the same percentage"; and
- *Gestione azionaria* ("equity management"): Funds "that invest only or mainly in equity".

In the remainder of this chapter, we follow this typology to report data on product sub-categories.

Complementary pension funds were introduced in 1993 and are composed of Contractual funds, open funds and individual pension plans provided by life insurance companies. The main features of complementary pension plans are:

- Membership is voluntary;
- Pensions are funded;
- Schemes are managed by banks, insurance companies or specialised financial institutions;
- Their supervision is ensured by COVIP.

Following the signature of a collective bargaining agreement (CBA), all complementary pension funds are managed by an external financial institution that can only be an insurance company, a bank or a registered asset management company (Legislative Decree 252/2005). All complementary pension funds now operate on a DC basis, as this is the only permitted type of pension plan.

DB plans are restricted to older funds, that existed before the transition to the DC model ("Pre-existing" funds). The budget law of December 11, 2016 allows members of complementary defined contribution pension funds, who are close to retirement age, to receive early retirement income from their accumulated savings in whole or in part; the scheme is called *Rendita Integrativa Temporanea Anticipata* (RITA). Eligible employees are those who benefit from a similar provision in the first pillar, the *APE Sociale*. To be eligible for RITA, an individual must:

- cease their professional activity;
- reach the requirements necessary to receive the old-age pension in their mandatory regime within the next five years or to be unemployed for more than 24 months;
- have contributed at least 20 complete years to the mandatory regime; or / and have completed five years in the pension scheme.

The individual determines the amount of the accrued capital to use until their official retirement. The RITA is also offered to people who have been unemployed for at least two years before their request for withdrawal and are within ten years of the statutory retirement age.

Second pillar: Contractual and open pension funds

Three types of funds exist within the occupational pillar:

- "Contractual", also called "closed" funds, membership in which is restricted to specific groups of workers;
- "Open" funds, which are open to all;
- "Pre-existing" funds—that is, funds that existed before the Italian legislator regulated the form of Italian private pensions—are still operating and can accept as new members the employees of the firm(s) or economic sector for which they have been established, although no new such fund can be created.

Contractual funds are also called **closed funds** due to their restrictive membership criteria: only firms from the economic sector for which the fund was established can join in. Generally, Contractual funds are established for employees whose contract is regulated by a CBA; for the self-employed, Contractual funds are usually provided by professional associations, and consequently reserved to their members. At the end of 2022, Contractual funds had 3.9 million members.

Contractual funds' assets are legally separated from those of the sponsor company or association, being therefore protected from creditors' claims in case of bankruptcy of the employer. A Contractual fund must place its assets under the custody of an authorised depository (bank or investment firm). The fund's Board of Directors is responsible for defining the investment strategy and choosing the investment manager, the depositary bank and the entity designated to administer the pensions. The fund must report at least on an annual basis. Managers' mandates usually last five years or more, in line with the long-term orientation of funds.

Open funds, by contrast, do not restrict membership: they are set up by banks, insurance companies, asset management companies and stock brokerage firms for anyone to join on a collective or individual basis. Employees of the public sector, as well as self-employed and liberal professions can only join on an individual basis; other employees can join individually, but collective membership is also possible where provided for by a company or sectoral agreement. At the end of 2022, open funds had 1.8 million members, 32 298 of which were also members of at least one other open fund and 107 255 had a PIP *nuovi*.

The assets of open pension funds are legally separated from those of the financial companies that set them up and are thus protected, in case of the company's bankruptcy, from the claims of any creditors. Like Contractual pension funds, open funds must have an authorised depositary bank and can outsource administration.

Italians benefit since 1982 from the TFR, a severance payment system whereby the employer pays a portion—6.91%—of the employee's annual salary into a specific vehicle for asset accumulation, the TFR. If an employee decides to opt-out of complementary pension funds and belongs to a company with more than 50 employees, their accumulated amount of severance payments is transferred to INPS, the national social security institute, which, by law, manages the severance payment. For an employee who works in a firm with less than 50 employees and who does not opt for complementary pension funds, their TFR remains with the firm they work at and represents a debt for the company.

The accumulated amounts are mandatorily saved and can only be paid upon termination of the work contract (whatever the reason of the termination). In exceptional cases (health issues, first-house purchases, parental leave), the TFR can be partially drawn, up to 70% of the accumulated amount. The TFR is revalued annually at a rate of 1.5% plus a variable part indexed on the national inflation rate calculated by the national statistics office (Istat). In 2022, as a positive side effect of soaring inflation, the TFR's rate rose to 8.3%,

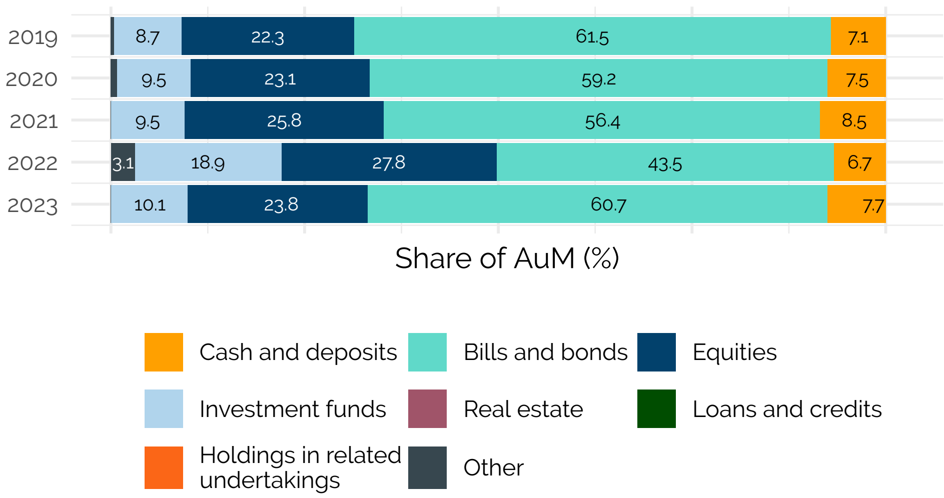
As an alternative, since 2007 and entry into force of Legislative Decree 252/2005, each employee can individually opt to have their TFR paid into a complementary pension fund. For specific sectors where a Contractual pension fund exists, tacit consent applies for the TFR to be transferred to the fund instead of remaining with the company.

The introduction of Contractual and open funds, and the possibility to place one's TFR with them was a significant novelty in the Italian pension landscape, which had been thus far almost exclusively organised around the State pension. Workers now had to make decisions regarding where and how to invest the portion of their income they wish—or, rather, must—save for future retirement income.

The coverage of public employees by specific retirement products is very limited, as the law introducing pension funds excluded them. Contractual pension funds are only possible for individuals working in National Education (Espero), in the National Health system and in a regional or local authority (Perseo and Sirio). These Contractual pension funds were implemented in 1993.

In terms of allocation of pension savers' assets, both Contractual and open pension funds implement conservative investment policies, as shown in Figures IT.2 and IT.3. Contractual pension funds generally invest less than a quarter of their assets into equity vs. over 60% in debt securities. Open pension funds are less conservative, with "only" half of their AuM invested either in cash or bonds, but their direct equity exposure, amounting to 23.8% of assets in 2023, remains lows.

Figure IT.2 – Allocation of Italian Contractual pension funds' assets

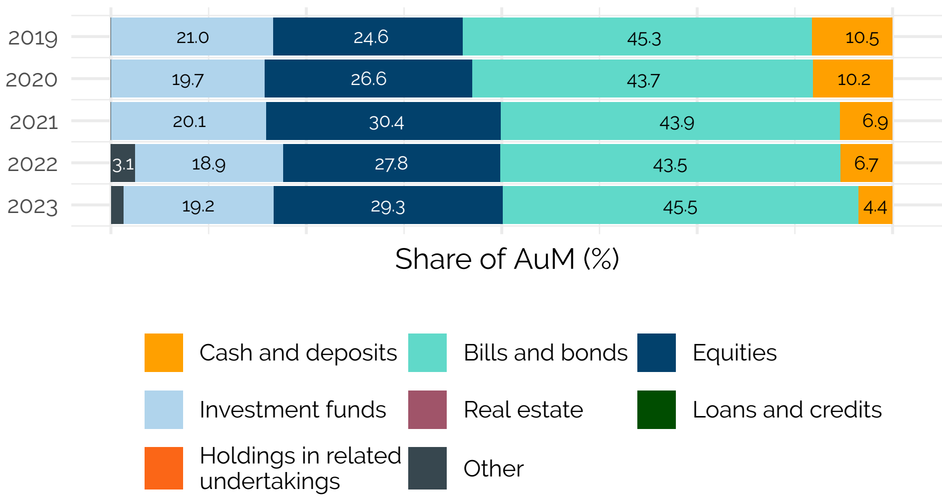


Data: COVIP; *Calculations:* BETTER FINANCE.

We should, however, refine this broadbrush picture: Investors in both Contractual and Open pension funds can indeed choose among different types of "management" (*gestione*, see Page 7), each of these types of management offering a different degree of equity exposure. Figure IT.4 and **??** show the distribution of total AuM of Contractual and Open pension funds, respectively, in the five types of management on offer to Italian pension savers, from the most conservative *Obbligazionaria pura* and *Garantita*, which invest none or little of their assets into equity, to the most "aggressive" *Azionaria*, where assets are mainly invested in equity. We can see that the most popular option in both categories of funds is the *gestione bilanciata*, which supposedly invests equally in equity and bonds, which nuances to some extent the initial impression of conservatism of Italian pension savers.

The total—direct plus indirect through investments in funds—equity exposures of the *gestione azionaria* was 60.5% in Contractual pension funds, and 78.4% in Open pension funds in 2023, vs. 5.6% and 5.5% for the *gestione garantita* in Contractual funds and Open funds, respectively. The equity exposure the *gestione bilanciata* was 30.8% in Contractual funds and 41.2% in Open funds. The choice of a management option, therefore, induces substantial differences in terms of financial returns for investors in Contractual and Open pension funds (see Page 20).

Figure IT.3 – **Allocation of Italian open pension funds' assets**



Data: COVIP; *Calculations:* BETTER FINANCE.

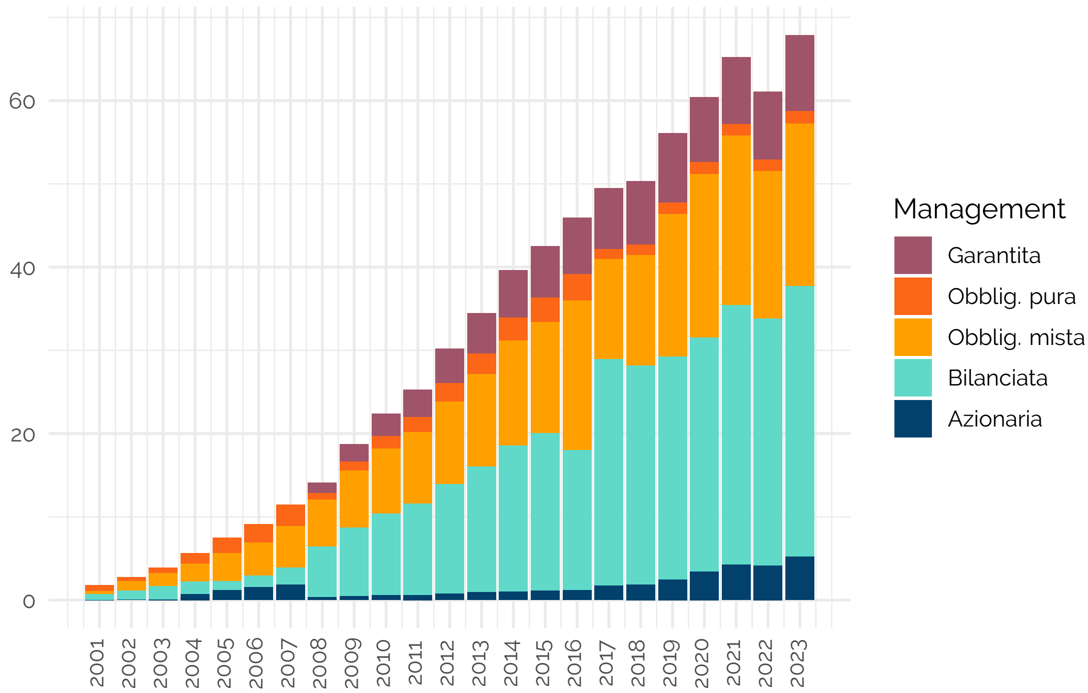
Third pillar:

Piano Individuale Pensionistico (PIP) are individual pension plans offered by insurance companies. Their main purpose, according to the Italian committee for financial education includes but is not limited to pension savings: they can also be used to accumulate savings for major projects or unforeseen events . Anticipated withdrawals are therefore possible in case to pay for extraordinary health expenses, for first-home purchase and renovation, or for "personal and family motives", the latter two only after an 8-year holding period (Comitato per la programmazione e il coordinamento delle attività di educazione finanziaria, 2023). An anticipated pension may also be requested as per the RITA framework. Full withdrawals are also possible in case of permanent invalidity, unemployment longer than 48 months, resignation or dismissal and, of course, death of the investor.

Two main types of contracts are offered: *gestione separata* ("with profit", 71.8% of AuM in PIP *nuovi* in 2023, down from 74.6% in 2022) or unit-linked (28.2%, up from 25.1%). The with-profits policies guarantee a minimum rate of return (guaranteed and consolidated in the company's accounts) which is added to a quota related to the financial performance. The unit-linked policies do not have a guarantee. Their performance depends on the value of the units in which contributions are invested.

Assets are allocated very differently under the two types of PIP *nuovi*, as shown in Figures IT.6 and IT.7. PIP with profits are massively invested in debt securities (84.8% in 2023, of which 32.9% in Italian government bonds) and virtually do not invest in equities (2% in 2023, down from 2.4% in 2022). By contrast, in PIP *nuovi* unit-linked, equity represents 38.5% of investments on average, while debt securities only account for 24.7% of AuM.

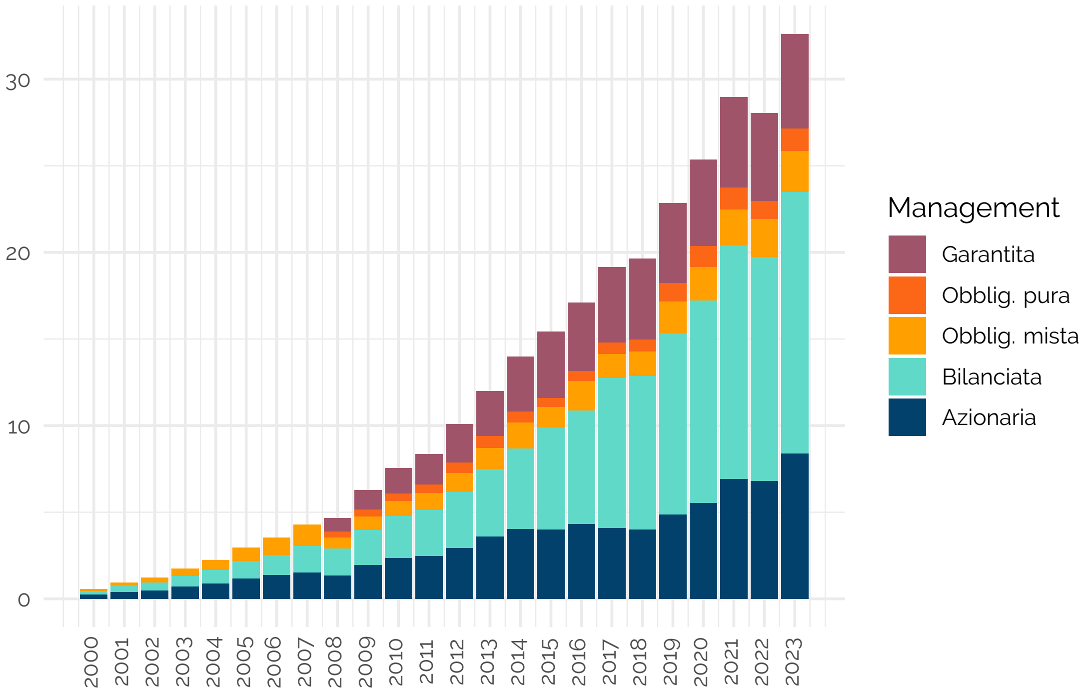
Figure IT.4 – **AuM of Contractual funds by type of management (EUR bln.)**



Data: COVIP, Relazioni annuali, 2000 to 2024.

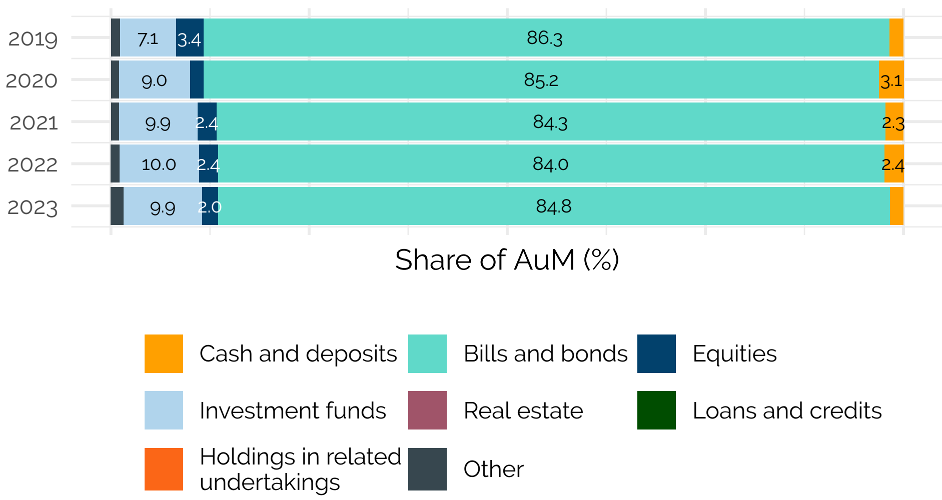
We should further note that the allocation of assets varies within the unit-linked category, where there exists three main sub-types: the already described *gestione obbligazionaria*, *gestione bilanciata* and *gestione azionaria*. In the *obbligazionaria* 72.4% of assets are invested in government bonds (68.7% in 2022) and nothing in equity. By contrast, in the *gestione azionaria*, assets are invested for more than 70% in direct equity holdings (73.1% in 2023) and only a tiny fraction of assets are invested in debt securities (3.2% in 2023). As we can see in Figure IT.8, *gestione azionaria* is the most popular of the three options in PIP *nuovi* unit-linked: Though it represents less than half of the smallest of the four product categories analysed in this chapter, we can see here a decidedly equity-oriented segment of Italian pension savers.

Figure IT.5 – AuM of Open funds by type of management (EUR bln.)



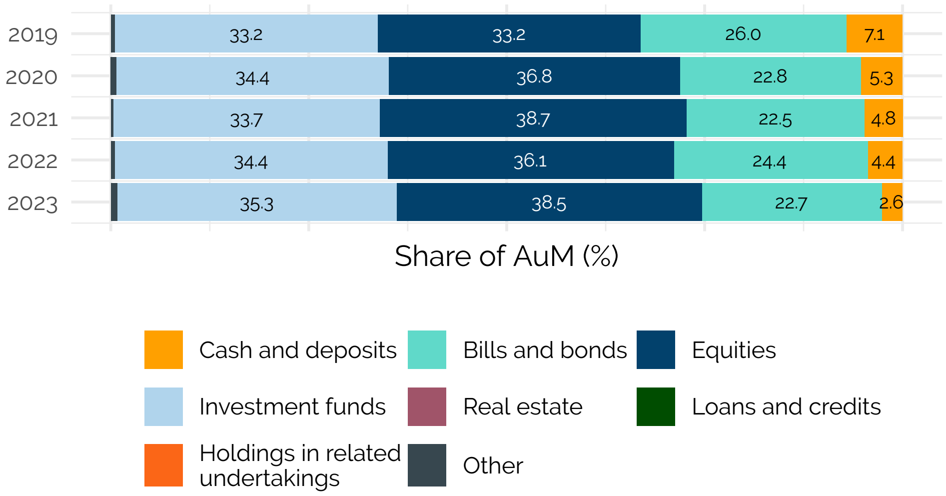
Data: COVIP, Relazioni annuali, 2000 to 2024.

Figure IT.6 – Asset allocation of Italian PIP with profits



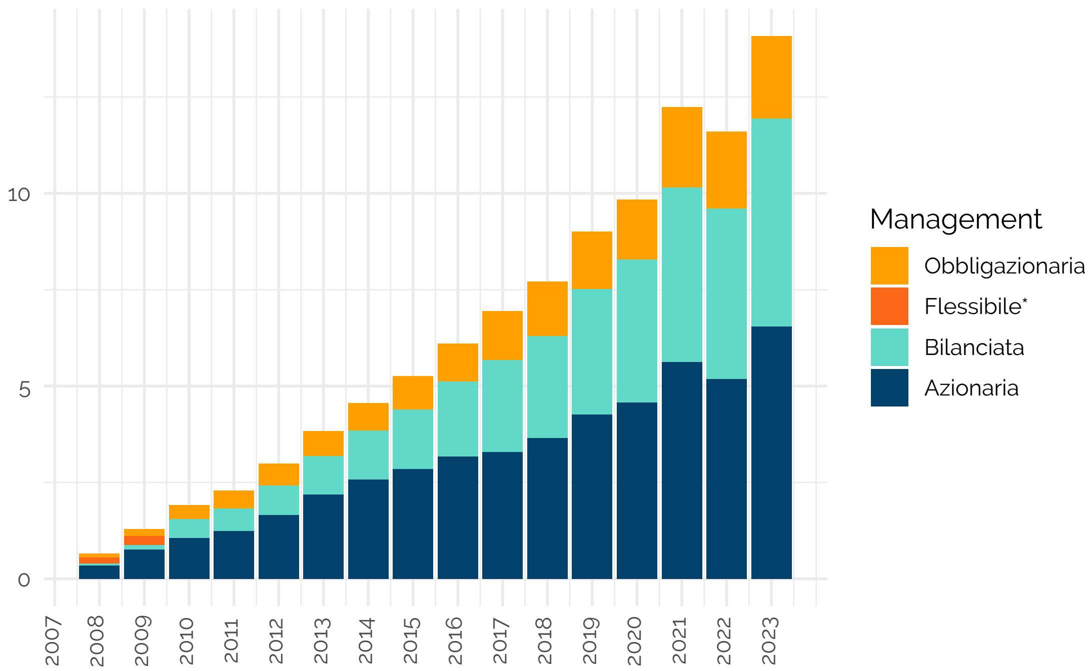
Data: COVIP; *Calculations:* BETTER FINANCE.

Figure IT.7 – Asset allocation of Italian PIP unit-linked



Data: COVIP; *Calculations:* BETTER FINANCE.

Figure IT.8 – AuM of PIP nuovi unit-linked by type of management (EUR bln.)



Data: COVIP, Relazioni annuali, 2000 to 2024. * *Gestione flessibile*, similar to *bilanciata* was withdrawn from 2010.

Charges

COVIP thus summarises the available information on costs and charges of Italian pensions in 2023:

> Excluding pre-existing funds from the calculation, the total management costs that weighed on the accumulation of resources during the year can be estimated at 1.430 million euro. This amount weighs more than half (868 million) on the PIP sector and 373 million on the open funds; in the Contractual funds the costs amount to 188 million euro, thus affecting the total to a much lesser extent than the market forms. For pre-existing funds, estimating total costs is made more difficult because of their structural heterogeneity. (COVIP, 2024, p. 14)

COVIP calculates a synthetic indicator of costs—*Indicatore Sintetico dei Costi* (ISC)—for a member who contributes EUR 2 500 every year with a theoretical annual return of 4%, over increasing periods of 2 to 35 years. The calculation methodology of the indicator was revised by COVIP in order to eliminate distortions between the categories of funds. Since 2014, the tax rates on investment revenues depend on the underlying assets of the funds. Since March 2015, the cost indicator is no longer calculated net but gross of the tax paid by pension funds on their revenues. Table IT.4 shows the average, maximum and minimum values of this ISC in 2023 for Contractual and Open pension funds, as well as for all PIP *nuovi*.

Table IT.4 – COVIP's Synthetic Cost Indicator

	Synthetic Cost Indicator			
Statistic	2 years	5 years	10 years	35 years
Contractual pension fund				
Average	1.14%	0.67%	0.50%	0.37%
Minimum	0.25%	0.15%	0.11%	0.06%
Maximum	2.97%	1.45%	1.24%	1.09%
Open pension funds				
Average	2.32%	1.56%	1.35%	1.23%
Minimum	0.55%	0.55%	0.55%	0.55%
Maximum	4.73%	3.20%	2.58%	2.31%
PIP nuovi				
Average	3.76%	2.61%	2.17%	1.82%
Minimum	1.04%	0.85%	0.58%	0.38%
Maximum	6.44%	4.82%	4.07%	3.44%

Data: COVIP, *Relazione annuale 2023*.

As we can see, there is a great variation among pension funds in terms of costs, both between and within categories of funds. Savers should therefore be very attentive to the cost information provided by fund managers before making investment decisions. The cost indicator decreases significantly with the membership period, as initial fixed costs are progressively amortised: the drop in average costs between 2 years and 35 years is 0.8 p.p. for Contractual funds, 1.1 p.p. for open funds, and even

1.9 p.p. for PIP *nuovi*.

In 2023, the ISC for open pension funds remained remarkably stable, equal to the second decimal place to the value for 2022 and 2021. The average indicator for Contractual pension funds increased across all holding periods (+0.01 p.p. for 2 years, +0.03 p.p. for 5, 10 and 35 years years). The costs of PIP *nuovi*—the most expensive of the three categories—kept decreasing for the shorter periods for the second year in a row (-0.01 p.p. for 2 and 5 years) but remained stable for the long-term.

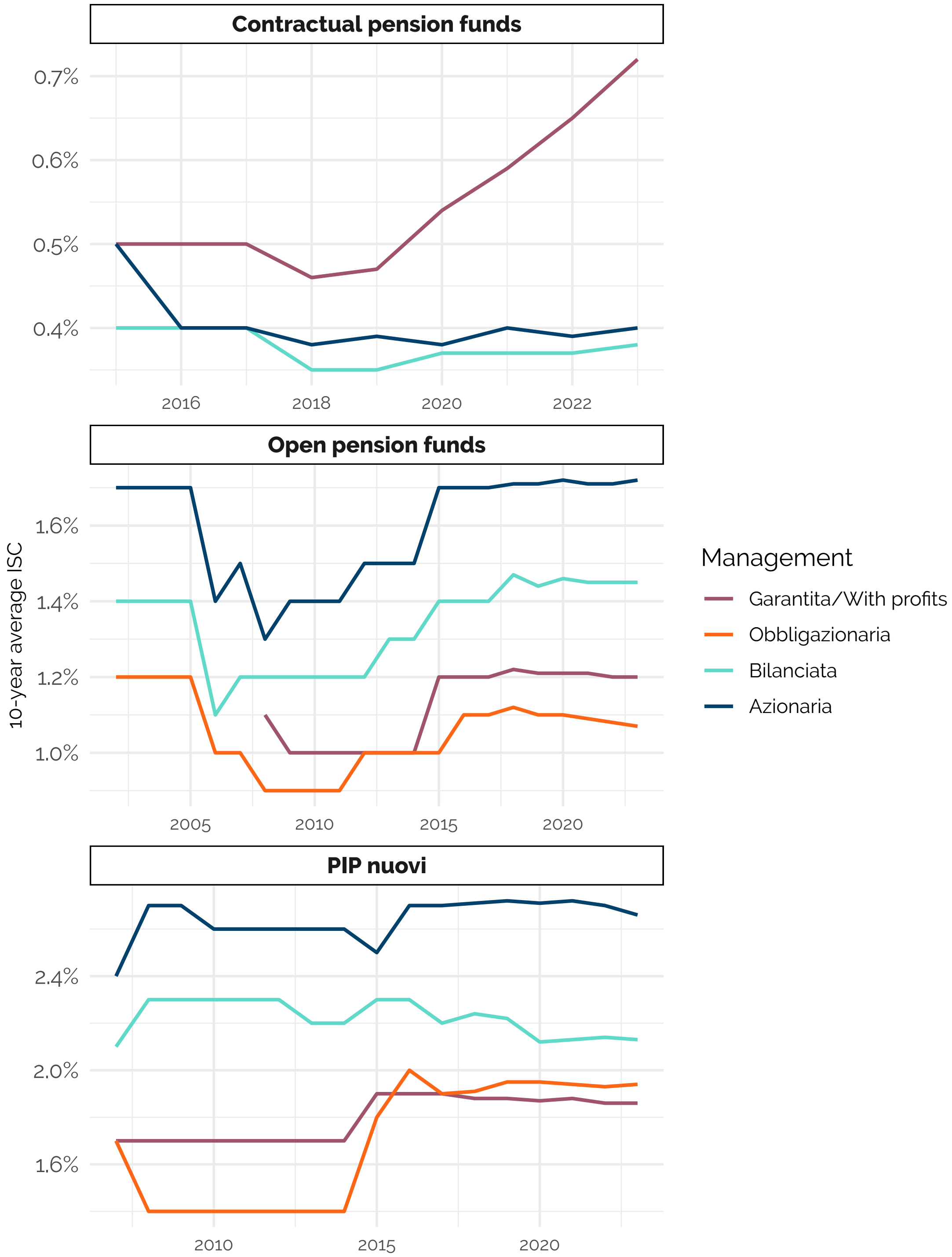
There are significant differences between each category of funds, depending on the distribution channels of the products and the fees paid to distributors. Economies of scale lead to lower costs for closed funds while no such impact can be observed on new PIP and open funds, according to a review of individual figures by COVIP.

For this long-term returns calculations of this report, we retain the 10-year ISC as the cost figure to calculate the nominal net returns of each of our product categories.

Our data collection this year went one step deeper into COVIP's data: we collected available 10-year average ISC for the various types of compartments (i.e., equity-oriented vs. bond-oriented) within our product categories. Figure IT.9 thus shows not only the structurally higher costs of PIP *nuovi* over both Open and Contractual funds, it also shows that for both Open funds and PIP, equiy-oriented management is significantly more expensive than bond-oriented management. Interestingly, though, the pattern is reversed for Contractual funds: in those funds, which have generally much lower cost figures, the cost of equity compartments has remained low (around 0.4% since 2016), and lower than the cost of guaranteed management, which has soared.[2]

[2] There is unfortunately no data available for the *gestione obbligazionaria* in Contractual pension funds.

Figure IT.9 – **Synthetic cost indicators by type of management**



Data: COVIP, Relazioni annuali, 2000 to 2024

Taxation

The taxation regime of pension savings in Italy is essentially an ETT regime (exempt, taxed, taxed), corresponding to the following three stages over time: contribution, accumulation and payment. In the first phase, employee contributions to private pension funds benefit from a favourable tax treatment. Employees can deduct their own contributions from their taxable income up to a ceiling of EUR 5 164.57 per year. Employer contributions are considered as employment income and are thus subject to tax and social security contributions.

Until 2014, in the second phase a tax rate of 11.5% was applied on the accrued capital gains paid by complementary pension funds. Since January 1, 2015, this tax rate increased to 20%, except for accrued capital gains generated by investments in Government Bonds which are taxed at a rate of 12.5%. The difference in taxation rates of bonds and equities is an incentive to change the asset allocation towards the former, a trend that is likely to lower the returns of pension products in the future. The budget law of December 31, 2016 foresaw that assets invested in European equities or European investment funds (up to 5% of the fund's total assets) were exempted from income tax.

In order to avoid double taxation, benefits are taxed only on the corresponding shares that were not taxed during the accumulation phase. Contributions that were not deducted, and thus already taxed, won't be taxed again.

In the third phase the corresponding benefits are taxed at a rate ranging between 9% and 15%, depending on the length of membership in the private pension funds. Income received before retirement age in the framework of the RITA scheme is taxed at 15%, reduced by 0.3% for each year over the fifteenth year of participation in supplementary pension schemes, with a maximum reduction limit of six percentage points. If years of enrolment in the supplementary pension scheme are prior to 2007, those years can be considered up to a maximum of 15 years. The tax rate of pension benefits that come from TFR varies between 9% and 15%, depending on the length of enrolment in the complementary pension funds.

Table IT.5 – Taxation of pension savings in Italy

Product	Phase			Regime
	Contributions	*Investment returns*	*Payouts*	
Contractual pension funds	Exempted	Taxed	Taxed	ETT
Open pension funds	Exempted	Taxed	Taxed	ETT
PIP with profits	Exempted	Taxed	Taxed	ETT
PIP unit-linked	Exempted	Taxed	Taxed	ETT

Source: Comitato per la programmazione e il coordinamento delle attività di educazione finanziaria (2023).

Performance of Italian long-term and pension savings

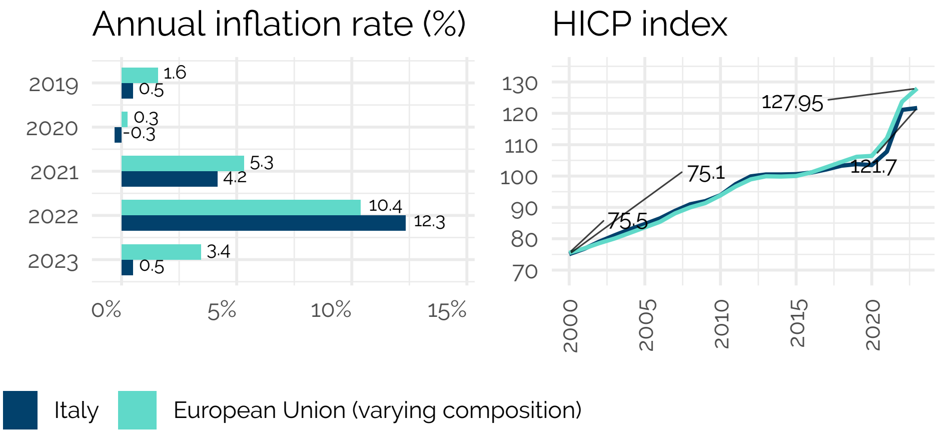
Real net returns of Italian long-term and pension savings

In this section, based on data from COVIP (2024, and previous years) we analyse the nominal returns obtained by Contractual pension funds and open pension funds since 2000 and the two main types of PIP *nuovi* since 2008 (the first full year of operation for these products), and compute *real net returns*, that is, after charges and inflation, over these periods.

Figure IT.10 – Inflation in Italy

Period 2000–2023

	Annualised	**Cumulated**
Italy	2.1%	66.5%
European Union (varying composition)	2.3%	73.2%



Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

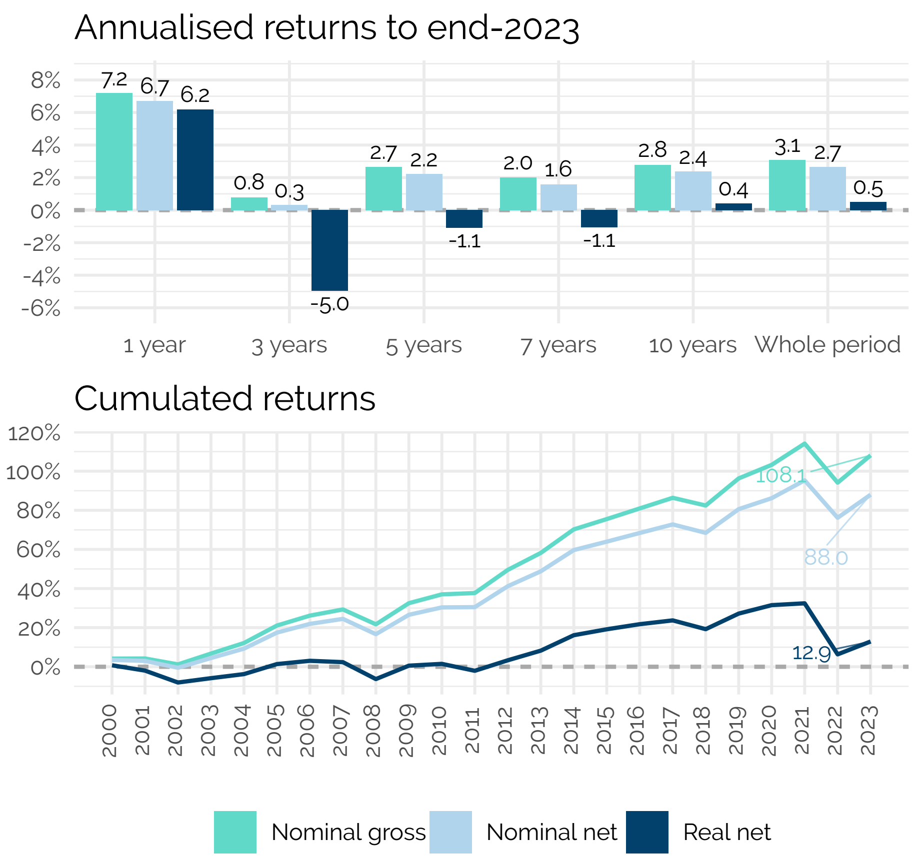
As already mentioned, in order to calculate the long-term net returns, we deduct annual costs from each year's nominal gross return figure. For that operation in the Italian case, we take for each year and each product category the average value of COVIP's synthetic cost indicator for a 35 year period (see Table IT.4).

In order to correct the nominal net returns for inflation, we calculated the annual inflation rate in Italy since 2000, based on Eurostat's HICP (see methodology on **??**). As can be seen from Figure IT.10, in terms of inflation, Italy was below the EU average over the period 2000-2023, with a 2.2% annual average and a 66.48% cumulated. In 2022 inflation climbed to 12.3%, 1.9 p.p. above the EU average (10.4%) but fell to a mere 0.5% in 2023, 2.9 p.p. below the EU average for that year.

Performance of Contractual and Open pension funds

Figures IT.11 and IT.12 show the nominal gross, nominal net and real net returns of Contractual and Open pension funds. Even before the inflation hike of 2021-2022, the long-term real performance of these products attests to the eroding effect of inflation on investment returns: over 24 years, inflation reduced the cumulated performance of Contractual pension funds by 75.1 p.p., and that of Open pension funds by 62.2 p.p., turning the later negative at -6.6%. Therefore, Italian workers who may be under the illusion that the value of their pension savings almost doubled over the past two decades have actually barely gained purchasing power if investing in Contractual funds, and actually lost purchasing power if investing in Open pension funds.

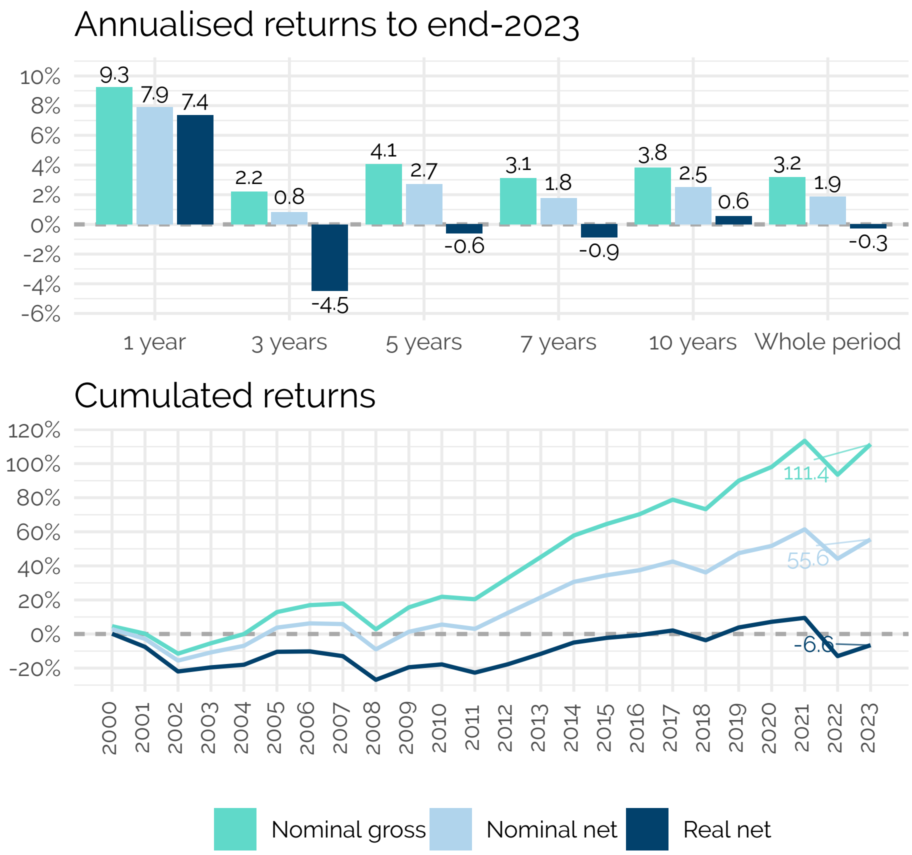
Figure IT.11 – Returns of Italian Contractual pension funds (before tax, % of AuM)



Data: COVIP, Eurostat, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end

The results of Open pension funds furthermore show the long-term impact of costs: While nominal returns before charges are similar and even superior to those of Contractual pension funds (111.4% vs. 108.1% over the period 2000-2023), the higher average 10-year synthetic cost indicator of Open pension funds (+0.85 p.p. in 2023), results in a nominal net performance 32.4 p.p. lower than that of Contractual funds.

Figure IT.12 – **Returns of Italian Open pension funds (before tax, % of AuM)**

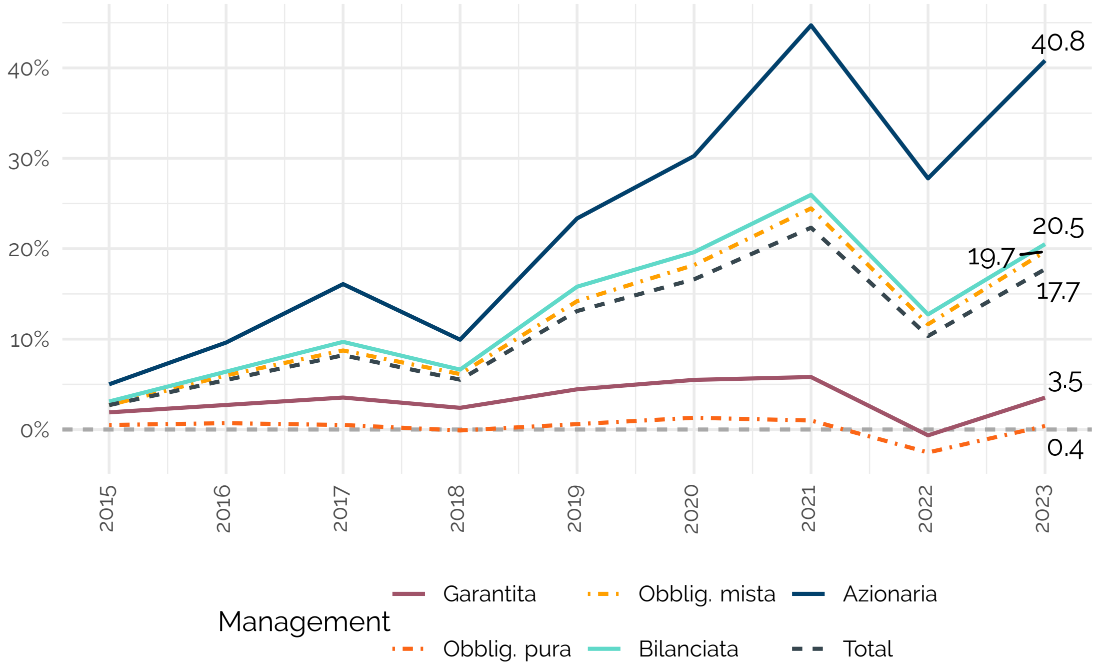


Data: COVIP, Eurostat, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end

Disaggregating these return figures in Figures IT.13 and IT.14, we can see that the nominal performance of the *gestione azionaria* is, over the period, widely superior to that of the conservative options in both Contractual and Open pension funds, and that despite the higher costs attached to equity management in Open funds (see above).

Over the nine years of data available for Contractual funds' compartments (2015–2023), with a 40.8% cumulated nominal net return *gestione azionaria* outperforms the second best-performing option, *gestione bilanciata*, by more than 20 p.p. and the most conservative *obbligazionaria pura*, which barely returns a positive performance, by 40.4 p.p.. Over 22 years, the *gestione azionaria* outperforms the average of compartments by 21.9 p.p. and the most conservative options *garantita* and *obbligazionaria pura* by 43.8 and 36.7 p.p., respectively. Here is a perfect illustration of the higher returns that investors may expect from a higher degree of equity exposure.

Figure IT.13 – Cumulated performance of Contractual funds after charges, before inflation by type of management 2015–2023 (% of AuM)



Data: COVIP, Relazioni annuali, 2015 to 2024

Performance of PIP *nuovi*

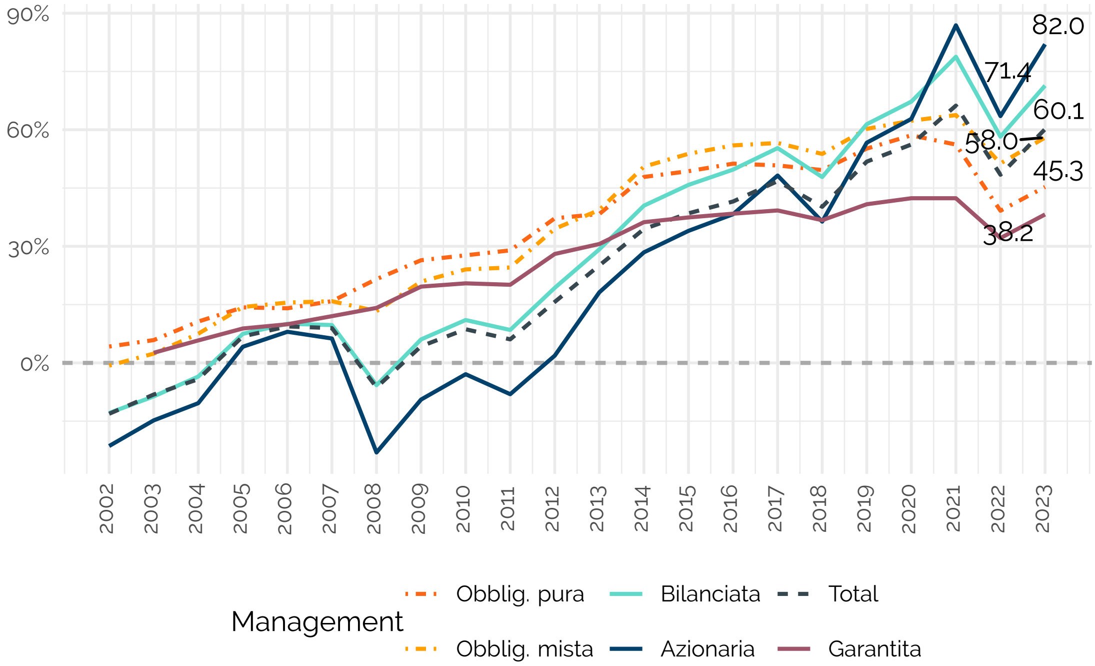
Figures IT.15 and IT.16 painfully show the impact of costs on long-term performance: over half the cumulated performance is eaten away by charges levied on PIP (-47.4 p.p. for with-profit contracts and -58.3 p.p. for unit-linked ones). The rest of the performance is wiped out by inflation, resulting in a meagre +7.5% return for the misnamed "PIP with profits" over 16 years, and even a loss of (-2.9%) for the average PIP unit-linked contract.

For unit-linked contracts, the average return figures must be disaggregated by type of management. Here too, as displayed in Figure IT.17, we see strikingly different patterns across types of *gestione*: While the conservative *gestione obbligazionaria* only returns a 16% growth after 16 years, down from a high point at 20% in 2020, the *gestione azionaria*, which started in 2008—the year of the Global Financial Crisis—with an abysmal -24.5%, as since recovered strongly, fetching a cumulated return of 49.6% at the end of 2023, a *remontada* of 74.1 p.p. over 16 years

Returns in comparison

At first glance, the Italians seem to be poorly served by their complementary pension saving vehicles. As Figure IT.18 shows, only two of the four analysed product categories offer a positive long-term real net return (over 15 and 23 years), both are below 1%. The cumulated real net performances displayed in Figure IT.19 tell the

Figure IT.14 – Cumulated performance of Open funds after charges, before inflation by type of management 2002–2023 (% of AuM)

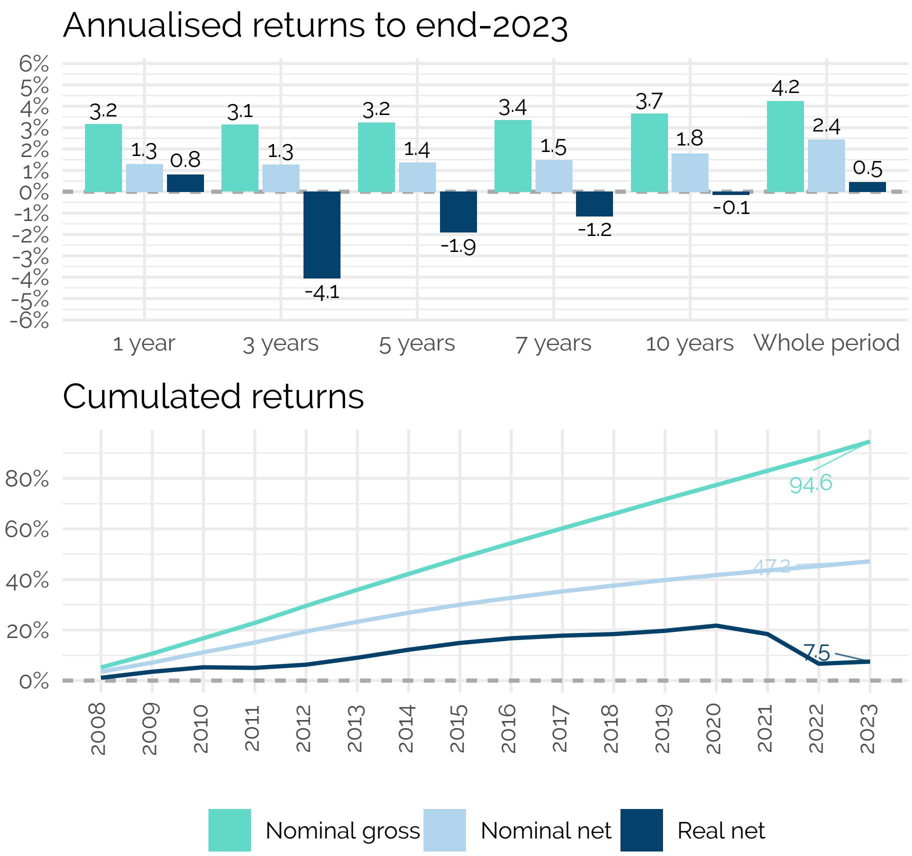


Data: COVIP, Relazioni annuali, 2002 to 2024

same story: after 24 years for pension funds and 16 years for PIP, Italian savers have at best marginally increased the real value of their pension savings.

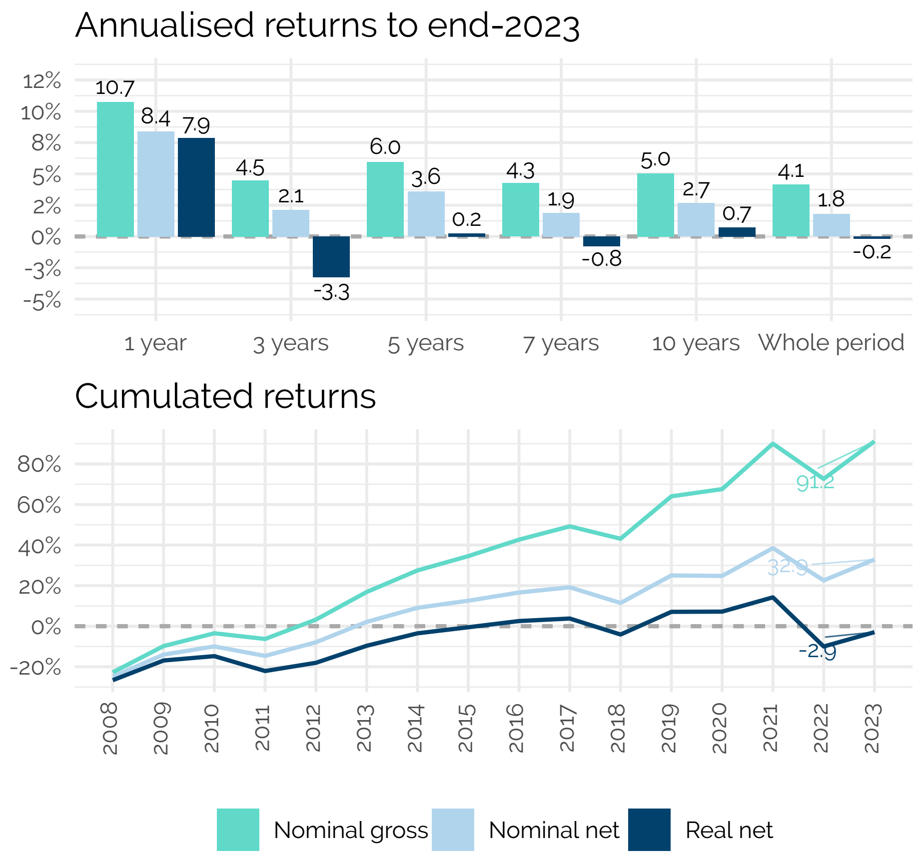
Nevertheless, as we have seen, the breakdown of these performances by the type of management—*gestione*—reveals a reveal a strikingly different picture of the situation: Comparing the performance of the most equity-oriented compartments of Italian pension savings vehicles with that of the most conservative ones, we clearly see that Italian pensions *can* perform extremely well, provided their savings are invested in *gestione azionaria* or *gestione bilanciata* for most of their working life, and switched to more conservative compartments only when reaching retirement age.

Figure IT.15 – **Returns of Italian PIP with profits (before tax, % of AuM)**



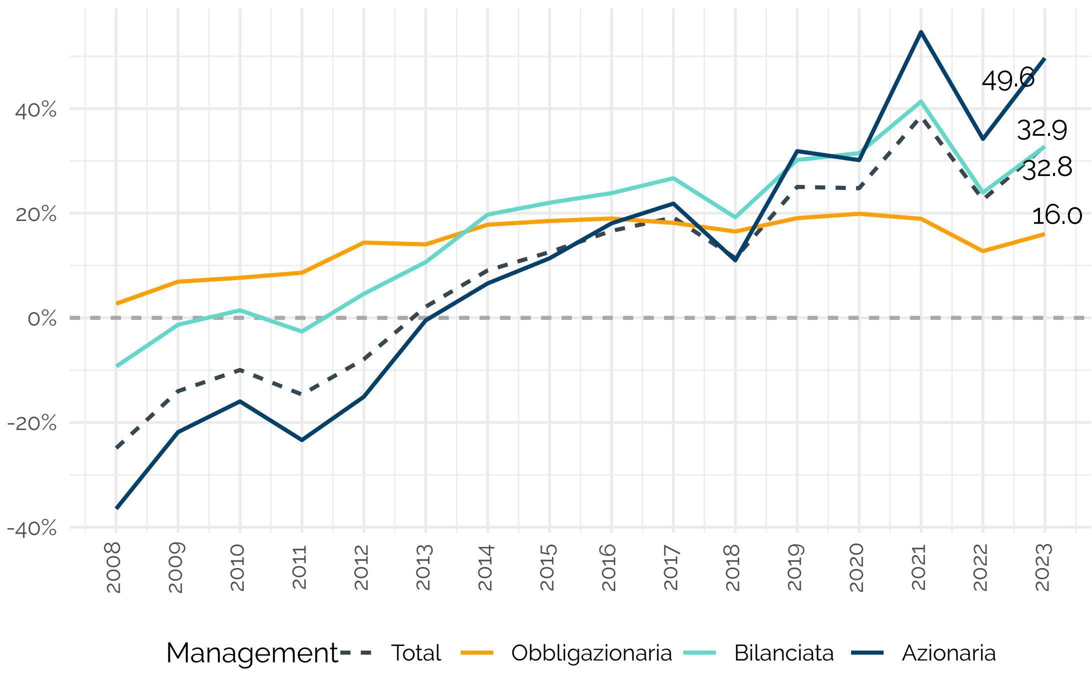
Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure IT.16 – **Returns of Italian PIP with (before tax, % of AuM)**



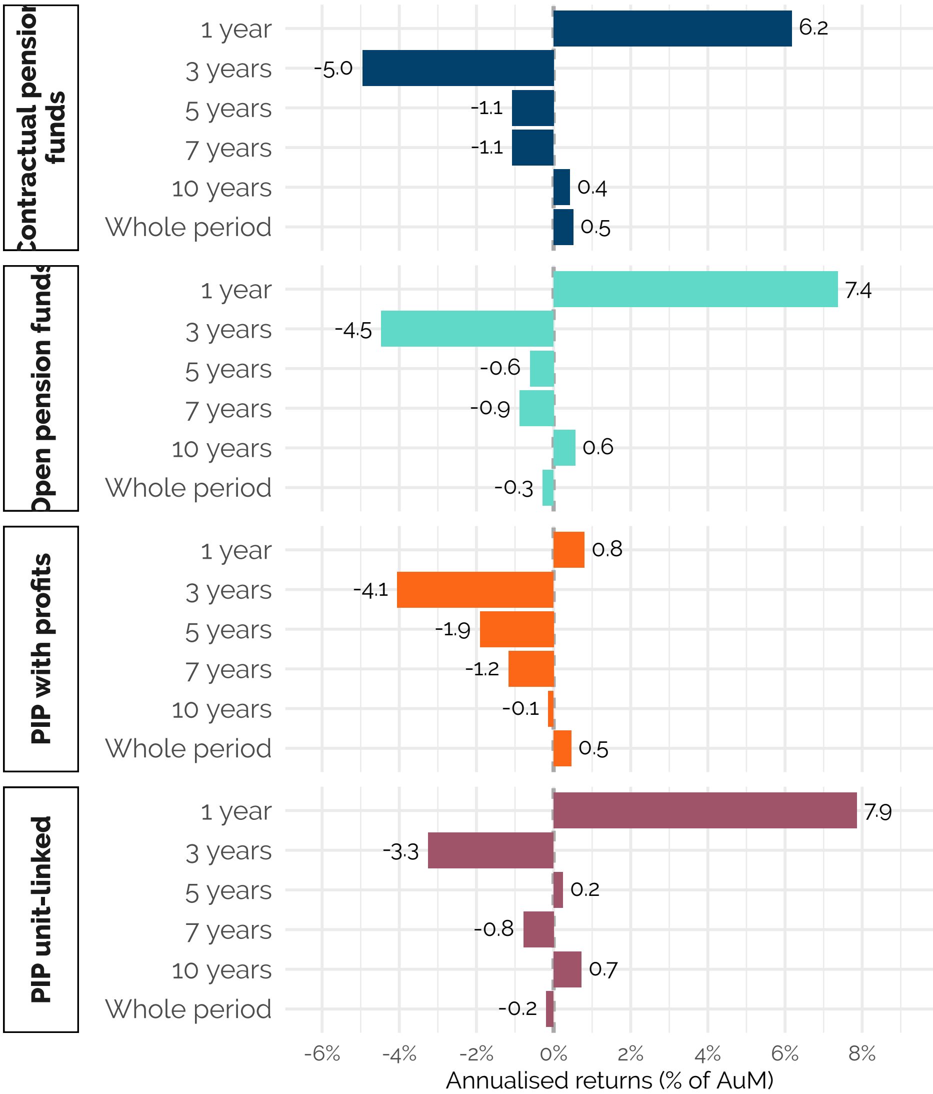
Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure IT.17 – Cumulated performance of PIP *nuovi* unit-linked after charges, before inflation by type of management 2008–2023 (% of AuM)



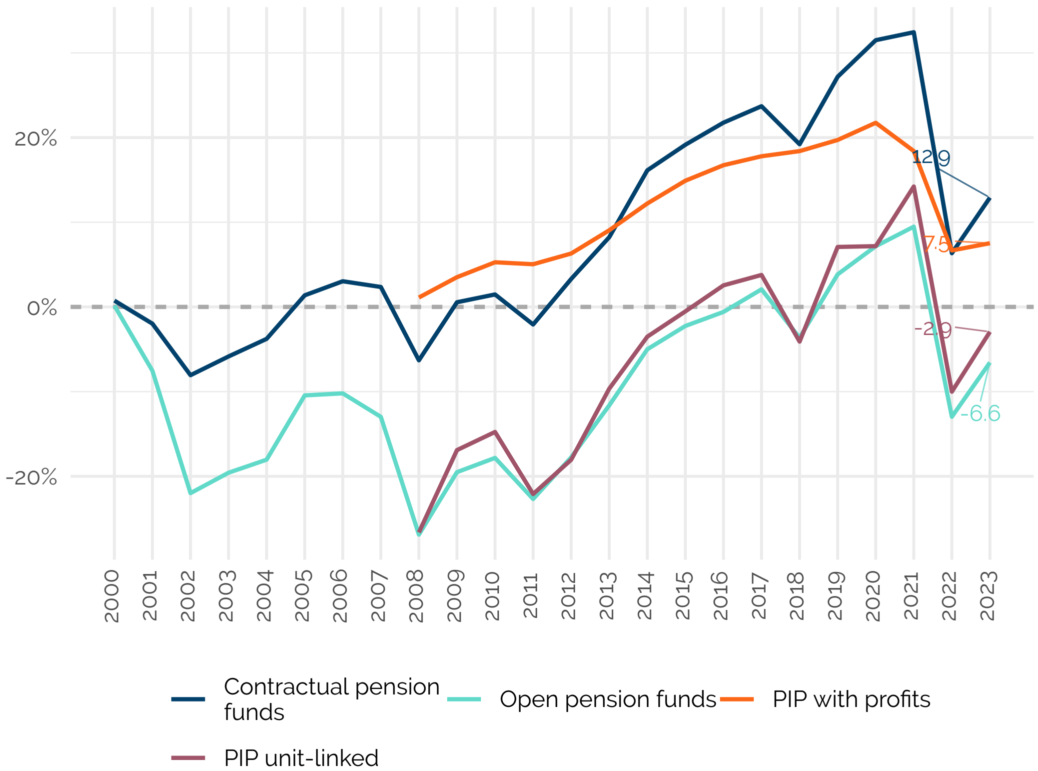
Data: COVIP, Relazioni annuali, 2008 to 2024

Figure IT.18 – **Annualised returns of Italian long-term and pension vehicles over varying holding periods (before tax, % of AuM)**



Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure IT.19 – **Cumulated returns of Italian long-term and pension savings vehicles (2003–2023, before tax, % of AuM)**



Data: COVIP, Eurostat, Eurostat; *Calculations:* BETTER FINANCE.

Do Italian savings products beat capital markets?

To compare the performance of Italian private pensions with that of European capital markets, we adapt the "default" benchmark portfolio presented in the introductory chapter of this report (**??**). We keep the pan-European equity and bond indices as underlying values, but adapt the weight of equity in the mix in line with the average asset allocation of each product category. The parameters are summarised in Table IT.6

Table IT.6 – Capital market benchmarks to assess the performance of Italian pension vehicles

Product	Equity index	Bonds index	Allocation
Contractual pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	30.0%–70.0%
Open pension funds	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	41.0%–59.0%
PIP with profits	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	10.0%–90.0%
PIP unit-linked	STOXX All Europe Total Market	Barclays Pan-European Aggregate Index	55.0%–45.0%

Note: Benchmark porfolios are rebalanced annually.

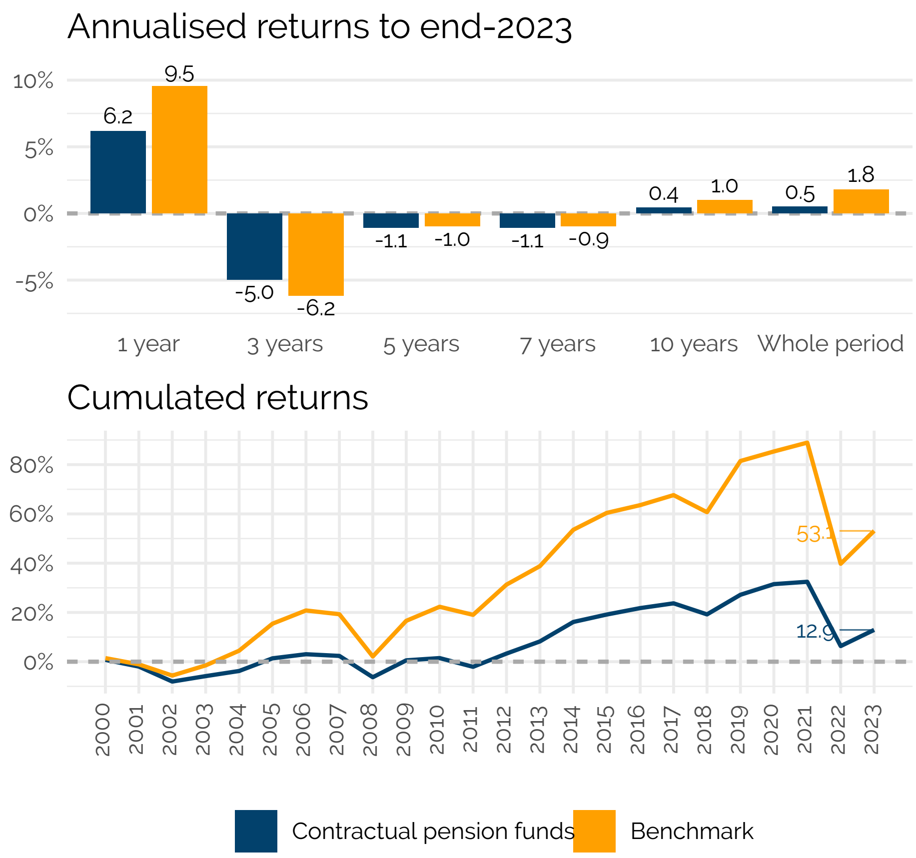
We calculate the real net returns of the benchmark portfolios based on these parameters. Annualised and cumulated returns are calculated since 2000 for occupational and Open pension funds, since 2008 for PIP *nuovi*.

As Figure IT.20 and **??** show, neither Contractual nor Open pension funds manage to beat benchmark portfolio corresponding to their respective equity exposures. The annual average real return of the benchmark over 24 years is 1.3 p.p. superior to that of Contractual pension funds, and 2.3 p.p. superior to that of Open pension funds. In cumulated terms, this underperformance amounts to a 40.2 p.p. for the average Contractual fund investor, and 65.9 p.p. in Open funds.

We use two different benchmark compositions to assess the performance of the two variants of PIP *nuovi* in Figures IT.22 and IT.23. The sluggish though consistent return of PIP with profits do not enable it to beat the 10% equity–90% bond benchmark portfolio, despite the significantly worse performance of the benchmark in 2022: Although falling close to the level of the with-profit PIP that year, the performance of the benchmark portfolio remained superior, and started a recovery in 2023 (+7.8% in real terms), while the return of with-profit PIP stagnated (+0.8% in real terms, after charges).

The comparison between PIP unit-linked and the 65% equity–35% benchmark is not

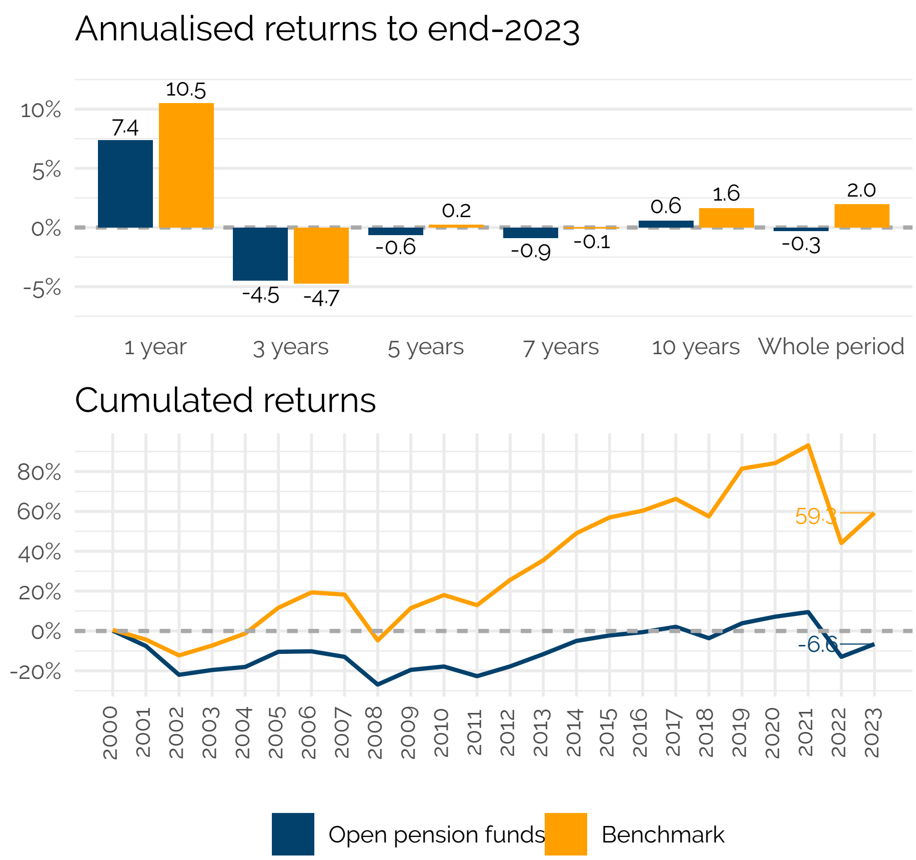
Figure IT.20 – **Performance of Italian Contractual pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

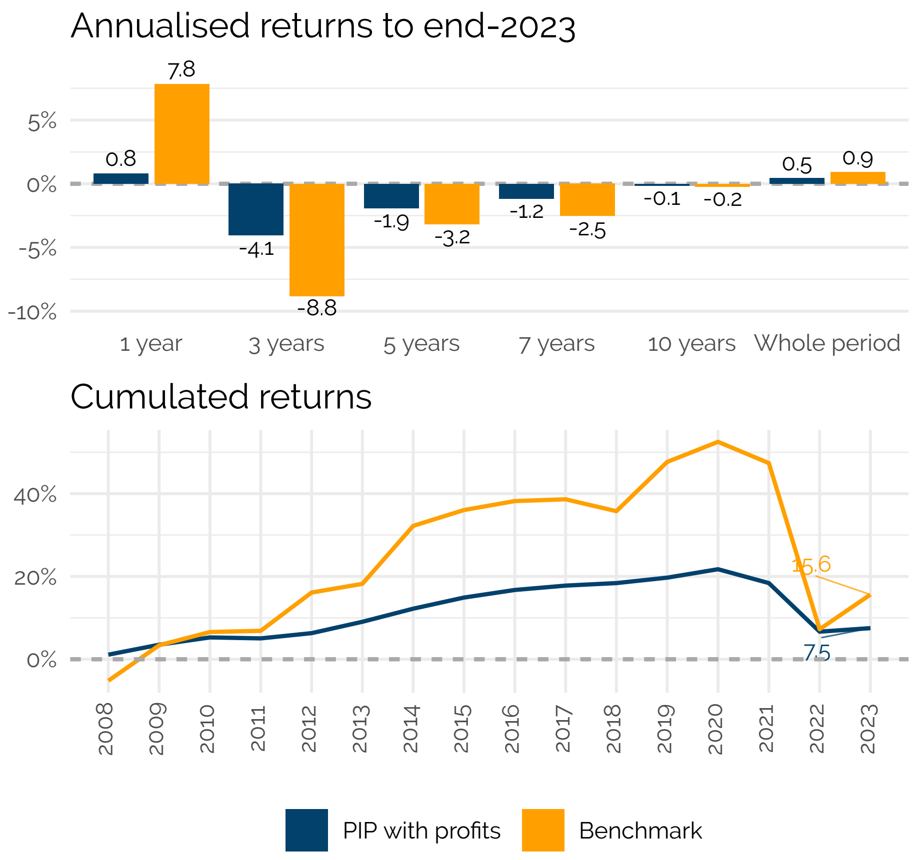
flattering either for the former, which fails to beat the benchmark by 2.4 p.p. in annualised return over 16 years, and 44.6 p.p. cumulated.

Figure IT.21 – **Performance of Italian Open pension funds against a capital market benchmark (returns before tax, after inflation, % of AuM)**



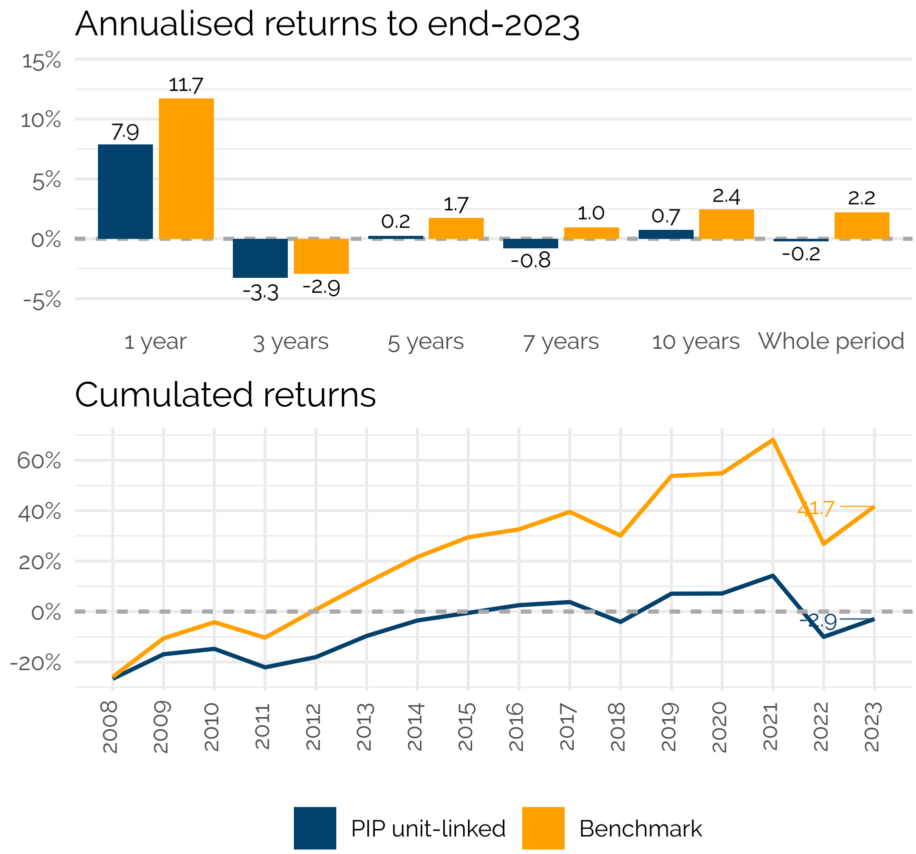
Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure IT.22 – Performance of Italian PIP with profits against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Figure IT.23 – Performance of Italian PIP unit-linked against a capital market benchmark (returns before tax, after inflation, % of AuM)



Data: COVIP, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Conclusions

Italians still only rely to a limited extent on private complementary pensions. The State pension remains the major source of retirement income and both Pillar II and Pillar III cover a limited portion of the Italian labour force. The conservative asset allocation of occupational funds results in limited volatility, but also limits funds' ability to generate higher returns over the long term and to significantly increase the purchasing power of Italian occupational pension savings. The high costs of open pension funds and, especially, PIP *nuovi* eat close to half of the returns obtained on pension plan investments. Finally, in the long term, inflation is a major driver of underperformance: even before the 2021-2022 inflation rate hike, inflation had taken away the major part of the performance of pension funds and PIP performance.

Disaggregating the performance of Italian long-term and pension savings products by type of management—degrees of equity exposures—we have nevertheless seen that the most "aggressive" of the *gestioni* offered to Italian pension savers do offer significantly higher returns than the average, even after deducting the often higher costs of management. That this equity-orientation remain the choice of only a minority of Italian investors bears testimony to the great need for more financial education and, crucially, more transparent, intelligible information for pension scheme participants regarding the costs and long-term performance.

Italian private pensions presents typical cases of insufficiently "aggressive" investment policies combined with high costs that make complementary pension funds—with the relative exception of Contractual pension funds—unable to significantly contribute to pension adequacy. In the context of an rapidly ageing population and high public debt and deficit that put an increasingly heavy pressure on the public pillar of Italian pensions, there is an urgent need to reorient pension savings towards higher risk but also higher yield markets by implementing life-cycle approaches that adapt risk-taking to the investment horizon of pension savers—in order to increase nominal gross returns—and a need to reduce costs, especially of PIP *nuovi*. The upcoming reform of pensions, announced for 2024, should therefore go beyond public pensions and ensure that complementary pensions are effectively able to supplement the State pension.

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