Pension multi-pillarisation in Italy:
actors, 'institutional gates' and the 'new politics' of funded pensions

Matteo Jessoula, University of Milan

(accepted version)

Published version in "Transfer" 2018, Vol. 24(1) 73–89
DOI: 10.1177/1024258917748275

Summary
A latecomer to supplementary funded pension provision, Italy's multi-pillarisation plan was launched in the 1990s under extremely adverse conditions. Supplementary schemes were expected to achieve universal coverage primarily relying on second pillar occupational pension funds. Twenty-five years after its launch, the comprehensive plan can hardly be called successful with respect to both coverage and the relative importance of second and third pillar institutions. Extreme variation in coverage rates between occupational categories and across economic sectors suggests, however, that these developments cannot be merely interpreted as a consequence of institutional resilience and path-dependent dynamics. The article applies an 'actor-centred institutionalist' framework to respond to three main questions. What explains the still limited coverage of supplementary pillars in Italy? What factors account for the prominent role played by third pillar pension schemes in contrast to policy-makers' original intentions? Which factors allow us to understand the significant variation in coverage across both occupational categories and economic sectors?

Keywords
Italy, supplementary pensions, institutions, politics, trade unions

Author:
Matteo Jessoula, Dipartimento di Scienze Sociali e Politiche, Via Conservatorio 7, 20122 – Milan, Italy – matteo.jessoula@unimi.it

1. Introduction

Supplementary funded pensions were barely existent in Italy until the mid-1990s. In fact, the *single pillar* pension system, which combined compulsory pay-as-you-go (PAYG) schemes with universal coverage of the employed population and a tax-financed safety net for the elderly poor, provided comparatively generous earnings-related benefits with replacement rates of around 75 per cent after a 40-year career, thereby 'crowding out' supplementary private pensions (Jessoula, 2011a).

This changed in the early- to mid-1990s when governments started to retrench public pensions to restore financial sustainability. Public pensions were reformed in combination with the launch of a comprehensive plan to build a *multi-pillar pension system* (Table 1). A typical tripartite corporatist agreement then introduced the first regulatory framework for supplementary DC pensions in 1993 with two main aims: i) to ensure *universal coverage* of the employed population – or at least, employees – in supplementary pillars, compensating for the expected decline of public pension levels in the following decades; ii) to make *second pillar* occupational funds, managed by the social partners, the cornerstone of supplementary pension provision.

Twenty-five years later, this plan for transforming the Italian pension system into a multi-pillar architecture is far from being accomplished, and in three main respects has completely failed. First, *coverage remains limited* to a minority of the employed population – 7.8 million individuals out of the 23 million employed workforce are members of supplementary schemes. Secondly, coverage rates show remarkable *variation* across economic sectors and occupational categories. Thirdly, contrary to policy-makers' original intentions, *third pillar* personal pension schemes (PIPs) managed by financial players cover the lion's share of supplementary pillars – despite their higher management costs, higher-risk portfolios and fewer participatory rights for members.

How can we explain these results? While the limited coverage comes as no surprise, considering that the transition to a multi-pillar architecture was launched under the most adverse conditions in Italy – resource scarcity and policy constraints (see Section 'Enabling multi-pillarisation:

tripartite bargaining and inconsistent choices') – and in light of historical institutionalist claims of institutional resilience (see Section 'Analytical framework and methodology'), the substantial variations in coverage (see Figure 3) remain hard to explain. Similarly, the major role assumed by third pillar pensions calls for an explanation, since the original framework was designed by the social partners and government to ensure the predominance of second pillar occupational pensions.

This article addresses these puzzles which make Italy an interesting case study. It adopts an 'actor-centred institutionalist' framework, which appears particularly suited for interpreting the above-mentioned elements of both stability and change in the supplementary pillars. The analytical framework and methodology are outlined in the second section, while the third section juxtaposes the key features of the 1990s multi-pillar plan with the current situation of supplementary pensions in Italy. The ' actor-centred institutionalist' framework is then applied in the three following sections to analyse and interpret the evolutionary trajectory of Italian supplementary pillars between 1993 and 2016. This is followed by a concluding section.

2. Analytical framework and methodology

Transposing Douglas North's analytical approach (North, 1990) to the analysis of public policies, historical institutionalist works have greatly contributed to understanding the dynamics of welfare state change in the last two decades. They have shown that *institutional development* – i.e. *policy change* à la Pierson (1994) – mostly occurs incrementally, gradually, 'at the margin', following key decisions at so-called 'critical junctures' – in accordance with a 'punctuated equilibrium' model. This is the consequence of the interplay between well-known political dynamics such as 'policy feedbacks' (Easton, 1965) and specific mechanisms of institutional change, especially 'increasing returns' and 'lock-in effects' (Pierson, 2000). In other words, once a path is chosen, reversing initial choices is difficult, and path-shifts or 'departures' occur rarely, mostly prompted by 'external' shocks. Institutions and policy-setting are thus essentially *resilient*, resistant to change, and development dynamics are largely *path-dependent*. The methodological implication is that when it comes to explaining policy/institutional change, 'history matters': i.e. previous choices at critical junctures and *policy legacies* are key to understanding subsequent development trajectories, since pre-existing policy-setting significantly constrains policy-makers' choices.

The application of the historical institutionalist framework to the analysis of pension system developments has therefore emphasised the importance of institutional inertia and the limited scope for policy convergence. In particular, the seminal work by Myles and Pierson (2001) has argued that the scope for developing funded pension schemes alongside a PAYG pension system is limited due to the 'sunk cost' of existing pension arrangements and the prominence of the so-called 'double payment problem'. Moreover, the transition from a single to a multi-pillar system is particularly difficult and inertial dynamics are stronger when the PAYG system is 'wide and mature', when public schemes are 'earnings-related' – i.e. when pensions are perceived as 'earned rights', making retrenchment (more) difficult (Myles and Pierson 2001) –, and when resources are scarce, as in the current phase of 'permanent austerity'.

Despite merits, more recent contributions have criticised historical institutionalism for being far more effective in explaining institutional stability than change (Streeck and Thelen, 2005), while a growing body of literature has stressed that, despite constraints, pension (and welfare) arrangements do change and have actually transformed substantially in the last two decades (Bonoli and Palier 2007; Palier, 2010; Hinrichs and Jessoula, 2012; Ebbinghaus, 2012; Natali, 2017).

Taking account of the elements of both stability and change that have characterised the process of pension multi-pillarisation in Italy in the last 25 years, this article therefore applies an 'actor-centred institutionalist' framework, with two main theoretical implications.

On the one hand, we contend that existing policy (institutional) settings not only put *constraints* on policy-makers' choices, but also present *opportunities*, with the constraining/enabling effect of policy legacies ultimately depending on players' interests and value frameworks with respect to the existing institutional structure: as such, it has to be assessed empirically rather than presumed theoretically.

On the other hand, and consequently, this approach assigns 'agency' and agents – i.e. social and political actors involved in the decisional process – a more prominent role in the interpretative framework than in the historical institutionalist analysis.

Within this framework, we also argue that two different levels of analysis are relevant to understand funded pension developments. On the one hand, the *politics* of supplementary pensions needs to be analysed, focusing on policy-making processes leading to key reforms. Here, the focus is put on the key players, primarily the government and the social partners (both trade unions and employer organisations), but increasingly, as we will see below, groups representing financial sector interests.

On the other hand, *implementation* of occupational pension schemes requires analysing stakeholder strategies against the backdrop of industrial relations and taking structural factors such as the economic structure into account.

Accordingly, the empirical analysis included in the article relies on qualitative research based on 'process tracing' (Collier, 2011). The analysis of policy-making in the periods leading to key reforms of supplementary pillars in Italy (1992–1993, 1995, 2000, 2004–2005, 2006–2007) relied on careful scrutiny of official documents, minutes of parliamentary debates and a review of the relevant press articles. Different sources were used and relevant information was cross-checked through a typical 'triangulation' strategy, as well as through the conduction of 17 semi-structured interviews with key informants, including the former Ministry of Welfare in 1995–1998, the former president of Assogestioni (the national association of asset management companies), several directors and presidents of occupational pension funds as well as experts (see list at the bottom).

3. Twenty-five years of pension multi-pillarisation

In Italy, several public pension reforms were adopted in the last quarter of the century, most of which involved retrenchment. Importantly, when the 1995 'watershed reform' introduced a notional defined

contribution system (NDC) with a 40-year phasing-in period, the role of public pensions in maintaining income was expected to decline sharply (Figure 1, solid line): in 2010, when new retirees would still receive earnings-related benefits, the replacement rate was expected to remain above 75 per cent, decreasing to 60–65 per cent in 2030–2040 when the NDC would fully apply to all new retirees. To compensate for the reduced generosity of PAYG schemes, subsequent governments in the 1990s–2000s planned to develop supplementary pensions based on pre-funding. In the 'grand plan' launched in the 1990s, the income maintenance function was thus deliberately assigned to the *interplay* between state and market, i.e. between the mandatory public system and supplementary funded pillars. The data from the Ministry of Welfare (2002) reported in Figure 1 (dotted line) show that, for workers fully subject to the NDC system (approximately retiring after 2035), the combination of first pillar pensions and supplementary benefits will ensure the maintenance of comparatively high (and not declining) replacement rates in future decades. This clearly assumed universal coverage of supplementary pillars: however, as we will see below, some key choices were inconsistent with this objective.

Figure 1 here

The 1993 regulatory framework for 'private' pensions and subsequent revisions allowed different types of second and third pillar supplementary schemes to be set up, all providing defined contribution (DC) benefits. A minimum return guarantee was introduced in 2005, but only for workers enrolled via the 'silent consent mechanism' (see Section 'From tripartism to pluralism: financial industry power and the 'new politics' of supplementary pensions'); in all other cases, workers may choose between diverse portfolio compositions and different types of DC benefits at retirement – among which the most common are lifelong benefits and lifelong combined with survivor pensions. 'Closed' pension funds (CPFs) were designed as typical occupational (second pillar) pension schemes, established as non-profit institutions by trade unions and employer representatives via collective agreements, thus according the social partners participatory rights. Since the regulatory framework does not allow CPFs to manage assets themselves, they usually rely on a small staff while contracting out fund management to financial institutions like banks, insurance companies, investment firms or asset management companies.

Mainly targeting the self-employed, two different types of supplementary funded schemes constitute the third pillar. 'Open' pension funds (OPFs) and 'personal pension plans' (PIPs). OPFs are formally hybrid institutions, comprising both second and third pillar elements – depending on affiliation modes (i.e. individual vs. collective) – but they mostly operate as third pillar schemes. They are directly set up by financial institutions – such as banks, insurance and investment companies –, have a lean governance

structure, but count on a much more robust organisation for asset management and promotional activity. Employees have no right of participation in management boards, and members of the supervisory board are directly appointed by the managers of the financial institution setting up the fund.

The 2000 revision of the regulatory framework also allowed the establishment of PIPs, personal pension schemes set up via life insurance contracts. As with OPFs, they do not provide for any board representation of policyholders, and protection of the latter's interests is delegated to an individual (*Responsabile del fondo*) appointed by the insurance company. Both OPFs and PIPs are allowed to manage directly their assets.

Supplementary pillars started to develop in 1997–1998. By 2007, membership had reached 3.4 million – also boosted by major regulatory changes in 2005 (see Section 'From tripartism to pluralism: financial industry power and the 'new politics' of supplementary pensions') – but growth was then curbed in the aftermath of the 2008 global financial shock and ensuing prolonged economic stagnation (Figure 2). In 2017, i.e. 25 years after the launch of the pension multi-pillarisation plan, supplementary coverage is still far from universal in Italy. According to the most recent data, membership of second/third pillar funded pension schemes is modest, at around 7.8 million out of 22.5 million employed (Covip, 2017) – corresponding to a coverage rate of 28.3 per cent if compared to a total workforce of 25.5 million individuals. Importantly, in December 2016, closed and open pension funds had 2,596,000 and 1,258,000 members respectively, while figures were higher for PIPs, around 3.3 million (Covip, 2017).

Figure 2 here

Membership figures however only tell part of the story. Diverging trends and results appear when looking at the different supplementary pension schemes. Membership of second pillar closed pension funds even decreased during the Great Recession, from just above 2 million members in 2010 to 1.94 million in 2014; similarly, the take-up rate[2] of CPFs declined slightly from 41 per cent to 40 per cent of potential members between 2007 and 2015 (Figure 3). Some signs of recovery have appeared recently, with membership increasing by about 600,000 in 2014–2015 – mostly due, however, to developments in the construction sector (see Section 'Structural and organisational factors matter'). By contrast, individual third pillar pension plans, such as OPFs and especially PIPs, have been more effective in attracting new members. Importantly, the attraction of both OPFs and PIPs goes beyond the traditional

[2] The take-up rate is calculated as the ratio between the number of workers affiliated to pension funds and potential members, the latter defined in relation to the economic sector covered by the collective agreement/CPF.

constituency of self-employed, with employees increasingly turning to individual pension plans, as witnessed by the massive increase in PIP membership – +1.2 million in five years (2012–2016), of whom 600,000 are private sector employees.

Figure 3 about here

Looking in greater detail at second pillar CPFs, we find, first, significant coverage variation between economic sectors (Figure 3). CPF take-up rates are in fact very high – between 70 per cent and 90 per cent – in core industrial sectors such as energy, chemicals and pharmaceuticals; and around 40 per cent in the large fund (1 million potential members) for metalworkers. By contrast, rates are extremely low – with figures around 10 per cent – in retail, tourism, fashion and more generally the service sector. Such variation calls for an explanation, as does the significant increase in take-up in the construction sector – from below 10 per cent to almost 90 per cent between 2014 and 2015 (see Section 'Structural and organisational factors matter').

Second, it needs to be stressed that although total membership is limited, the average contribution rate in CPFs is comparatively high, usually ranging between 9 per cent and 10 per cent of gross wages for employees. Third, when broken down by age, CPF take-up is low (19 per cent) among workers younger than 35, increases to 27 per cent in the 35–44 age bracket and reaches 34 per cent for workers older than 45.

Finally, take-up varies substantially across the different occupational categories. Currently, total coverage is 26.9 per cent among private sector employees, 21.3 per cent among the self-employed, but only around 5 per cent among public sector employees (Covip, 2017).

Two main conclusions can be drawn from this, in turn leading to four main questions. The first conclusion is that the comprehensive multi-pillarisation plan for the Italian pension system, reducing the importance of the public pension system while expanding supplementary pillars to achieve universal coverage, is far from being achieved, and might even be deemed to have de facto failed 25 years on. The second conclusion refers to the factors behind such failure. It cannot simply be argued that policy legacies and the 'double payment problem' have constrained supplementary pillar expansion – as mainstream historical institutionalist literature contends –, since the figures presented above suggest that in several economic sectors both substantial resources were found – as shown by the high contribution rates in supplementary pillars – and membership has significantly expanded to reach comparatively high coverage levels (60 per cent to 80 per cent).

So what explains the still limited supplementary pension coverage in Italy, substantially hindering pension multi-pillarisation 25 years after its launch? Why does coverage vary substantially across occupational categories, with only limited take-up among public sector employees (and atypical workers)? What factors account for the prominent role played by third pillar pension schemes, especially PIPs, contrary to policy-makers' original intentions of greater reliance on second pillar CPFs? As for the latter, which factors drive affiliation and, thus, help us understand the significant coverage variation across funds and economic sectors?

We address the first two questions in the next section, analysing the introduction of the 1993 regulatory framework from a twofold perspective. On the one hand, we outline the conditions under which the multi-pillarisation plan was initiated. On the other, these conditions allow us to understand some key initial decisions related to both affiliation to and funding of the new supplementary pillars and explaining total coverage and the inclusion/exclusion of various occupational categories.

4. Enabling multi-pillarisation: tripartite bargaining and inconsistent choices

In the early 1990s, the transition from a single pillar to a multi-pillar pension system seemed most unlikely in Italy. Neo-institutionalist analyses have stressed that such a transition is hampered by the so-called 'double payment problem', which is most severe when the public pillar is financially unsustainable, and is particularly difficult to overcome in mature PAYG and earnings-related systems (Myles and Pierson, 2001). In such cases, more resources are needed to honour the PAYG system and make it sustainable. Moreover, economists emphasise that the development of funded pensions is most unlikely when available resources are scarce (Orszag and Stiglitz, 1999): i.e. when first pillar contribution rates are high, when the public deficit/debt is high and/or when other constraints on public expenditure rule out generous tax incentives, and no reserve (buffer) fund exists.

The Italian situation in 1992–1993 was striking in that it presented very adverse conditions for establishing and developing funded pensions. Public PAYG pension schemes were 'mature', covered the whole workforce and delivered generous earnings-related benefits – they were thus difficult to retrench in the short term since they involved 'acquired rights'. The gap between revenues and expenditure was growing, and the first pillar contribution rate was very high – 26 per cent in 1992 and rising to 33 per cent when the NDC system was introduced in 1995. These two conditions combined clearly ruled out the introduction of additional (compulsory) contributions to finance supplementary pillars. Moreover, other sources to finance the transition to a multi-pillar system were not available: public debt was extremely high – 117.3 per cent of GDP in 1992, the highest in Europe – and the budget deficit equalled 10.5 per cent of GDP (1991) at a time when the 'Maastricht convergence criteria' for

joining the Euro-club had just put strict constraints on public finance. Finally, there was no reserve fund and no reliable forecast pointing to increasing resources from higher employment or faster economic growth. In a nutshell, there seemed to be no available resources to finance the transition to a multi-pillar architecture.

Nevertheless, in 1992–1993, the Amato government committed to introduce supplementary DC pensions, and policy-makers embarked on the path towards pension multi-pillarisation despite the unfavourable conditions mentioned above. The Italian government framed the policy-making process as typical *tripartite concertation*: the technocratic nature of the cabinet actually suggested fully involving the social partners – who had had a stake in pension policy-making for decades (Jessoula, 2011a, 2011b) – in order to manage the delicate exercise of both *retrenching* public pensions (for the first time) and 'opening to market' by designing a regulatory framework for 'private' supplementary pension schemes. The three major trade unions – Cgil, Cisl and Uil – and the main employers' association were thus fully involved in negotiations.

While '*agency*' was thus not lacking, to understand fully how the pension multi-pillarisation puzzle was solved in the early-1990s, we need to acknowledge that, in accordance with the analytical framework outlined in the Section 2, institutions – i.e. policy legacies – not only represent obstacles for policy change, but may have enabling potential. In other words, policy legacies are not just *constraints* but also *opportunity* structures for policy-makers. While the existence of a broad-based and mature PAYG system – together with budget constraints – reduced room for manoeuvre to develop funded pensions, Italian policy-makers exploited the existing social protection structure to find the necessary financial resources. In particular, following a four-month concertation process, the Amato cabinet and the social partners agreed on using a pre-existing compulsory severance payment named TFR (*Trattamento di Fine Rapporto*) to overcome the double payment problem and finance supplementary funded pillars. The TFR was de facto a 'deferred wage' paid by companies to employees upon termination of the employment contract, and calculated as 6.9 per cent of workers' gross wages for each year of service.[3] The 1993 regulatory framework therefore included a key provision allowing workers to *transfer voluntarily* the TFR to a 'closed' occupational fund (CPF) set up by a collective agreement. More precisely, the first regulatory framework for supplementary pensions (Decree 124/93) prescribed that, *in case* of affiliation to occupational funds, the TFR was to be fully merged into the latter.[4]

[3] See Jessoula (2011a) for details.

[4] This applied to workers first hired after April 1993. For those already in employment, collective agreements would define the share of TFR to be transferred to CPFs.

Importantly, such 'choice' for the TFR as the primary source of financing of funded pillars – i.e. second pillar CPFs – had implications for some key features of supplementary pensions in Italy, which relate to the two questions above.

The first implication concerns the *voluntary* character of affiliation to supplementary schemes as well as the *balance* between funded pillars. The social partners consented to the usage of the TFR under two conditions: i) application of the *voluntary* principle, i.e. letting workers freely decide whether to keep the TFR or transfer it to funded schemes; ii) the possibility to transfer the TFR to occupational funds only, in order to assign closed occupational funds a prominent role in supplementary pension provision.[5] In particular, at the request of the social partners, the compulsory transfer of the TFR to pension funds was ruled out for two reasons. First, while workers' organisations acknowledged the need to develop supplementary pillars to compensate for the projected decline in public pension levels in future decades, they did not want compulsorily to expose workers to financial market risks – also in light of the modest but guaranteed rate of return on TFR contributions.[6] Second, unions' favourable attitude towards the voluntary transfer of the TFR matched the interests of Confindustria, the main employers' confederation, because the TFR (as a deferred wage) constituted an important and relatively cheap source of self-financing for many firms, especially the high number of small and micro-enterprises characterising the Italian economic structure. Confronted with the united front of trade unions and employer representatives, the government – which was also divided internally in relation to the principle of voluntary versus mandatory affiliation (Jessoula, 2009) – easily accepted the social partners' conditions.

The second implication of choosing the TFR as the main source of financing is that occupational categories not entitled to the TFR were de facto excluded from supplementary pension coverage: *inter alia* public sector employees – at least until 2000 when the TFR rules and, consequently, those regarding supplementary pensions, were extended to this category[7] – and 'project workers' (so-called *parasubordinati* mostly working as bogus self-employed).

In sum, although the TFR represented a key 'institutional gate' allowing the transition to a multi-pillar system under extremely adverse conditions (Jessoula, 2011a), the 'choice for the TFR' as the main source of financing did not come without costs. In particular, the voluntary character of affiliation – requested by social partners as a condition for using the TFR – was *inconsistent* with the goal of universal coverage

[5] A residual role was then assigned to OPFs, as witnessed by the provision allowing workers to become members of these funds only if a 'dedicated' occupational fund was not available in their economic sector.
[6] According to Law 297/82, the rate of return guaranteed by the TFR is 1.5 per cent plus 75 per cent of the inflation rate.
[7] Coverage of public sector employees remained low even after 2000 because the creation of dedicated CPFs was extremely slow.

in supplementary pension pillars. Similarly, reliance on transferring the TFR to pension funds severely hampered the inclusion of some key occupational categories such as public sector employees in supplementary pillars. Twenty-five years on, the main consequence of this move is the limited coverage of second pillar pensions: as in other European countries which moved from single pillar to multi-pillar pension systems, large coverage gaps appeared when affiliation was not made compulsory either by law or via collective agreements. Italy is no exception in this respect.

But the 1990s plan has not only been hard to accomplish with regard to coverage. As seen above, another key element – the prominent role assigned to collective CPFs in supplementary pension provision – has recently been lost. We now turn to this issue.

5. From *tripartism* to *pluralism*: financial industry power and the 'new politics' of supplementary pensions

The key question here is what factors account for the primary role currently played by third pillar pension schemes, especially PIPs, contrary to policy-makers' original intentions of greater reliance on second pillar CPFs. To provide an answer, we need to retrace the main steps of supplementary pillar development between 1993 and 2016 (Table 1) from two different angles: first, showing how important changes in the *politics* of funded pensions led to substantial modifications of the original regulatory framework; secondly, analysing the *implementation* of supplementary pension schemes by the various players involved – primarily, the social partners and financial players. Let us turn to the former first.

As discussed above, when the regulatory framework was established in 1993, the critical budget situation did not allow generous tax incentives for supplementary pensions, with the consequence that no pension fund was created under the new rules[8]. Two years later, however, the development of supplementary pensions became a prominent issue in the tripartite concertation process launched by the 'technocratic' Dini government with the social partners, aimed at both further reforming the public pillar and revising supplementary pension rules. The decision to replace the earnings-related schemes with a NDC system in the first pillar was decisive, since it assigned funded pensions a key role in compensating for the expected sharp decline in the public pension replacement rate, especially for younger cohorts.

As in 1992–1993, the social partners were again involved in the policy-making process due to their traditional role in managing the TFR: this, again, ruled out the compulsory transfer of the latter to pension funds. Nevertheless, the overall framework had changed. On the one hand, the government was aware that more resources – including tax incentives – were needed to develop supplementary pillars effectively,

[8] The national banking national association (ABI) lamented that the tax regime included disincentives to establishing supplementary funded schemes: see the interview in *Il Sole 24 Ore*, 10 March 1993.

both inducing social partners and financial actors to set up pension funds and making supplementary schemes more appealing to employees. Importantly, on the other hand, following the adoption of the 1993 regulatory framework a number of relevant players representing financial institutions' interests had entered the stage of (supplementary) pension politics. At least three powerful groups, respectively representing the banking sector (ABI), the insurance sector (ANIA) and resource management companies (*Assogestioni*) were interested in measures fostering the development of supplementary pillars. Accordingly, they 'pressured' the government to boost the expansion of what would represent, for them, a gold mine ('mega-business'[9]). The final solution included in Law 335/95 was receptive to these requests, with the tax regime for funded pensions made more favourable: a) incentives for employees and employers increased, with contributions up to 2 per cent of gross annual income (max. ca. €1300) becoming deductible; b) taxes on pension funds were reduced. All was ready for the take-off of supplementary pillars, as actually occurred – as shown in the third section.

A similar policy-making dynamic unfolded a few years later, when a centre-left cabinet accommodated demands by social and especially financial actors to revise the regulatory framework to support more effectively supplementary pension development. Decree 47/2000 contained some key measures, *inter alia* further augmenting the deductibility of (employers' and employees') contributions – up to 12 per cent of gross annual income and to a maximum of €5165; and enhancing the menu of supplementary pension provision by setting out the rules for establishing personal pension plans (PIPs), while extending tax incentives to these typically third pillar institutions.

Table 1 here

When compared to the tripartite decision-making of 1992–1993, the political processes in both 1995 and 2000 were more open and pluralistic, also involving the powerful associations representing financial sector interests. At this stage, however, financial actor influence was kept in check by the social partners' *veto* power on some key issues: primarily, the voluntary character of supplementary pillars – linked with the voluntary transfer of the TFR to a pension fund – and the prominent role of occupational CPFs vis-à-vis third pillar institutions.

Things changed substantially, however, in 2001 after the release of projections on the decline of public pension replacement rates – from ca. 70 per cent in 2010 to around 50 per cent in 2030 –, and of figures indicating lower take-up rates of supplementary pensions among young workers. The newly appointed

[9] Article published in *Il Sole 24 Ore*, 4 May 1995.

centre-right cabinet led by Silvio Berlusconi drafted a reform proposal based on two main elements: i) full exploitation of the TFR through the *compulsory* transfer of the latter to supplementary funds; ii) regulatory harmonisation between second and third pillar supplementary pension schemes with a view to achieving a level playing field. The aims were both to achieve definitively universal supplementary pension coverage and to stimulate competition between second (CPFs) and third pillar (OPFs, PIPs) institutions. The first measure was expected to mobilise a large amount of resources – more than €12bn per year, or around 1 per cent of GDP (Ministry of Welfare, 2002) – to develop funded pensions. The second was fully in line with financial players' requests.

The government's bill – which had been drafted unilaterally – provoked harsh reactions by the unions, protesting against the end of traditional tripartite bargaining in supplementary pension policy-making, the compulsory transfer of the TFR to funded schemes which would obligatorily expose workers to market risk, and the proposed regulatory harmonisation between occupational CPFs and 'pure' market institutions created and managed by financial actors – which would favour the latter.[10] Interestingly, in contrast to the unity displayed by the social partner in the 1990s, the main employer association *Confindustria* initially sided with the government and financial players, because the compulsory transfer of the TFR was associated with a reduction in contribution rates in the first pillar, which made the overall package attractive for employers. The unions, however, did not surrender, and instead launched a prolonged phase of mobilisation against the government's plan. Agreement was not reached until four years later, when the adoption of the public pension reform substantially changed actor coalitions. In fact, the dropping of the envisaged contribution reduction in the first pillar altered the relative attraction of the overall plan for the employers, and *Confindustria* stopped supporting the compulsory transfer of the TFR to funded schemes, split with the government and financial players and eventually sided with the unions.[11] This change prompted a harsh and unprecedented reaction from two powerful fronts. While the 'financial block' (ABI, ANIA, *Assogestioni*) supported the government's reform plan, the traditional 'social block' formed by unions and the main employers' association called for the maintenance of certain key features of the original regulatory framework: namely, the voluntary transfer of the TFR and a clear distinction (with different sets of rules) between second and third pillar institutions.[12] The same split also cut across government lines, with Silvio Berlusconi's Forza Italia party backing the financial block, and the Northern League Minister of Welfare Roberto Maroni supporting social partners' main stances.

[10] See the joint document issued by the three main unions Cgil, Cisl and Uil during the strike called on 24 October 2003.
[11] See Jessoula (2009) for a detailed analysis.
[12] Joint documents by the social partners issued in February and July 2005.

After the Minister of Welfare threatened to resign, should the revision of the regulatory framework completely level the playing field between second and third pillar schemes[13] thus making it 'excessively' in favour of financial players, a compromise was eventually reached in Legislative Decree 252/05 which included relevant new clauses in supplementary pension rules. In line with social partners' requests, the decree did not include the compulsory transfer of the TFR, while a mechanism of 'silent-consent' transfer of the latter to CPFs was introduced in order to expand supplementary pension coverage.[14] This also came with the provision of a minimum return guarantee in the case of 'silent enrolment' in CPFs. However, the financial block also gained. The decree provided for substantial regulatory harmonisation between the two supplementary pillars, and in the case of non-silent enrolment workers were free to decide to transfer the TFR either to a second pillar CPF or to a third pillar OPF / PIP, thus removing all restrictions regarding first affiliation. Moreover, the tax regime was made even more generous, especially with respect to benefits which were then taxed at a lower rate (decreasing from 15 per cent to 9 per cent in accordance with how long a worker had been a member of the fund).

The adoption of Decree 252/05 thus represented a milestone in various respects.

With regard to decision-making, the long phase between 2001 and 2005 put an end to tripartite bargaining over supplementary pensions, with powerful financial actor associations now playing a prominent role and very much conflictual dynamics emerging between the various players involved. Such 'new politics' of supplementary pensions, characterised by much more open *competition* among the various pressure groups, thus ultimately turned from *tripartite concertation* to *pluralistic policy-making* (Jessoula, 2011b).

This influenced reform content and, subsequently, the balance in the relative importance of the second and the third pillars. In fact, while the 'silent-consent' mechanism favouring second pillar CPFs was only to a certain extent successful in increasing CPF membership, regulatory harmonisation significantly boosted third pillar expansion (see Figure 2). PIP membership accelerated after 2005 and – in contrast to stagnating CPF membership during the Great Recession – continued to grow rapidly in the following years. In 2011, PIPs overtook CPFs in terms of total membership, hence becoming the cornerstone of supplementary pension pillars (Figure 2). Such development is the consequence of the regulatory changes seen above, combined with organisational factors that significantly differentiate CPFs and PIPs. The latter may actually count on a much more robust organisation for aggressive promotional and marketing strategies, making them more effective in recruiting new members – not only among the

[13] See the minutes of the Council of Ministries, 5 October 2005.
[14] In accordance with the silent-consent mechanism introduced in 2005 and revised in 2006, from January 2007 private sector employees have six months – either at the time of first employment or when they get a new job – to decide whether they want to keep the TFR or to transfer it to a supplementary pension fund. Should they remain '*silent*', the TFR is paid *by default* into an occupational CPF.

self-employed but also among employees, the traditional CPF constituency –, despite significantly higher management costs when compared to CPFs and also OPFs.

By contrast, the capacity of occupational funds to promote membership is more limited when compared to PIPs and varies greatly between economic sectors. This leads to the fourth and last question: what explains the significant variation in coverage across economic sectors and occupational funds presented in Figure 3?

6. Structural and organisational factors matter

To answer this question, we need to identify which factors actually drive affiliation to CPFs. Several arguments have been proposed to explain why the take-up rate for private pension schemes has remained limited: i) TFRs and pension funds are not perfect substitutes in terms of returns, risks and liquidity (Cozzolino et al., 2006); ii) financial market performance has been modest since the early 2000s; iii) the choice in favour of pension fund is irreversible, whereas workers may always choose to transfer the TFR to a fund.

These factors, however, do not explain the extreme variation in take-up rates across economic sectors shown in Figure 3 above. *Structural* and *organisational* factors seem key in this respect. As to the former, a specific feature of the Italian economy, namely the large share of micro/small firms and their employment of roughly half of dependent workers, needs to be considered. As to the latter, we should not perceive trade unions as unitary actors – as we did in the analysis of the politics of supplementary pensions above: rather, we need to acknowledge that (the three) worker confederations are fragmented organisations, whose representational capacity (as well as interests and value frameworks) varies substantially across economic sectors and in relation to company size.

CPF take-up rates are (very) high in sectors dominated by medium-sized/large companies – mostly employing more than 50 employees – in the chemical, energy and pharmaceutical sectors, whereas they are very low in the retail, service and tourism sectors, where micro (below 10 employees) and small (below 50 employees) firms predominate. The key factor here concerns the different presence of trade unions, as well as the diversity of employer strategies, dependent on company size. In medium-sized/large companies, trade unions and employers typically cooperate to foster enrolment in occupational schemes. By contrast, trade union presence is limited (if any) in micro/small firms, leading to less information and reduced incentives for workers to enrol in the dedicated fund. Moreover, in such a context, employers often 'pressure' employees to keep the TFR within the company[15] due to its

[15] Interview with former advisor of the Ministry of Labour and Social Protection.

important role as a convenient form of self-financing for companies with limited/no access to capital markets. Such a gap between large and micro/small firms also appeared when the key mechanism for boosting second pillar coverage – the silent-consent formula – was implemented in 2007: though enjoying little success, the promotional campaign launched in support of the initiative increased CPF membership substantially (+64 per cent in just one year). However, this increase further widened the gap between covered/non-covered sectors and categories, since membership increased more in CPFs with already high take-up rates (+15.1 percentage points) than in less 'attractive' funds (+7 points only).

In sum, the voluntary character of the supplementary pillars, coupled with an economic structure featuring a high share of small businesses with low unionisation rates, has severely constrained occupational pension development in Italy. Nevertheless, *agency* factors also play a role, as recently shown by the remarkable increase in membership – from roughly 7 per cent to nearly 90 per cent in 2014–2015 – of the occupational fund for construction workers (Prevedi). Despite the presence of a multitude of micro/small firms in this sector, the social partners built on their longstanding tradition of cooperative industrial relations – as witnessed by the bilateral body *Cassa Edile* founded back in 1919 – to tackle limited coverage through the introduction of a (modest) compulsory employers' contribution in the recently renegotiated collective agreement.[16] The underlying idea here is to first make the system more inclusive, and then to increase contribution rates via the voluntary usage of the TFR.

7. Conclusions

Italy is a latecomer to the provision of supplementary funded pensions, since the multi-pillarisation plan was only launched in the early 1990s, combining substantial retrenchment in the first pillar with the establishment of DC supplementary pillars. Despite the extremely adverse conditions under which the development of funded pillars was initiated, supplementary schemes were expected to achieve universal coverage, compensating for declining public pension replacement rates in coming decades by relying primarily on second pillar occupational funds.

The analysis has shown that, 25 years after the launch of this comprehensive multi-pillarisation plan, it can hardly be labelled successful in two main respects. First, supplementary pillar coverage is still modest and take-up rates vary substantially across occupational categories as well as across economic sectors. Importantly, this implies that, despite the extremely adverse conditions, in several cases resources were found and the double payment problem has been overcome, whereas in some sectors coverage lags behind despite resource availability. Secondly, while the original plan conceived second pillar occupational funds

[16] Interviews with President and Director of Prevedi pension fund.

as the cornerstone of supplementary pillars, third pillar institutions (PIPs) currently play the leading role in providing supplementary pension coverage.

We argued that both developments are puzzling for mainstream historical institutionalism and that they cannot be merely interpreted as the consequence of institutional resilience and path-dependent dynamics. To make sense of the actual take-off of supplementary pillars and the extreme variation in coverage, the 'structure-agency' relationship is indeed key, though legacy policies and institutions need to be better perceived as both constraint *and opportunity* structures for agents involved in the politics of supplementary pensions. In the early 1990s, governments and social partners agreed – in a *tripartite bargaining* framework – to launch pension multi-pillarisation by exploiting a pre-existing social protection institution (the TFR) in order to find the necessary resources to finance supplementary pillars. Thus, theoretically, the TFR represented an '*institutional gate*' allowing policy change, and the expansion of supplementary pillars may then be conceptualised as a case of intentional 'layering' through (voluntary) 'institutional conversion' (Streeck and Thelen, 2005).

However, the choice of the TFR as the primary source of financing funded schemes involved the principle of *voluntary* affiliation, which is the main cause – in combination with the *structural* constraints imposed by the Italian economic structure with its multitude of micro/small firms – of both the current large coverage gaps and extreme variation in take-up rates across economic sectors and occupational categories. Similarly, the choice of the TFR has de facto excluded (until very recently) important categories such as public employees from supplementary pillar coverage.

Actors' choices and strategies are also key to understanding the changed balance between second and third pillar institutions in favour of the latter in the last two decades. We have shown that, after the launch of the multi-pillarisation plan in 1993, powerful groups representing financial sector interests gained influence in the 'new politics' of supplementary pensions – a stark case of 'policy feedback' –, ultimately transforming policy-making patterns from *tripartism* to *pluralism*. More open competition between the social partners and financial players in the field allowed the latter to obtain significant regulatory harmonisation across pillars, changing the original rules which favoured occupational second pillar funds. Harmonised rules have since been exploited by third pillar institutions to attract new members by relying on aggressive promotional and marketing strategies not available to second pillar funds due to their weak organisational structures and limited staff.

Acknowledgements

I am very grateful to Arianna Marcolin who contributed to empirical research in 2016–2017.

References

Bonoli G and Palier B (2007) When past reforms open new opportunities: comparing old-age insurance reforms in Bismarckian welfare systems. *Social Policy & Administration* 41(6): 555–573.

Collier D (2011) Understanding process tracing. *Political Science & Politics* 44(4): 823–830.

Covip (2008) *Relazione Annuale per l'anno 2007.* Available at: www.covip.it (accessed 9 July 2008).

Covip (2016) *Relazione Annuale per l'anno 2015.* Available at: www.covip.it (accessed 16 June 2016).

Covip (2017) *Relazione Annuale per l'anno 2016.* Available at: www.covip.it (accessed 8 June 2017).

Cozzolino M, Di Nicola F and Raitano M (2006) Il futuro dei fondi pensione: opportunità e scelte sulla destinazione del TFR. Documenti di lavoro ISAE, n. 64.

Ebbinghaus B (2012) Europe's Transformations Towards a Renewed Pension System. In: Bonoli G and Natali D (eds) *The Politics of the New Welfare State*, Oxford: Oxford University Press, 182-205**.**

Easton D (1965) *A Systems Analysis of Political Life*. New York: Wiley.

Hinrichs K and Jessoula M (2012) *Labour market flexibility and pension reforms. Flexible today, secure tomorrow*? Basingstoke: Palgrave.

Jessoula M (2009) *La politica pensionistica*. Bologna: Il Mulino.

Jessoula M (2011a) Italy: from Bismarckian pensions to multi-pillarization under adverse conditions. In: Ebbinghaus B (ed.) *The Varieties of Pension Governance: Pension Privatization in Europe*. Oxford: Oxford University Press, 151-179.

Jessoula M (2011b) Istituzioni, gruppi, interessi. La 'nuova politica pensionistica' in Italia. *Rivista Italiana di Politiche Pubbliche/Italian Journal of Public Policies*, Special Issue, 2/2011.

Ministry of Welfare (2002) *Report on National Strategies for Future Pension Systems*. Rome: Ministry of Welfare.

Myles J and Pierson P (2001) The comparative political economy of pension reform. In: Pierson P (ed.) *The new politics of the welfare state*. Oxford: Oxford University Press, 305-333.

Natali D (2017) *The New Pension Mix in Europe. Recent Reforms, Their Distributional Effects and Political Dynamics*. Brussels: Peter Lang.

North D (1990) *Institutions, institutional change and economic performance.* Cambridge: Cambridge University Press.

Orszag P and Stiglitz J (1999) Rethinking Pension Reform: Ten Myths About Social Securit*y.* Paper presented at the conference 'New Ideas About Social Security.' The World Bank, Washington, DC, 14–15 September.

Palier B (2010) *A long goodbye to Bismarck? The politics of welfare reform in continental Europe*. Amsterdam: AUP.

Pierson P (1994) *Dismantling the welfare state?: Reagan, Thatcher and the politics of retrenchment*. Cambridge: Cambridge University Press.

Pierson P (2000) Increasing Returns, Path Dependence, and the Study of Politics, *The American Political Science Review* 92(2): 251–267.

Streeck W and Thelen K (eds) (2005) *Beyond continuity: Institutional change in advanced political economies.* Oxford: Oxford University Press.

List of interviews

1–2. Director of Cometa pension fund, Milan, 12.2007 and 1.2017

3. Director of Prevedi fund, Rome, 1.2017

4. Arco pension fund and trade union representative Filca-Cisl, Milan, 2.2017

5. Trade union representative Fiom-Cgil, Rome, 1.2017

6. President of Fonte pension fund, 2.2008

7–8. Director of Fonchim pension fund, 4.2006 and 1.2008

9. Former Secretary of CGIL trade union, telephone interview, 8.2008

10. Trade union representative, Fillea-Cgil, telephone interview, 2.2017

11. Director of Previmoda pension fund, 1.2008.

12. Director of Arco pension fund, 2.2008

13. Former President of Assogestioni and Professor of Development Economics, University of Rome 'Tor Vergata', Rome, 5.2008

14. Former Policy advisor on supplementary pensions at the Ministry of Labour, Rome, 5.2008

15. Director of Previambiente pension fund, 5.2006

16. Former Ministry of Welfare and Senator, Moncalieri, 10.2006

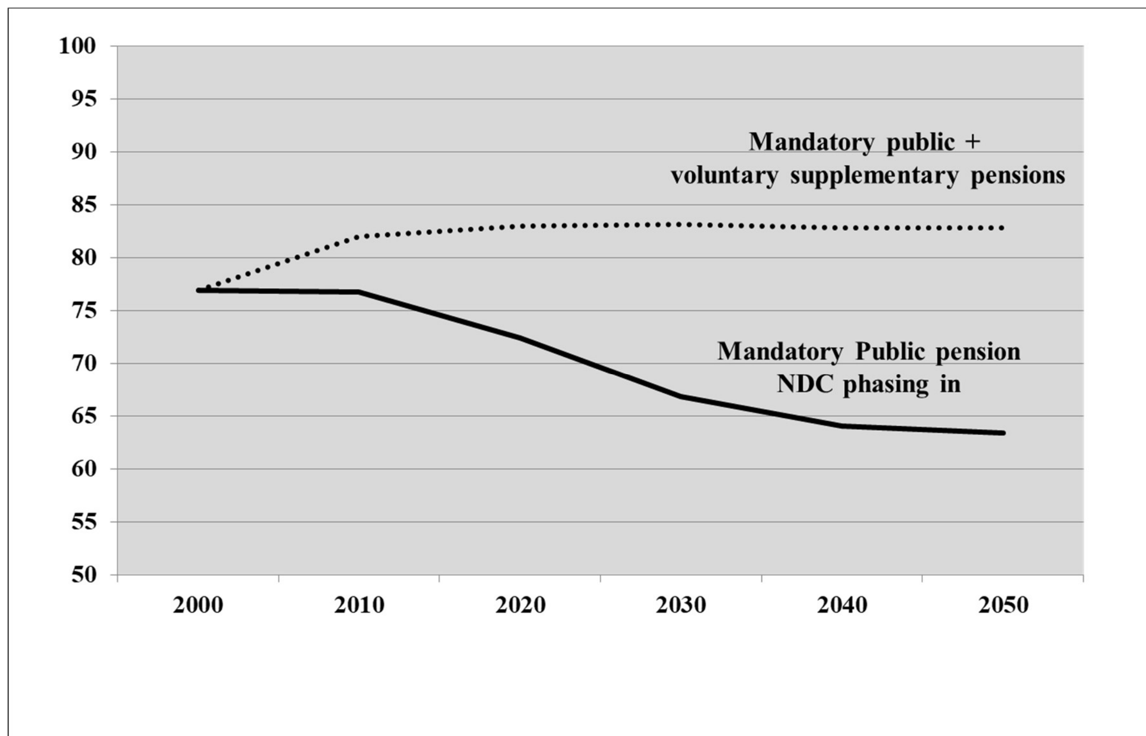
17. President of Prevedi fund and trade union representative Filca-Cisl, Rome, 1.2017

Table 1. Pension multi-pillarisation in Italy: main steps (1992–2016).

Reform	**First pillar reforms**	**Second and third pillar reforms**	**Politics of supplementary pensions**
1992–3	1992 'Amato' reform Parametric changes	1993 'Amato' reform 1993 Introduction of a regulatory framework for supplementary pillars: - voluntary affiliation - *Tfr* primary source of financing - limited tax incentives	Consensual tripartite bargaining
1995	'Dini' reform – shift to a NDC system; 40 year phasing–in	'Dini' reform – more generous tax incentives - collective affiliation to 'OPF' possible	Consensual tripartite bargaining + Pressure from financial actors
2000		Reform of the regulatory framework for supplementary pillars: – more generous tax incentives – partial regulatory harmonisation between CFPs and OPFs – introduction of personal pension plans PIPs; – extension of TFR to public sector employees	Consensual tripartite bargaining + Pressure from financial actors
2004–5	2004 'Maroni-Tremonti' reform – parametric retrenchment measures	2005 'Maroni-Tremonti' reform – 'silent-consent' formula for the transfer of TFR to occupational pension funds; – deep regulatory harmonisation between CPFs, OPFs, PIPs	Growing power of financial groups End of tripartite bargaining, conflictual dynamics and emergence of pluralist policy-making Confrontation between 'social block' and 'financial block'

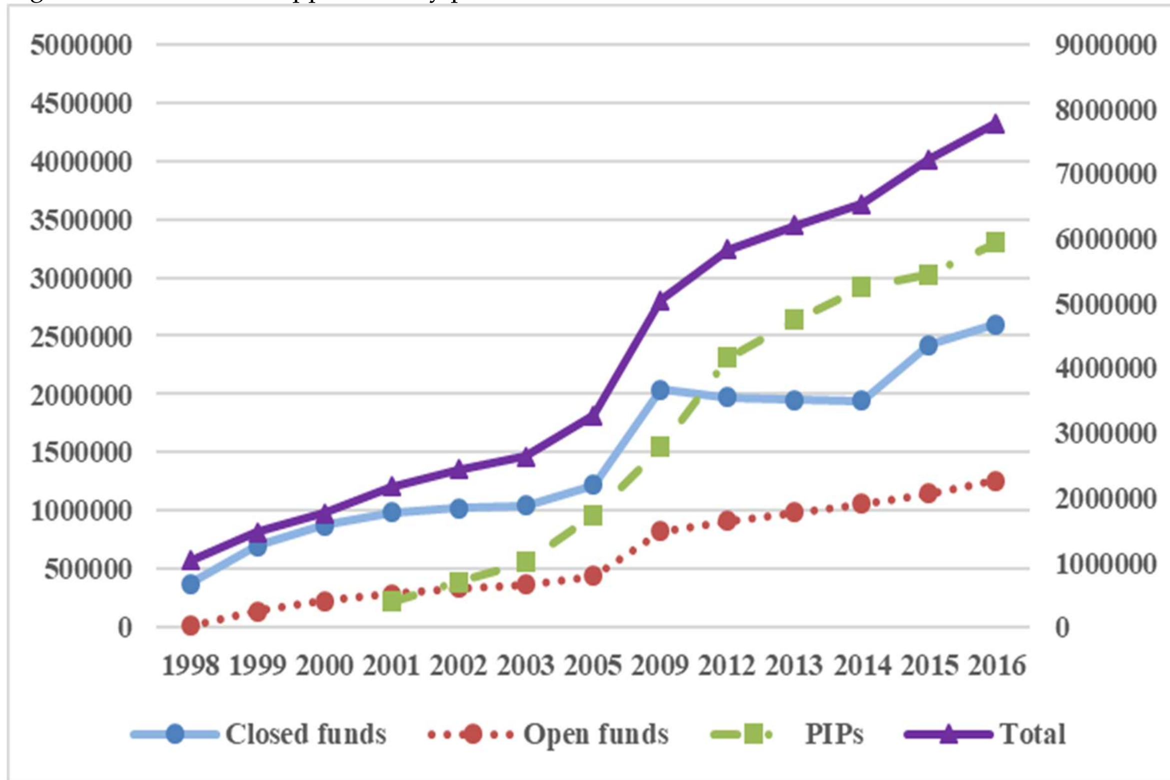
Source: Author's elaboration.

Figure 1. The plan of the 1990s: public and supplementary pension replacement rates*.



* Employee retiring at 65 years with 40 years of paid contributions.
Source: Author’s elaboration on Ministry of Welfare (2002).

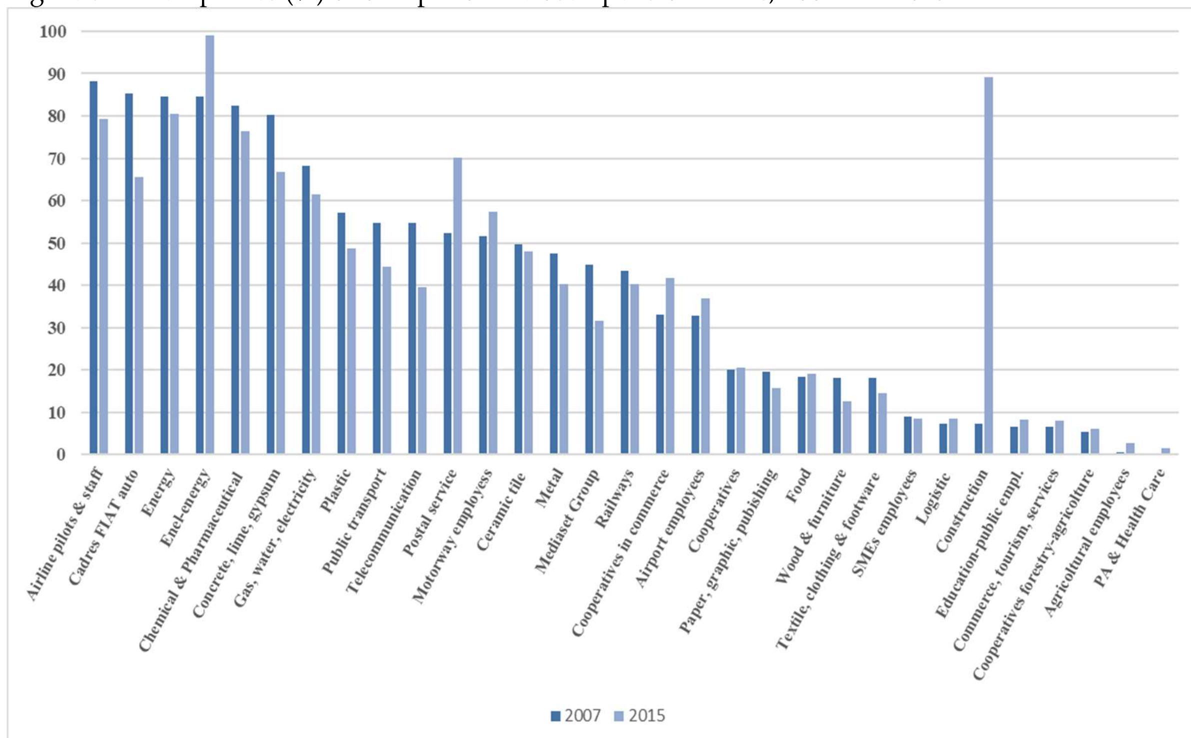
Figure 2. Members of supplementary pension schemes, 1998–2016.*



* Total members, right scale.

Source: Author's elaboration on Covip (various years).

Figure 3. Take-up rates (%) of occupational closed pension funds, 2007 and 2015.



Source: Author's elaboration on Covip (2008, 2016).