THE WEAKNESSES AND CHALLENGES FOR ITALIAN WELFARE IN THE 2022 "WELFARE, ITALIA" THINK TANK REPORT RELEASED TODAY

- Expected increase in welfare spending in 2022 (€615bn, +€18bn compared to 2021)
- Due to the impact of inflation, the number of families at risk of absolute poverty has increased by 300 thousand units
- The fall in birth rates continues; by 2035, there will be 2.5 million less people in Italy compared to 2020 (equal to 4.4 million people of working age) who will have to support an extra 3.6 million over-65s
- By 2050, the worst-case scenario predicts a 10.5 million drop in the population of our country
- By 2055, Italy will have lost €147bn if the people involved in the "brain drain" in 2020 do not come "home" during their working lives

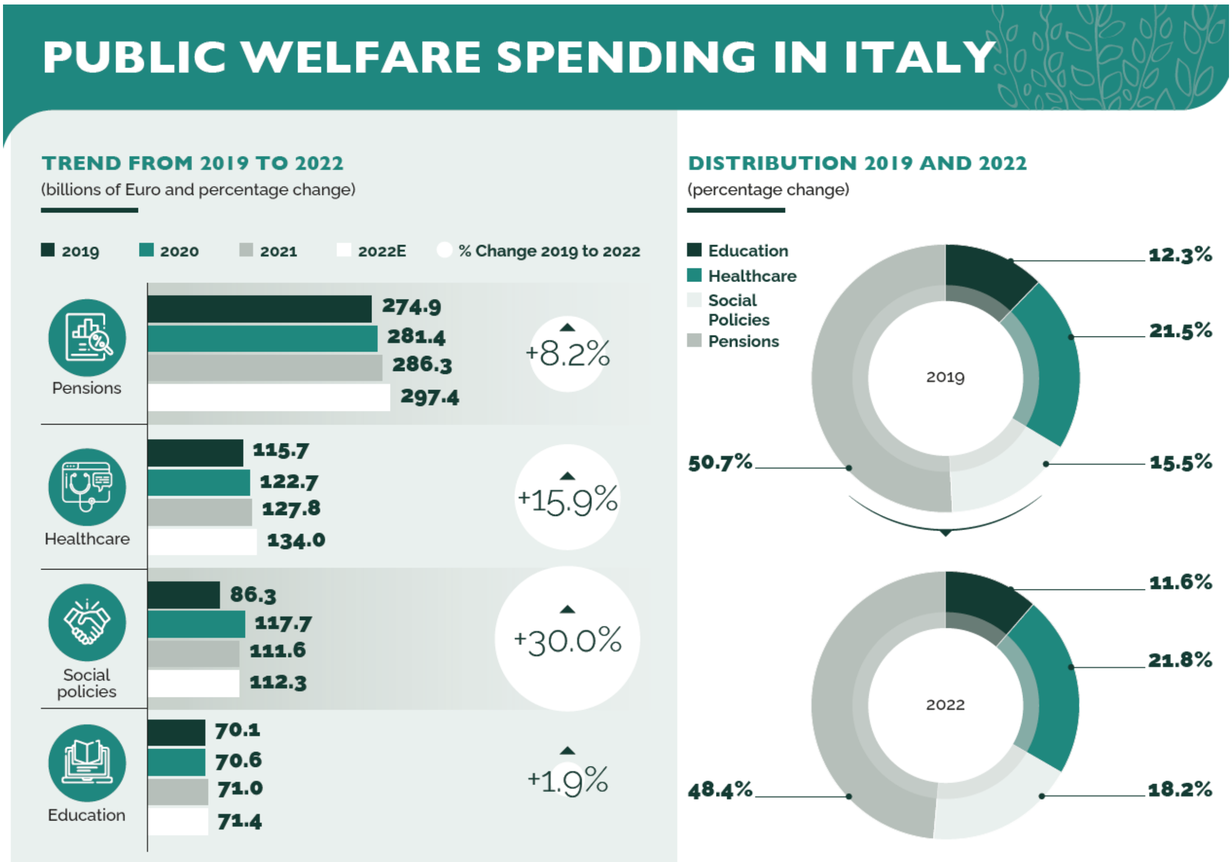
- The Think Tank outlined 6 priorities of action
  - ✓ Incorporate the issue of birth rates into the European social taxonomy
  - ✓ Promote measures aimed at supporting parenthood and increasing female employment
  - ✓ Reduce migration outflows and make the labour market more efficient, including for foreign citizens
  - ✓ Give value to the contribution of supplementary pensions
  - ✓ Encourage the expansion of the range of welfare services through contractual and corporate welfare solutions
  - ✓ Redefine Citizens' Income as an instrument of social inclusion and reinforce the mechanisms for taking action to find jobs and work placements

- Welfare Italia Index 2022: clear split between the North, Centre and South in the responsiveness of the welfare system in the Italian Regions

Rome, 22 November 2022

The 2022 edition of the **“Welfare, Italia”** Think Tank Report was released today at the Spazio Field of Palazzo Brancaccio in Rome, supported by **Unipol Gruppo** with the collaboration of **The European House - Ambrosetti** and a scientific committee comprising Veronica De Romanis, Giuseppe Guzzetti, Walter Ricciardi and Stefano Scarpetta.
Welfare spending trends, ongoing demographic changes, the impact of inflation on the demand for social protection, weaknesses in the world of work, the medium-long term sustainability of the system, the role of private parties and social investments, the contribution of the Recovery and Resilience Plan and strategies at European level: these were just some of the issues up for debate at the annual Welfare Italia Forum event.

For over ten years, “Welfare, Italia” has functioned as a place for the analysis, examination and reflection on welfare matters, open to discussion among the main public and private stakeholders in the sector: decision-makers, national and local government representatives, social partners, banks and pension funds and aid funds and representatives of companies, workers, universities and the voluntary sector.



The increase in welfare spending continues in the post COVID-19 era

According to the estimates of the "Welfare, Italia" Think Tank, the general increase in welfare spending caused by the pandemic also continues post COVID-19: after the increase of €46bn in 2020, between 2021 and 2022 the spending in the 3 "traditional" pillars (Healthcare, Social Policies, Pensions) and in Education increased by a further €22bn, of which €18bn in 2022 alone, amounting to €615bn. In relative terms, pensions continue to absorb about half of welfare spending (48.4%) followed by healthcare (21.8%), social policies (18.2%) and education (11.6%).

The impact of inflation risks placing a further 300,000 families into absolute poverty

The economic recovery in 2021 and subsequently, the conflict in Ukraine, generated strong inflationary pressure in the country, with the consumer price index reaching a record level of 11.9% as at October 2022 (like March 1984).

In addition to negatively impacting GDP growth estimates for the 2022-2023 two-year period, inflationary pressure risks increasing **the number of families in absolute poverty from 2 to 2.3 million** (the highest number since ISTAT started recording this figure in 2005), amounting to a total of 6.4 million people.

The impacts will be particularly serious for families who are already the most vulnerable, who spend 76% of their income on essential expenses (food, rent, water, light and gas, health) (compared to 56% for higher income families): for less wealthy families, **disposable income for out-of-pocket expenses** (non-essential expenses), has already been **decimated by inflation,** down by **20.7%** (15.7 percentage points more than the wealthiest quintile).

Inflation will also have a negative impact on savings and real wage value: according to OECD estimates, in 2022, real wage value in Italy will reduce by **3.1%** (compared to an OECD average of -2.3%) in a context in which Italy, over the past 30 years, has been the **only country in the OECD area to have experienced a reduction in wages** (-0.1% per year between 1990 and 2020).

Demographic changes

Labour market and **demographic changes** are the two key functions of a welfare system. After exploring the issue of work in the last edition, the "Welfare, Italia" Think Tank focused on the demographic aspects in 2022, analysing the dynamics, causes, impacts and possible strategies of action.

In 2021, for the first time in the history of Italy, the **number of births fell below the 400 thousand threshold** (at 399 thousand), contributing to a natural negative balance of 214 thousand people. There

was already a natural negative balance of 335 thousand people in 2020 - especially due to the COVID-19 pandemic - the worse since 1918 (the year of the Spanish flu epidemic).
This trend is reflected in **birth rates,** which amount to **6.8 births per thousand inhabitants** in Italy, **the lowest value in the entire European Union**, with a gap of 2.3 births from the average European rate (9.1 per thousand) and a gap of 4.8 from the best performing country (Ireland at 11.6). Consequently, the old-age dependency ratio in Italy is the highest in the EU-27 (**40.1 over-65 per 100 persons in the 20-64 age range)**, behind Finland only (40.3%) and with a value higher than the European average (35.4%) by 4.7 percentage points.

- **Brain drain.....and no return: Italy will lose €147bn in 2055 if the 2020 emigrants do not come "home" during their working lives**

With regard to migration, there was a positive balance between 2011 and 2020 **of 1.7 million people** (2.9% of the Italian population in 2020). However, in the same period, for both its components - emigration and immigration - Italy demonstrated an upward and downward trend respectively: the number of emigrants increased by **93.9%** (7th change at EU level) while the number of immigrants fell by **35.8%** (the worst change at EU level).

One critical aspect regards the human capital lost (and not recovered) from the country: of the 121 thousand Italians who left Italy in 2020, **26%** (about 31 thousand people) had a degree or a higher qualification, while at the same time, the percentage of foreign graduates in the country (13.3%) is the lowest in the entire OECD area (average 40.8%).

"Welfare, Italia" estimated that if all the 2020 emigrants do not return to Italy during their working lives, the country will lose about **€147bn**, i.e., the sum of the amounts spent on education lost, equal to **€10.5bn**, and the lost income earned by the emigrants during their working lives abroad (estimated at approximately 35 years), equal to **€136.5bn**.

- **By 2050, the Italian population could lose 10.5 million inhabitants compared to 2020**

At present demographic trends, without corrective policies, by 2035, Italy will lose 4.2% of its population compared to 2022 (amounting to 4.4 million people of working age) and will have to support 3.6 million more over-65s compared to current levels; by **2050,** in the UN baseline scenario, the Italian public could amount to 52.3 million people - 6.7 million less than 2020 - with over-65s accounting for **37%** of the total. **On the other hand, considering the worst-case scenario, the reduction in the population compared to 2020 levels could amount to 10.5 million less by 2050.**

The reduction of the working base and the **increase in the elderly population** will put the **sustainability** of the country's welfare system **under even more pressure.** With regard to pensions, by 2035, the number of pensioners will exceed the number of workers for the first time (the right balance should be 3 workers for every 2 pensioners), and in the same year, the percentage incidence of pension spending to GDP should reach a peak of 17.5%. In the area of healthcare - where aging is associated with an increase in non-communicable and chronic diseases and more pressure on the healthcare and health and social assistance systems - according to Meridiano Sanità estimates, **public healthcare spending will reach €164bn by 2035 (7.9%** of GDP) and **€220bn by 2050 (9.5%** of GDP).

The 6 priority actions for the Italian welfare system

"Welfare, Italia" has identified 6 priority actions in this context, supported by specific operational guidelines, that the country will have to deal with to **counteract the negative demographic trend** of the country and **make welfare spending more sustainable** in view of demographic changes:

1. **Incorporate the issue of birth rates into the European social taxonomy**

   The European Union is the global area with the lowest birth rate and has limited authority in the social area to deal with the issue, but can leverage instruments that - indirectly - could have an impact on demographics such as social taxonomy (that will identify **socially sustainable economic** activities, similar to what has been done for the environment). The proposal is to explicitly introduce a sub-objective connected with birth rates as part of social taxonomy, thereby guiding investments towards initiatives that make a positive contribution to demographics.

2. **Promote measures aimed at supporting parenthood and increasing female employment**

   To date, Italy is second last in the European Union in terms of female employment rates, and first for the rate of involuntary part-time work (representing the percentage of women who accepted part-time work since there were no full-time work opportunities). In addition to the weaknesses in the inclusion of women, there are **specific difficulties for families:** Italy holds the **record for spending on dependent children:** 27% of family income goes towards taking care of children compared to 25% in the UK, 15% in France and 2% in Germany.

   In order to protect women and families and promote parenthood, the actions to implement call for the structural reinforcement of systems to support families and birth rates (also giving value to the voluntary sector), the transformation of maternity and paternity leave into gender neutral leave, the adoption of measures to support maternity on a 360° basis (training courses for up-skilling or re-skilling), the introduction of tax breaks for natural persons also to encourage supplementary pensions for women and the adoption of measures aimed at companies, such as certificates, bonuses and/or incentive mechanisms.

3. **Reduce migration outflows and make the labour market more efficient, including for foreign citizens**

   The Italian migratory balance is currently marked by a brain drain and poorly "qualified" immigrants. On the one hand, in 2020 about **40 thousand young people of between 25 and 34 years old** emigrated (1/3 of total emigrants) and of these, about **18 thousand** were educated to at least degree level (the percentage of graduates to the total number of young people who emigrated increased from **38.7%** in 2019 to **45.6%** in 2020), with a cost per emigrant for the country of between **€939 thousand** and **€1.5 million** on the basis of the educational qualification. On the other hand, only **6.4%** of residency permits issued are for work (compared to 56.9% for family reasons), also due to an unattractive labour market: Italy is the **22nd** country in the EU for immigrant employment rates (**57.8%**) and only **13%** of foreigners in Italy have degrees, the lowest level among OECD countries.

"Welfare, Italia" proposes bolstering **job centres** to make the labour market more efficient and more attractive as a whole, through the creation of national databases and the accurate tracking of all job offers made, the incorporation of private intermediation agencies into the selection of offers and increased matching between the professional requirements of companies and skills, including by using specific digital platforms.

4. **Give value to the contribution of supplementary pensions**

The increase in pension spending cannot be managed without an adequate contribution from the private sector that however, is undervalued at the moment: in Italy, **34.7% of workers pay into various types of supplementary pensions** (compared to 55% in Germany and 88% in the Netherlands) and if we consider the individuals who **paid into** the pension funds in 2021, the rate is only **25.4%.** We should add that there are also significant **differences** between the regions (from a participation rate of 57.5% in Trentino-Alto Adige, to 25.2% in Sardinia), gender (30.9% females and 37.5% for males) and also age (23.9% in the under 35s compared to 45.1% in the 55–64-year-old range).

From this standpoint, the "Welfare, Italia" Think Tank policy is set out into three areas connected to **expanding supplementary pension schemes** (with the provision of a supplementary pension scheme for all newly born children), **greater flexibility in the supplementary pensions** (portability of tax deductions, extraordinary advances in cases of emergencies and transfer to children of the position accrued), and **welfare culture** (through campaigns of awareness-raising and information).

5. **Encourage expansion of the range of welfare services through contractual and corporate welfare solutions**

As of 2021, **private healthcare spending** amounted to **€41bn** (+7.4% compared to 2020), representing 24.4% of total healthcare spending and Italy is the **first** country among the European Big-5 for **out-of-pocket spending** by Italian families out of the total of private healthcare spending (**89.1%**).

The operating policy is to organise the definition of the scope of supplementary healthcare benefits (the control of which is currently less developed than the pension type supplementary systems) and an accurate monitoring system for healthcare fund assets. In this scenario, the

supplementary health funds are characterised by three big “open questions”: **i)** definition of the supplementary services; **ii)** identification of an accurate monitoring system of the fund assets (now carried out by a number of different entities); **iii)** the collection of data on the fund assets.

6. **Redefine Citizens’ Income as an instrument of social inclusion and reinforce the mechanisms for taking action to find jobs and work placements**

   The Citizen’s Income has proven to be an effective tool to fight poverty, but there are still areas for improvement in terms of “precision”: 56% of poor people do not actually have access to welfare assistance and 1 recipient out of 3 is not actually poor. On the other hand, the functioning of the component relating to taking action to find work and job placements is less effective, due to both the **reduced supervisory capacity** of social services and job centres and the mechanism that provides that all additional income from employment earned is offset by a reduction of the same amount in the Citizen’s Income, leaving the net available income unchanged compared to the situation where there is an absence of work (**disincentivising the people to look for work**).

   The guidelines suggested by the Think Tank therefore recommend **enhancing the value of social inclusion** (reduction of the 10-year residency requirement in Italy, revision of the equivalence scale, differentiation of the amount of welfare support in accordance with the cost of living and adjustment for inflation) and strengthening the mechanisms for **taking action to find work and job placements** (revision of the amounts in accordance with varying work income and making welfare support dependant on **taking part in** training courses and taking action to find jobs.

The Regional “Welfare Italia Index”

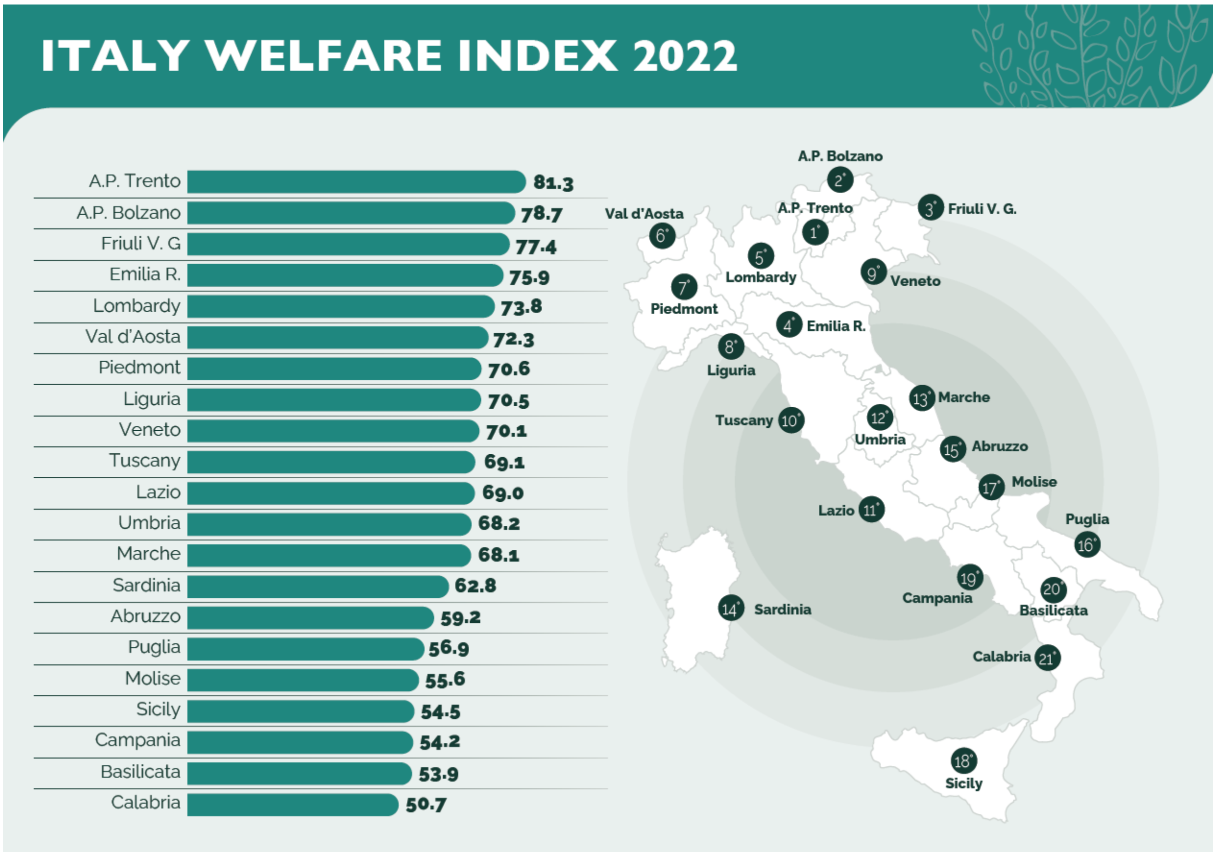
The results of the **Welfare Italia Index 2022**[1] - the summarised rating that evaluates both the aspects linked to welfare spending and aspects linked to the results that this spending produces - show a clear split between the North, Centre and South of the country **in the responsiveness of the welfare system in the Italian Regions.**

This confirms the sharp differences among the country’s regions, both with reference to the welfare system and as regards the impacts of COVID-19 and related redistribution effects linked to absolute poverty and unemployment.

[1] Monitoring instrument developed by Welfare Italia for the first time in 2020 and based on 22 KPI (Key Performance Indicators) that consider social policies, healthcare, pensions and training, and can identify, at regional level, the strong points and weaknesses where intervention is necessary.

More specifically, the Autonomous Province of Trento has the highest score (81.3 points), followed by the Autonomous Province of Bolzano (78.7 points) and Friuli-Venezia Giulia (77.4 points). Veneto (70.1), the region that came last in the North, but is still ahead of all the Central and Southern regions of Italy. The last 8 regions are all in Southern Italy and the Islands, and the first of these - Sardinia (14th with 62.8 points) - was over 18 points behind the Autonomous Province of Trento and about 12 points ahead of Calabria, which came last. With respect to the previous edition, there is a slight reduction of the polarisation in the responsiveness of the welfare system in the Italian Regions (-2.1 points), with the gap between the best and worst regions falling from 32.7 points to 30.6 points (mainly due to a reduction of the score of the Autonomous Province of Trento).

The complete ranking of the 2022 Welfare Italia Index:



The Forum was opened by a message by the President of the Republic who noted how "the cooperation between the public, private and voluntary sector is key in the confirmation of the universal nature of rights, to strengthen and modernise the services". This was followed by addresses by: **Gian Carlo Blangiardo** *(CEO, Istat)*, **Carlo Cimbri** *(CEO, Unipol Gruppo)*, **Valerio De Molli** *(Managing Partner and CEO, The European House Ambrosetti)*, **Veronica De Romanis** *(Professor of European Political Economy, Stanford University, Florence and LUISS Guido Carli, Rome; member of the "Welfare, Italia"*

Think Tank Scientific Committee), **Mario Giro** *(Sant'Egidio Community),* **Giuseppe Guzzetti** *(previously CEO, Fondazione Cariplo; member of the "Welfare, Italia" Think Tank Scientific Committee),* **Luciano Malfer** *(Director, Agenzia Trentino Famiglia),* **Ruth Paserman** *(Director, Funds programming and implementation, European DG Employment, Social Affairs and Inclusion),* **Antonio Polito** *(Columnist and Deputy Editor, Corriere della Sera),* **Walter Ricciardi** *(CEO Mission Board for Cancer for the European Commission; member of the "Welfare, Italia" Think Tank Scientific Committee),* **Eugenia Roccella** *(Minister for Family, Natality and Equal Opportunities),* **Antonio Tajani** *(Deputy Prime Minister and Minister of Foreign Affairs and International Cooperation),* **Magda Tomasini** *(Director, Institut national d'études demographiques),* **Giuseppe Valditara** *(Minister for Instruction and Merit)*

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The Group has an invaluable asset consisting of very high-level international contacts in the various business sectors, including heads of leading international institutions and individual countries.
In 2021, for the eighth year in a row, The European House - Ambrosetti was ranked as the no. 1 think tank in Italy, and 4th in the European Union in the "Best Private Think Tanks" category, and one of the most highly appreciated independent think tanks in the world out of 11,175 at global level in the most recent edition of the "Global Go To Think Tanks Report" by the University of Pennsylvania. The European House - Ambrosetti was recognised by the Top Employers Institute as one of the 112 Top Employer companies in Italy in 2021. For further information, please visit www.ambrosetti.eu and follow us on twitter.com/Ambrosetti.