

Euresa Project: “Ageing of the population”

“What are the effects of the ageing of the population”

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1 Workshop assignment

“Briefly outline the landscape of pensions in Italy and pinpoint the possible consequences, for the insurer and the customer, of the “Ageing of the population” with regard to retirement pensions and dependency costs”.

1.1 Brief outline of pension landscape and public supply for disability in Italy

The pension framework in Italy is based on three pillars:

- First Pillar: Statutory pension paid on contribution;
- Second Pillar: complementary pension plans paid by employers for their employees on voluntary basis or instituted by banks and insurance companies;
- Third Pillar: individual pension plans.

About disability, The National Health Service (SSN), which is an universal system, provides health services to citizens on the whole; social services are managed by Social Security, mainly through a financial support to disabled people, and by Regions, Provinces, Municipalities and Local Government, through economic helps and direct services.

2 Summary

Population ageing and increasing life expectancy lead to:

- longer working lifespan (i.e. recent moves to progressively increase the pensionable age to 69/70 years in 2050, with automatic adjustments for further increases in life expectancy);
- lower salaries and pensions compared to some years ago (due to transition from defined benefit to defined contribution pension system); nowadays for young people who struggle to find work, or often find one at minimum salary it will be difficult to generate savings to protect themselves from future dependency;
- the State would have difficulties in finding new resources to finance dependency, as these resources would result from tax increases or a different allocation of public resources and both hypothesis are actually unlikely;

- as a further consequence a likely increase in awareness towards the problem of one's own self sustainment -at the moment Italians are not culturally tuned into the LTC problem: 20% declare they never thought about it, 37% thinks the public sector will take care of it, and only 38% thinks they can face it with their own savings. Initiatives from the private sector to face such potential demand are currently stalling for fear of future conflicts (previous experiences show that in case of dispute about the definition of dependency, the company is designed to lose, even in cases where their claim are consistent);
- a rise in the number of not self sufficient people.

More specifically, we think the main effects of population ageing may be these, in random order:

- Effect 1: sustainability of an “undifferentiated” support to dependency
- Effect 2 : changes in public access to services
- Effect 3: influence of the legal and fiscal systems: incentives and restrictions
- Effect 4: modify of the insurances proposal
- Effect 5: decrease in inter-generational solidarity
- Effect 6: owning financial assets to face ageing needs
- Effect 7: changes in pension plans and financial savings

3 Effects of population ageing

3.1 Effect 1: sustainability of an “undifferentiated” support to dependency

Summary: the current system of benefit to the non self-sufficient people will no longer be sustainable especially if payment are not differentiate by age, severity of the condition and income of the recipients.

Actually in Italy no distinction is made in providing benefits to non self-sufficient between those who are “young” (around 20% of the non self-sufficient population), with have high life expectancy, and those who are “old”. Likewise no distinction is made between type or severity of the condition. In order to get the benefit system sustainable, payment should take into account factors such as age, type/condition (for example Alzheimer is a disease with a longer life expectancy), as well as income of the recipient (i.e. the current attendance allowance is totally not hooked from the individual income). The main obstacle to collect data on self-sufficiency, is reticence / shame about declaring the problem (this is what emerges from a survey by Censis), but without a more detailed awareness of the problem services are not necessarily delivered to people who need it more.

3.2 Effect 2: changes in public access to services

Summary: the current organization and benefit payment for the non self-sufficient will not be sustainable any longer.

Since the coverage for dependency involves at same times national entities as well as local administrators, there is an heterogeneous offer at the territorial level, which often does not quite meet the needs of the non self-sufficient people.

There is a clear necessity to rethink the chain of service supply by redefining the roles and duties of the involved entities, possibly integrating public and private (companies, co-operatives, etc) services.

3.3 Effect 3: the influence of the legal and fiscal systems: incentives and restrictions

Summary: incentives will have to be found that would lead to further savings on behalf of elder people expenditures on one hand, and on the other to make the resources already available to the public sector more efficient, or in alternative increase them.

In order to deal with the consequences of population ageing and guarantee solidarity, the government would promote measures, both legal and fiscal, to stimulate the accumulation of resources for the assistance of non self-sufficiency; for example the subscription of LTC insurance may be encouraged by reducing partially or completely taxation, or promoting complementary insurance, etc.).

We could think to a basic coverage for all the citizens protecting from largest critical disease and a wider coverage for the most deprived, both financed by tax system, and a compulsory coverage for people with higher incomes, hypothesis that fits with the need for the mentioned above stratification.

Furthermore possible positive benefits from the adoption of tax reliefs could derive from the reduction of illegal labor. Overall caretaker costs are estimated to be equal to 9 billion euro per year; the charge adopted by professional cooperatives companies subject to taxation is in the range of 23-32 euro per hour, while the cost for the same service from illegal worker is equal to 7-8 euro per hour.

Anyway a serious action that could lead illegal labor to pop up would release new resources that could be distributed to poor people.

3.4 Effect 4: modify of the insurance proposal

Summary: which services can be offered in order to manage the ageing consequences? In which way promote products?

Which services can be offered by the Group Unipol for instance, in order to manage the ageing consequences?

In the current context our Group have to promote greater awareness concerning the need of providing LTC coverages, stimulating a dialogue between trade unions and workers on one side and companies/government on the other, both at National and local level. In particular it would be necessary to propose to Unions that in the second level contractual negotiations resources are addressed for this type of coverage instead of wage increases or other benefits.

Since Unipol is also the reference company for the self employed it could use its role in dialogue with the various associations.

What would we do to provide service attractive to customers?

We should think to products that are both interesting and sustainable. In this direction we would offer products – partially paid by companies or work associations - that are focused more on services rather than providing money; the former allow for better supply of the customers need (by supplying only the services necessary for the specific type of dependency), allowing also for better control on insured, by reducing fraud.

As alternative it could create an offer at a local basis that would integrate services available from the various organizations so as to provide full coverage. This means insurance companies should have a capillary knowledge of the services already supplied both at national and local level.

3.5 Effect 5: decrease in inter-generational solidarity

Summary:, the managing of ageing and dependency are based on inter-generational solidarity. The government needs to support these solidarity also through fiscal incentives.

Solidarity within the family is already changing, and will change even further going forward:

- in the past many women were used to give up their jobs to support the elderly in the family, but now they are more involved in the labor market;
- in the past pensions were paid to retired by workers' contributions but this has changed in favor of a contribution system (not solidarity one);
- life expectancy is rising, which means people access to their inheritance much later, or there may not be any inheritance at all, since parents will most likely utilise all their resources in order to pay services for themselves. Actually retired people are usually “poor in income” but “rich in asset” and the longer they live the most they have to spend from their savings since their incomes are not sufficient to provide their needs in both case of poor as well as good health;
- the rise in retiring age will have as a consequence that sons in their 60/70s will have no time, even if willing, to care for their older parents;
- the long term effect of a lower birth rate – one of the causes of ageing in the Italian population – will mean that the family ties will be lessened: in the coming 50 years old people will have lesser sons to rely on than old people have today, and it will be rather difficult to receive support.

There will be a need to incentive greater solidarity between generations, and the State would have to intervene by introducing appropriate rules to favor it even through fiscal incentives (i.e. labor reforms, work leave targeted to this particular type of assistance, the setting aside of adequate resources for older age, fiscal advantages for families, etc).

3.6 Effect 6: owning financial assets to face ageing needs

Summary: owning financial means is a necessity, both for those ageing in good health, or with poor health. The financial needs during old age are not predictable, which raises the question of how incentivize young people to save for their future health maintenance and costs.

An adequate level of financial resources is fundamental when ageing, both in good or poor health. The current pension framework (first and second pillar) is often too low to cover the costs due to ageing, especially when elderly people are not self sufficient.

- Life expectancy is rising, which could imply the period of dependency would be longer;
- Medical costs incurred for acute and chronic illness are rising;
- The main needs of people not self-sufficient require social and sanitary services, which people can cover with an additional pension insurance, or a private insurance that covers services in kind. Another important source of support may be no profit associations or even voluntary association (elderly people in good health would have a lot of spare time to devote to volunteerism);
- LTC insurance is too costly for the elderly; moreover for an elder person, especially if his health is weak, there is a concrete risk that Insurer will deny the coverage due to pre existing conditions; for those reasons one must subscribe before 50s.

It would be necessary stimulate the second level bargaining and involving association to provide collective LTC coverage, through a compulsory contribution for working people, whatever their age. This would be possible encouraging the involvement of employers, self employed associations and trade unions

3.7 Effect 7: evolution of pension plans and financial savings

Summary: individual pension plans (PIP) are not very common and often insufficient to guarantee an adequate additional income during pensionable age

In Italy few people (2.3 million in 2012 according to data released by the Monitoring Commission of Pension Funds) underwrite individual pension plans, and when they do, the resources invested are often

insufficient to provide an adequate income during pensionable age, which would also cover costs linked to old age assistance.

The Government and local institutions together with banks and insurance companies would have to promote the underwriting of additional pension coverage by incentivizing subscribers through fiscal advantages.

4 Conclusions

It will be important to test new ways for modifying the current cultural context, so that would be created the right awareness towards the need for protecting against the risks of non self-sufficiency, to promote the dialogue between trade unions employees on one side and companies and government on the other, at both national and local level, especially through the local level bargain.