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Demographic and Workforce Projections in Italy and Sweden: Social Security Challenges and Prospects

Sergio Nisticò, Filippo Olivelli,
Simone Caldaroni *

Abstract. This paper examines the challenges facing European social security systems, focusing on Italy and Sweden's differing approaches to pension reform amid ageing populations. It analyses how demographic shifts—such as declining fertility and increased longevity—are impacting the balance between contributors and beneficiaries in pay-as-you-go (PAYG) schemes. The study contrasts Sweden's rapid, intergenerationally fair transition from non-financial defined benefit (NDB) to non-financial defined contribution (NDC) pensions with Italy's slower, rights-based approach. It also discusses key design features for NDC sustainability, the role of solidarity, and the shifting relationship between public and private actors in welfare provision.

Keywords: *Pension reform; PAYG systems; NDC pensions; ageing populations; social security sustainability.*

* Sergio Nisticò (email address: s.nistico@unicas.it) is a Full Professor of Economics at the University of Cassino and Southern Lazio (Italy), and a lecturer at the European University of Technology. He authored Sections 2 and 3. Filippo Olivelli (email address: filippo.olivelli@unimc.it) is an Associate Professor of Labour Law at the University of Macerata (Italy). He authored Paragraphs 4, 5 and 6. Simone Caldaroni (corresponding author: simone.caldaroni@unicas.it) is a PhD student in Economics and Management for Innovation and Sustainability at the University of Cassino and Southern Lazio (Italy), and a lecturer at the European University of Technology (EU). He authored Paragraphs 1 and 3. Section 7 is the result of a joint effort by all the authors. This paper forms part of the activities undertaken by the local research unit of the University of Macerata (CUP D83C22000260001) within the framework of the PRIN 2020 project *LIVEABLE – Labour as a Driver of Sustainable Development*.

Introduction

Population ageing represents one of the most pressing challenges to the long-term financial and social sustainability of pension systems across Europe. As life expectancy continues to rise and fertility rates remain below replacement levels, demographic trends are fundamentally altering the balance between contributors and beneficiaries in pay-as-you-go (PAYG) pension schemes. Unlike fully funded systems—where assets are accumulated to meet future liabilities—PAYG schemes rely entirely on current workers' contributions to finance the pensions of current retirees. This model is underpinned by an implicit intergenerational contract, enforced by the state.

The ongoing demographic shift, which cannot be offset by increased employment rates alone, threatens the capacity of future governments to sustain contribution rates while providing adequate pensions for a growing number of retirees. This issue is particularly acute for PAYG systems that deliver earnings-related benefits, as is typical of defined-benefit (DB) arrangements. In non-financial defined-benefit (NDB) schemes, the demographic burden might, in theory, be addressed by continuously raising contribution rates—a strategy that is clearly unsustainable in the long term.

In the mid-1990s, Italy and Sweden adopted an alternative approach by implementing non-financial defined contribution (NDC) systems. These reforms retained the PAYG financing structure but introduced a personal account logic for calculating pension entitlements—an approach previously associated only with fully funded schemes. In NDC systems, pension benefits are closely tied to each individual's lifetime contributions, augmented by a notional interest rate linked to system sustainability, and adjusted for life expectancy at retirement. This structure ensures financial solvency under virtually any demographic or economic scenario.

However, such solvency entails a potential downside: pensions based on the personal account logic may fail to guarantee socially adequate benefits. This, in turn, threatens the long-term legitimacy of the intergenerational contract on which PAYG systems rest.

This paper offers a comparative analysis of Italy and Sweden—two countries facing similar demographic pressures but pursuing different institutional paths in implementing NDC reforms. These cases provide valuable insights into the trade-offs inherent in transitioning from NDB to NDC schemes. The comparison sheds light on how varying policy designs influence pension systems' capacity to adapt to demographic and labour market transformations.

The paper is structured as follows. Section 1 outlines the demographic and economic context affecting pension sustainability in both countries, focusing on population trends, dependency ratios, labour force projections, and changes in career duration. Section 2 analyses the transition from NDB to NDC systems in Italy and Sweden, examining how each country balanced the protection of acquired rights, actuarial fairness, and the pace of reform. Section 3 explores how NDC schemes, by design, address fiscal challenges associated with population ageing, while raising concerns around fairness and social legitimacy. Section 4 considers broader issues related to solidarity principles and alternative reform models, including possible shifts towards more Beveridgean or multi-pillar systems. Section 5 examines the evolving bottom-up role of private actors in supplementing welfare provision, while Section 6 looks at top-down state initiatives that leverage private mechanisms to overcome public system constraints. The paper concludes by reflecting on the long-term prospects of PAYG-based pensions in the context of demographic ageing, and the extent to which private provision may need to expand to ensure old-age income security.

1. Demographic and Labour Market Developments

1.1 Demographic Dynamics

While the total population of the European Union is projected to decline by 4% between 2022 and 2070, national demographic trajectories vary considerably across Member States[1]. Sweden is expected to experience substantial population growth, rising from 10.5 million in 2022 to 12.9 million in 2070—an increase of 23%. In contrast, Italy's population is projected to fall from 59 million to 53.3 million over the same period, a decline of 10%. This divergence highlights Sweden's demographic expansion, which contrasts with the broader EU trend, while Italy exemplifies that trend in a more accentuated form.
Despite Sweden's projected growth, population ageing is anticipated to accelerate, in line with broader EU patterns. In particular, the population aged 65 and over is expected to grow more rapidly than the working-age population (20–64), leading to a significant increase in the old-age dependency ratio (OADR)—defined as the number of individuals aged 65

[1] All demographic data in this section are retrieved from the EUROPEAN COMMISSION *Ageing Report 2024*, 2024.

and over per 100 people of working age. Sweden's OADR is projected to rise from 36.0% in 2022 to 50.4% in 2070 (Figure 1).

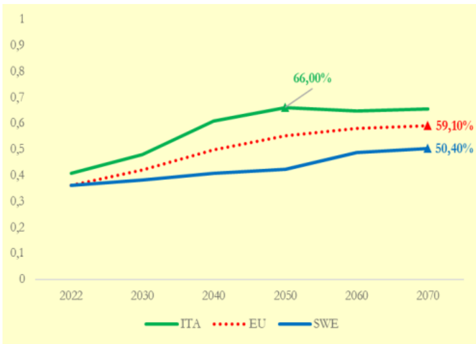

Figure 1. OADR projections 2022-2070 – Source:

Italy, however, is set to experience a more pronounced demographic shift. The OADR is forecast to rise sharply from 40.8% in 2022 to 65.5% by 2070, peaking around 2050. This implies a considerably greater demographic burden on the working-age population relative to Sweden.

These changes in population size and age structure are primarily driven by projected trends in fertility, mortality, and migration. In Sweden, the total fertility rate is expected to increase modestly from 1.68 live births per woman in 2022 to 1.76 in 2070. Italy is projected to follow a similar path, rising from 1.24 to 1.45 over the same period. However, in both countries—as across the EU—fertility is expected to remain well below the replacement threshold of 2.1 live births per woman.

Life expectancy is also projected to rise significantly. Among males, life expectancy at birth is expected to increase by 5.5 years in Sweden (from 81.5 to 87.0) and by 6.0 years in Italy (from 81.1 to 87.1) by 2070. For females, the increases are projected at 5.3 years in Sweden (from 85.4 to 90.7) and 5.5 years in Italy (from 85.5 to 91.0). At age 65, Swedish men are projected to live an additional 4.2 years (from 19.7 to 23.9), and women an additional 4.4 years (from 22.5 to 26.9). In Italy, these gains are similar: 4.5 years for men (from 19.5 to 24.0) and 4.5 years for women (from 22.7 to 27.2). These improvements reflect continued advancements in healthcare, living standards, and public health measures.

Regarding migration, Sweden's net migration is expected to stabilise at pre-2022 levels, averaging approximately 32,000 individuals per year—or 0.4% of the population—after a temporary surge in 2022 (0.94%), largely due to the Russian invasion of Ukraine. In contrast, Italy's net migration is projected to decline gradually from 0.6% in 2022 to 0.4% by 2070, suggesting a diminishing role for migration in supporting demographic stability.

1.2 Economic Dependency Ratio

An essential indicator for assessing the fiscal implications of population ageing—particularly in relation to pension expenditure—is the economic old-age dependency ratio (EcoOADR). This metric measures the proportion of economically inactive individuals aged 65 and over relative to the number of employed persons aged 20 to 64. The EcoOADR is projected to rise significantly across all EU Member States in the coming decades, underscoring the increasing demographic pressure on labour markets.
As shown in Figure 2, Sweden is expected to see a relatively moderate increase in the EcoOADR. The projected rise of 13 percentage points by 2070 is the smallest among EU countries, compared to the average increase of 24 percentage points across the Union. By 2070, Sweden's EcoOADR is forecast to reach 52.9%—the lowest level in the EU.

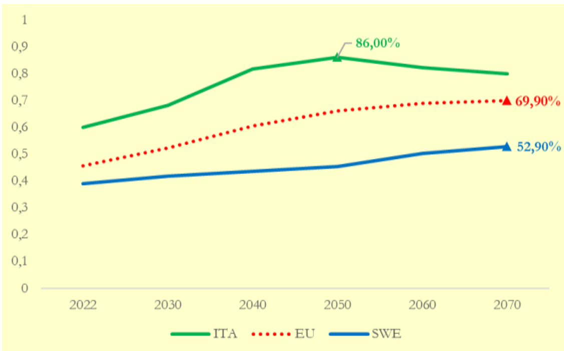

Figure 2. EcoOADR projections 2022-2070 – Source: Ageing Report 2024

Italy, by contrast, faces a much steeper increase. The EcoOADR is projected to rise from 60% in 2022 to 79.9% in 2070, significantly exceeding both the Swedish and EU averages. This sharp rise reflects Italy's more pronounced demographic ageing and signals a heavier burden on the working population. The ratio is expected to peak at 86% by 2050, followed by only a modest decline, raising serious concerns about the long-term economic sustainability of the Italian welfare state.
Both countries have introduced pension reforms linking the statutory retirement age to life expectancy, which helps to alleviate some of the

fiscal pressure associated with ageing populations. However, Italy's projected labour force contraction—coupled with a markedly higher EcoOADR—suggests a more acute challenge. This underscores the need for further policy measures to enhance labour market participation and ensure the adequacy and sustainability of pension provision.

1.3 Boosting the Labour Force

Both Italy and Sweden have introduced automatic adjustments linking statutory retirement ages to increases in life expectancy, aiming to enhance the long-term resilience of their pension systems amid ongoing longevity gains. This policy directly impacts labour market dynamics, particularly by encouraging higher participation among older cohorts.
In Italy, the labour force aged 20–74 is projected to decline by 7.3% between 2022 and 2070, largely due to a 17.1% reduction in the working-age population. Despite this demographic contraction, the overall labour force participation rate for individuals aged 20–74 is expected to increase by 7.1 percentage points, from 60.3% in 2022 to 67.4% in 2070. As illustrated in Figure 3, this rise is almost entirely driven by increased participation among older workers, primarily reflecting higher retirement ages and the gradual establishment of the Non-Financial Defined Contribution (NDC) pension system.

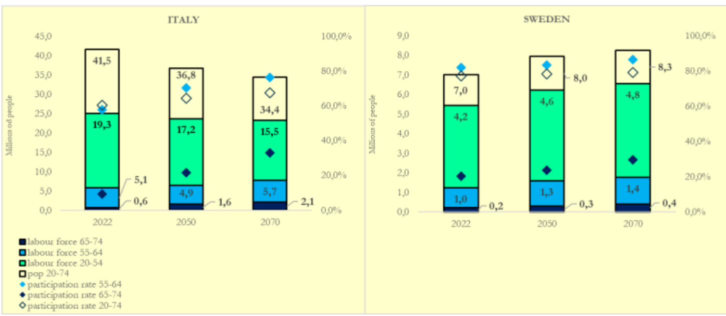

Figure 3. Labour force projections 2022-2070 – Authors' elaboration on data from Ageing Report 2024

Specifically, participation among those aged 55–64 is projected to rise from 57.9% to 76.3%, while for those aged 65–74 it is expected to more than triple, from 9.4% to 33.0%.
In contrast, Sweden's labour force aged 20–74 is anticipated to expand by 20.6%, mainly owing to a 17.7% increase in the working-age population. Continued reforms to pension ages are expected to further bolster labour supply among older workers, with positive effects on overall labour

market participation. For the 55–64 age group, participation is projected to rise from 82.2% in 2022 to 86.5% in 2070. Meanwhile, participation among those aged 65–74 is expected to increase from 20.3% to 29.7%, representing a 9.4 percentage point gain over the period.

1.4 Career Duration

The automatic link between statutory retirement age and life expectancy is expected to gradually increase both the average effective retirement age and the average effective labour-market exit age in Italy and Sweden. The average effective retirement age refers to the age at which individuals begin receiving pension benefits—whether through old age, early retirement, or disability schemes. By contrast, the average effective labour-market exit age is typically slightly higher, as it accounts for retirees who continue to work or actively seek employment.

From the perspective of assessing the implications of demographic shifts on working lives, the average effective labour-market exit age provides a more relevant indicator, as it captures how long individuals are likely to remain economically active. The contributory period—the total span during which individuals accrue pension rights—serves as a proxy for career length, although it includes periods of unemployment during which pension entitlements continue to accrue under the NDC system. As retirement ages rise, this period is projected to lengthen, implying that individuals will need to work and contribute over a greater proportion of their lifetimes.

In Italy, the average effective labour-market exit age is projected to increase by 4.6 years, from 64.2 in 2022 to 68.8 in 2070. Over the same period, the average contributory period is expected to rise from 35.5 to 37.7 years.

In Sweden, the average labour-market exit age is projected to increase by 2.9 years, from 65.0 in 2022 to 67.9 in 2070. On average, Swedish workers are expected to leave the labour market approximately one year after commencing pension receipt. The contributory period is also expected to extend from 40.0 years in 2022 to 42.4 years in 2070 (see Figure 4).

This trend aligns with overall labour force growth in Sweden, driven by demographic expansion and increased participation among older workers.

In contrast, Italy faces a shrinking labour force, with participation gains primarily concentrated in older age groups, largely due to the gradual implementation of the NDC system.

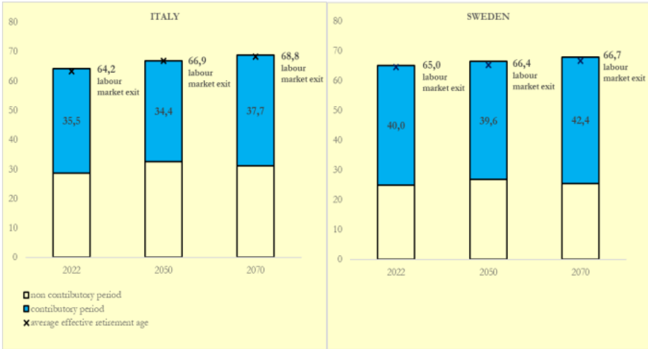

Figure 4. Career duration projections 2022-2070 – Authors'

Both countries will experience increases in average effective labour-market exit ages and contributory periods, requiring individuals to remain in employment for longer. However, Italy's projected increase is more pronounced, reflecting its greater demographic pressures.
Notably, Figure 4 reveals a substantial disparity in contributory periods between the two countries—a difference of approximately five years that is expected to persist until 2070. Indeed, the more pronounced rise in labour-market exit age in Italy will not suffice to achieve the necessary extension of contributory periods to enhance pension adequacy and thereby support the social sustainability of the projected increases in old-age dependency ratios (OADR) and economic old-age dependency ratios (EcoOADR). These trends underscore the urgent need for significant improvements in employment rates to ensure economic sustainability amid ageing populations.

2. Pension System Transition in Italy and Sweden

2.1 Transition Phase

The primary challenge when replacing a Non-Financial Defined Benefit (NDB) scheme with a Non-Financial Defined Contribution (NDC) pension system based on the logic of Personal Accounts (PA) lies in accommodating two key principles[2] in the reform legislation, as outlined by Palmer:
- The Acquired Rights Principle, according to which a fair transition must

[2] See E. PALMER, *Conversion to NDC* - Issues and Models, In: Holzmann R. and E. Palmer *(eds.) Pension Reform Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes,* The World Bank Press, 2006.

safeguard the pension credits accumulated by workers under the rules in place at the time of their employment. In other words, as individuals enter into an implicit agreement with the State based on the prevailing pension regulations, their previously earned rights ought to be honoured.
- The Contributory Principle, which underpins NDC systems, according to which pension benefits are determined based on the contributions paid by the employee (and/or employer), including a specific interest rate, uniform for all individuals within the system at the time when interest is credited on Personal Accounts.

It is evident that these two principles, as identified by Palmer, conflict with one another. In economic terms, there is a trade-off between preserving acquired rights and applying the contributory principle equitably to all insured members of the pension system. We add a third, equally relevant principle to the transition process that further complicates this trade-off: the speed of the transition. A slow transition implies a prolonged period during which pensions are calculated by means of ad hoc, often individualised rules, potentially eroding workers' and retirees' trust in a juridical system that is applied fairly to all individuals.

Overall, the issue of transition is closely linked to the broader question of intergenerational fairness—specifically, the extent to which the new calculation rules, which are generally less generous than the previous ones, apply only to younger generations while ensuring that more generous rules remain in place for those already active under the former system. This is a complex issue where the perspectives of legal experts and economists may diverge significantly.

In Sweden, the acquired rights principle was largely rejected by parliament, as it was viewed as imposing an undue fiscal burden on future generations. Given the projected steady increase in longevity, maintaining pension entitlements under the old Defined Benefit (DB) scheme would have resulted in an unsustainable disproportionate number of pensioners benefiting from the previous system. Swedish policymakers therefore opted for a relatively rapid transition.

Consequently, Sweden adopted a gradual 14-year transition to the NDC system. The process began in 2001, three years after the reform law was enacted, when the first 'mixed' pension was awarded to those born in 1938. By 2015, only 14 years later, new benefits were calculated entirely under the new system's rules.

The transition was structured as follows: the first cohort affected by the reform included individuals born in 1938, who received one-fifth of their pension from the NDC scheme and four-fifths from the old system. Each subsequent cohort increased their participation in the new system by

1/20, so that individuals born in 1954 or later had their pensions fully calculated under the NDC framework. Around 2040, all pension benefits are expected to be entirely determined by the reformed system, marking the completion of Sweden's pension transition[3]. In Italy, by contrast, the imperative to protect acquired rights prevailed, resulting in a considerably slower transition than in Sweden. The 1995 Dini reform, which introduced the contributory method, based eligibility not on age but on contribution seniority as the key criterion to preserve acquired rights. The reform applied the new rules only to individuals with zero seniority—i.e., those entering the labour market after 1995—thus adopting a considerably less stringent approach than that taken by the Swedish Parliament. As Gronchi and Nisticò observe: "The lesser severity of the Italian transition is shown first of all by the fact that it exempted 40 per cent of existing workers from the new contributions-based formula, compared with 7 per cent in Sweden"[4] The authors further provide a comparative approach to illustrate the outcomes of the Swedish age-based method versus the Italian contribution seniority-based method. Their findings are summarised in Table 1[5], based on the assumption that work commences at age 24 in both countries.

It is well known that the Italian gradual transition was later accelerated by the 2011 Fornero reform, which established that all contributions paid after 2011 accrue pension rights according to the NDC calculation method, regardless of the worker's prior contribution history.

Despite this acceleration, as a result of the gradual transition, it will only be in the second half of the 2030s that all new Italian pensions will be computed entirely according to the NDC formula, with the old DB system remaining partially in place until approximately 2065.

[3] See A. SUNDÉN in *The Swedish Experience with Pension Reform*, in *Oxford Review of Economic Policy*, 22, 2006, pp. 133-148.

[4] See S. GRONCHI, S. NISTICÒ, *Implementing the NDC theoretical model: a comparison of Italy and Sweden*, in *Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Pension Schemes*, World Bank, 2006, pp. 493-515.

[5] Reproduced from GRONCHI, S. NISTICÒ, *Implementing the NDC theoretical model: a comparison of Italy and Sweden*, in *Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Pension Schemes*, World Bank, 2006, pp. 493-515.

	Percentage of earnings based pension preserved			*Percentage of earnings based pension preserved*	
Age at reform (1)	*in Sweden* (2)	*in Italy* (3)	*Age at reform* (4)	*in Sweden* (5)	*in Italy* (6)
24	0	2.5	43	0	100
25	0	5.0	44	0	100
26	0	7.5	45	5	100
27	0	10.0	46	10	100
28	0	12.5	47	15	100
29	0	15.0	48	20	100
30	0	17.5	49	25	100
31	0	20.0	50	30	100
32	0	22.5	51	35	100
33	0	25.0	52	40	100
34	0	27.5	53	45	100
35	0	30.0	54	50	100
36	0	32.5	55	55	100
37	0	35.0	56	60	100
38	0	37.5	57	65	100
39	0	40.0	58	70	100
40	0	42.5	59	75	100
41	0	45.0	60	80	100
42	0	100.0	over 60	100	100

Table 1. Protection of Prereform Entitlements in Sweden and Italy

The key takeaway from this section is that Sweden prioritised intergenerational fairness, deliberately rejecting the acquired rights principle in order to avoid imposing an excessive financial burden on future generations. This enabled a relatively brief transition period, with full implementation expected by 2040. Conversely, Italy prioritised the protection of acquired rights, leading to a much slower transition, with the old DB formula continuing to affect pension calculations until at least 2070. A consequence of Italy's approach is the perception among younger generations of intergenerational unfairness in favour of older cohorts—an inevitable repercussion of the path chosen.

3. Sustainable by Design: How NDC Systems Address the Ageing Population

In light of the demographic projections discussed above, both Italy and Sweden provide valuable insights into how pension design can enhance sustainability amid population ageing. Although these systems differ in several institutional details, they share key structural features that render them particularly effective in managing the fiscal and social pressures associated with an ageing population.
A central strength of NDC systems lies in their embedded mechanisms linking both the retirement age and annuity divisors to changes in life expectancy. This design ensures financial sustainability by automatically adjusting future pension benefits in response to demographic trends. However, while actuarially sound, this feature can be perceived as socially and politically challenging, as it effectively entails a gradual extension of

the working life necessary to secure an adequate pension.

To maintain public support, it is essential to communicate clearly that rising life expectancy is not merely a demographic statistic but also reflects improvements in the physical and cognitive capacities of older individuals. In other words, if people live longer and healthier lives, it is reasonable—and indeed necessary—for them to remain active in the labour market for a longer period. Yet this assumption cannot stand alone. It must be supported by parallel labour market policies aimed at promoting age-friendly work environments, reducing age discrimination, and facilitating continuous skills development. Without such complementary measures, the actuarial fairness of NDC systems may fail to translate into perceived fairness or social legitimacy.

Another strength of NDC systems lies in their capacity to foster an intergenerational agreement within pay-as-you-go (PAYG) financing. By making the link between contributions and future benefits transparent, these schemes help reframe pension contributions as compulsory retirement savings rather than as a payroll tax. This shift in perception may enhance both compliance and legitimacy, particularly among younger cohorts, whose confidence in public pension systems has often been undermined by narratives surrounding population ageing.

A further critical dimension of NDC systems is their integration with poverty-prevention mechanisms financed through general taxation. Given that NDC pensions are strictly contribution-based and earnings-related, they do not inherently ensure income adequacy for individuals with incomplete or fragmented work histories. To address this limitation, both Italy and Sweden complement their NDC pillars with redistributive components.

In Sweden, where the contribution rate to the public pension system is relatively low (17.21%), the non-contributory component plays a central role. The Guarantee Pension provides a minimum income floor for all retirees with limited pension entitlements, serving as a key instrument in preventing old-age poverty. In contrast, the Italian system—characterised by a much higher contribution rate (33%)—relies more heavily on the contributory pillar, thereby assigning a comparatively smaller role to its assistance-based instruments. Means-tested benefits, such as the Assegno Sociale, offer a safety net, but their impact remains more limited in scope.

As labour market fragmentation deepens and the incidence of non-standard or discontinuous employment increases, the effectiveness of these poverty-prevention measures will become ever more critical. Ensuring that individuals who are unable to accumulate sufficient pension credits are not left without adequate support in old age will be a central

challenge for the long-term legitimacy and inclusiveness of NDC-based systems.
As noted earlier, Italy has opted for a high mandatory contribution rate of 33%, which ensures stronger earnings replacement capacity within the public system but leaves limited room for private savings. Sweden, by contrast, finances its income pension with a lower contribution rate of 17.21%, thereby offering individuals greater flexibility to supplement their retirement income through private or occupational pension schemes. Nevertheless, empirical evidence suggests that Swedes tend to save a substantial share of their income for old age—around 30% in total—whether through mandatory, occupational, or voluntary channels. This outcome reflects a well-developed multi-pillar system and a strong savings culture, mitigating the risks associated with a lighter first pillar.
Finally, it is worth noting that while the Swedish NDC scheme incorporates mechanisms such as automatic balancing and inheritance redistribution (i.e., reallocation of the notional capital of deceased individuals), the Italian version has not adopted comparable tools. The Italian system utilises a five-year moving average of GDP to determine the notional rate of return—an approach that lacks responsiveness during economic or demographic shocks and does not cover administrative costs. Consequently, further refinements may be necessary to ensure full financial neutrality and long-term resilience.

4. Principle of Solidarity and Different Reform Models

Demographic dynamics, labour market trends, and the old-age dependency ratio (OADR), as summarised in Section 1, alongside the necessity to increase pension expenditure due to benefit adjustments in line with rising living costs, exert mounting pressure on social security systems. Consequently, these factors threaten intergenerational solidarity, a principle enshrined in Articles 2, 3, and 38 of the Italian Constitution.
Specifically, the ratio of pension expenditure to gross domestic product (GDP) in Italy, according to data from the INPS 2024 report, exceeds 15%, ranking second only to Greece and surpassing the EU27 average by more than three percentage points. Meanwhile, the proportion of pension expenditure relative to overall public expenditure is just under 30%[6]. These figures, as previously noted, risk destabilising the Italian social

[6] INPS, *XXIII Report*, published in September 2024 on the Institute's website, www.inps.it, p. 285 et seq.

security system, which is founded upon the principle of solidarity. This principle is not only embedded in Italy's fundamental Charter but also articulated in Chapter IV of the Charter of Fundamental Rights of the European Union, notably in Article 34, which specifically addresses social security[7].

The principle of solidarity mandates the proportional redistribution of wealth among community members organised within the State, thereby guaranteeing substantive equality among citizens and freeing individuals from need. However, the Constitution delineates the operational limits of solidarity depending on its application within assistance or social security: the former enjoys broader scope, whereas the latter is subject to subjective and categorical limitations favouring workers alone. It is now firmly established that protection against need constitutes a right for all citizens, which the State must guarantee in a spirit of solidarity.

In this context, a potential resolution to the looming crisis in social security may lie in rethinking the current welfare model, shifting from a Bismarckian to a Beveridgean approach to pension provision. Such a shift could reconcile economic and financial sustainability with respect for acquired rights and the expectations of future generations[8].

The financial challenges confronting European welfare systems—driven by employment and demographic trends and, in Italy's case, further constrained by constitutional requirements such as Article 81 mandating a balanced budget—necessitate the preservation of long-term economic stability. This stability underpins the intergenerational solidarity that forms the foundation of these systems. As outlined in Section 3, Italian and Swedish pension reforms of the early 1990s pursued a transition from Defined-Benefit (DB) to Defined-Contribution (DC) pension schemes while retaining the PAYG financing model based on intergenerational solidarity. The resulting Notional Defined Contribution (NDC) system creates incentives for workers that, potentially, will lead to a gradual increase in retirement age and higher employment rates among older cohorts—adjustments essential for the system's self-correction in response to adverse demographic trends. The NDC scheme introduces a degree of meritocracy, ensuring that pensions are paid in proportion to

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[7] Although this article mainly deals with the protection of the transnational worker in the context of his freedom of movement within the EU.

[8] See M. PERSIANI, *Diritto della sicurezza sociale (voce)*, in *Enc. dir.*, Annali IV, Milan, 2011, p. 447.

contributions made throughout one's working life[9].
With regard to Italy specifically, an additional factor arises from the fifth paragraph of Article 38 of the Constitution, which, within Italy's pluralistic social security system, may call for greater scope to accommodate private welfare provision. An expansive interpretation of this provision, which aligns with the view that the entire social security framework outlined in Article 38 is 'open,' suggests a possible avenue to address the long-term sustainability crisis facing the Italian social security system.
Such an approach, consistent with the principle of horizontal subsidiarity, would enhance the role of private actors—whether profit-driven or not—who have historically operated within this sector as part of the voluntary or Third Sector.
In response, various reform proposals have been advanced for the national social security system. One potential solution involves guaranteeing a universal, basic public benefit of minimal amount for all, accompanied by a substantial expansion of complementary pension schemes, which would be made mandatory and competitively managed by public or private entities.
From a comparative perspective, inspiration might be drawn from the British model of mandatory complementary (occupational) pensions, which nonetheless permits opting out. This system automatically enrols employees aged over 22 who earn above a certain annual threshold (currently around £10,000) into a private pension scheme. Upon enrolment by the employer, the employee is notified and given one month to exercise the right to opt out, thereby declaring their intention not to participate and receiving a refund of their contributions[10].
If implemented in Italy, such a system would need to be supplemented by a minimal public benefit for all workers while progressively reducing the contributory burden on the first pillar. Within this broadly meritocratic framework, workers would see a significant portion of their contributions recognised and valued through the involvement of private actors[11].
Nonetheless, it must be acknowledged that such a system would primarily

[9] See M. CINELLI, *L'«effettività» delle tutele sociali tra utopia e prassi*, in *RDSS*, 2016, p. 21. Also Italian Constitutional court. 30 April 2015, n. 70.
[10] *Ex multis* D. BLAKE, *Pension finance*, Wiley, Hoboken, New Jersey, 2006; E. FORNERO, P. SESTITO (a cura di), *Pension Systems: Beyond Mandatory Retirement*, Edward Elgar, Cheltenham, 2005.
[11] On the promotion of merit in the social security field see R. PESSI, *Returning to Welfare*, in WP C.S.D.L.E. "Massimo D'Antona".IT, n. 311/2016.

benefit individuals with higher incomes and may disadvantage poorer segments of the population or those with fragmented contribution histories. Furthermore, the compatibility of opting-out provisions with the principle of solidarity warrants careful evaluation.

The British experience reveals that many young or low-income individuals, in need of immediate liquidity, choose to opt out to access funds quickly, yet this decision proves detrimental in the long term as it results in insufficient financial resources to sustain their pension in later life.

Ultimately, the national pension system would comprise a minimal, mandatory, contribution-based public benefit equal for all workers—or, in a more universalist interpretation, all citizens—funded through general taxation. This would be complemented by a second-tier mandatory contributory measure provided by private entities.

For such a model to be sustainable, it must maintain a balance whereby state funding, predominantly sourced from general taxation, remains compatible with the budgetary equilibrium mandated by the Constitution[12].

There have also been proposals advocating for full pension funding via general taxation, which would necessitate a significant increase in personal income tax (IRPEF) rates and potentially abolish contributions altogether. In this scenario, pension pluralism would be preserved by allowing workers to supplement their benefits through voluntary contributions to the public system or participation in private investment schemes[13].

5. The Bottom-Up Public–Private Relationship in the Social Security System

Beyond the differing approaches outlined in the reform proposals discussed in Section 4, a common thread emerges: all rely—albeit in different forms—on mutualistic, self-financed, and privately managed mechanisms of protection, often referred to as "second welfare". These initiatives are not always tied to the corporate dimension and, in certain respects, represent a reversal of the long-standing tradition of worker-led private solidarity that has historically accompanied the evolution of Italy's

[12] See for comparison, the Cazzola – Treu, legislative decree n. 3035 of 11 December 2009.

[13] See the considerations of M. AVOGARO, *Diritti sociali di prestazione e vincoli economici: il difficile bilanciamento e le prospettive del sistema*, in AA. VV., *Il sistema previdenziale italiano*, Turin, 2017, 178.

economic and social protection systems[14].
The underlying rationale of these proposals is that the increasing need for public resources, particularly for welfare assistance, necessitates a more structured and coordinated involvement of private actors. These actors are expected either to enhance the level of pension benefits or to provide services and protections that the public system can no longer guarantee[15].
The Italian legislator has acknowledged this need. Through the budget laws for the 2016–2018 period, existing tax regulations were reinforced. On the one hand, provisions were confirmed allowing employers to unilaterally activate specific welfare instruments. On the other hand, a more structured framework was introduced, developed through collective bargaining.
In particular, it was established that the value of goods or services provided by employers in accordance with company-level collective agreements—covering areas such as education, training, recreation, social and healthcare assistance, and religious activities—does not count as part of an employee's taxable income[16]. Subsequently, this exemption was extended to expenses for the purchase of public transport passes (local, regional, and interregional) for employees and their family members, provided specific conditions are met[17].
Additional measures were introduced to promote collective bargaining autonomy, notably in relation to tax relief on performance-related bonuses. Employees are now permitted to convert such bonuses into welfare services. Performance bonuses, awarded based on measurable and verifiable improvements in productivity, profitability, quality, efficiency, or innovation—as defined by collective agreements—are subject to a substitute tax (replacing personal income tax and regional and municipal surcharges) at a rate of 10%, up to a maximum gross annual amount of €3,000[18].
Alternatively, employees who opt to convert their bonuses into welfare benefits—such as contributions to supplementary pension schemes, Pan-European Personal Pension Products (PEPPs, as defined by Regulation (EU) 2019/1238), or healthcare schemes—receive an additional fiscal

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[14] See G. CIOCCA, *L'evoluzione della previdenza e dell'assistenza*, *RIMP*, 1998, p. 449.
[15] See V. FILÌ, *Finanziamento del sistema di Welfare, sostenibilità e riforme in cantiere*, in G. Canavesi, E. Ales (a cura di), *La vecchiaia nella tutela pensionistica*, Turin, Giappichelli, 2019, p. 22.
[16] See law n. 208 of 2015, art. 1, co. 182-191.
[17] See art. 1, co. 28, letter. *b*), of the law. n. 205 of 2017.
[18] See paragraph 182 of art. 1 of law n. 208 of 2015.

advantage: the converted amounts, "within specified limits, are excluded from taxable income and are not subject to the substitute tax"[19].

As for identifying protection needs, a review of collective agreements, the statutes of bilateral bodies, and the rules governing supplementary healthcare funds reveals that beyond pensions, workers' principal concerns relate to health and ageing. Instruments developed through collective bargaining or private arrangements in many cases provide a complex and complementary set of protections that operate on a subsidiary basis to the public system. These may include enhanced pension benefits or supplementary protections and services—ranging from financial reimbursements to direct medical care in cases of illness or injury[20].

Second-level welfare systems also serve to supplement statutory and contractual provisions in support of parenthood, for example by extending parental leave entitlements or introducing additional leave allowances for family care—thereby promoting better work–life balance.

However, alongside these benefits targeting constitutionally protected needs, current legislation also permits access to other welfare services that are eligible for the same tax incentives but respond more to "self-regarding" or discretionary preferences than to the socially relevant needs recognised under Article 38 of the Constitution.

Given the constitutional significance of some of the needs addressed by these private welfare arrangements, even in the absence of direct legislative intervention, it would be reasonable to consider introducing a more proportionate and differentiated system of tax incentives. This would allow for a graduated approach based on the nature and social relevance of the benefits provided.

At present, workers may receive tax-advantaged benefits that do not necessarily correspond to primary needs. These include, for example, grocery vouchers, school fee reimbursements, meal services, transport subsidies, nursery partnerships, scholarships, agreements with summer camps and holiday centres, travel discounts, and even benefits related to shopping, wellness, and leisure activities. While such services undoubtedly enhance workers' quality of life and may intersect with socially relevant goals (e.g. education), from the perspective of long-term pension system sustainability—and in light of the autonomy granted to private welfare providers under Article 38(5) of the Constitution—it would be

[19] See paragraphs 184 and 184 *bis* of law n. 208 of 2015.

[20] Lastly M. TIRABOSCHI (edited by), *Welfare for people*, *Settimo rapporto su il welfare occupazionale e aziendale in Italia*, Adapt University press, 2024.

appropriate to calibrate tax incentives according to the benefit's social priority.
Specifically, higher levels of tax exemption could be applied to benefits addressing socially recognised needs—such as healthcare and old-age protection—while more modest exemptions could apply to discretionary or non-essential benefits. Such an approach would reconcile the principle of solidarity with the principle of freedom: workers and private actors would remain free to develop and select welfare tools according to individual preferences, while the public legal framework would retain the capacity to guide and prioritise, through fiscal policy, those measures that alleviate pressure on the first pillar of the pension system.

6. The Top-Down Relationship Between the State and Private Individuals in Social Security and Welfare Provision

While second-level welfare reflects a bottom-up, subsidiary form of private mutualistic integration complementing the mandatory public system, it is equally true that, in some instances, the State itself engages private actors in a top-down manner to mitigate the rigidities of the public pension framework. This reverse dynamic has manifested particularly through the introduction of two mechanisms designed to facilitate early retirement: the Voluntary and Company-Based Early Retirement Schemes (Anticipo Pensionistico – APE) and the Early Temporary Supplementary Annuity (Rendita Integrativa Temporanea Anticipata – RITA). Notably, both instruments are funded through private resources external to the INPS budget[21].
The first of these, the now-defunct APE Volontario (Voluntary Early Retirement Scheme), also known as the Financial Advance Guaranteed by Pension, involved a loan proportional to and guaranteed by the applicant's future old-age pension. Disbursed by a financial institution in monthly instalments over the course of a year, the benefit was accessible to individuals meeting specific eligibility criteria[22].

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[21] In addition to these measures, we can also include the *"isopensione"* introduced by art. 4, paragraph 1 of law n. 92 of 2012. This allows the employer to pay an allowance equivalent to the employee's future pension to a worker who is eligible to retire within four years and agrees to leave the job, provided there is a union agreement in place due to staff redundancy. At the same time, the employer assumes responsibility for continuing the required social security contributions.
[22] This instrument was provided for on an experimental basis from 1 May 2017 to 31 December 2019, see art. 1, co. 166 et seq., law n. 232 of 11 December 2016 and art. 1, co. 162, law n. 205 of 27 December 2017.

The loan was granted by institutional financial providers and insured against the risk of premature death by insurance companies selected from among those adhering to framework agreements signed by the Minister of Economy and Finance, the Minister of Labour and Social Policies, the Italian Banking Association (ABI), and the National Association of Insurance Companies (ANIA).

The second instrument, RITA, which remains active, provides for the phased disbursement of the pension capital accrued by a fund member in the form of a temporary annuity, bridging the period between early exit from the labour market and eligibility for statutory old-age pension benefits. This benefit can be requested under strict conditions, including termination of employment and satisfaction of minimum thresholds related to both contribution history and duration of participation in a supplementary pension scheme.

To calculate the RITA annuity, the member may elect to use either the entire amount accrued at the time of the request or only a portion thereof, leaving the remainder invested to support future supplementary pension income. The selected share of the capital is then converted into periodic annuity payments for the duration of the time remaining before statutory retirement eligibility is reached.

The imperative of maintaining a stable, long-term financial balance in Italy's national pension system has grown increasingly acute in recent years. This urgency arises not only from demographic and labour market pressures but also from the dual role of the public institution responsible for pension disbursement, which is also tasked—thanks to state funding—with providing various assistance measures aimed at alleviating poverty among citizens or workers not meeting the requirements for contributory pensions[23].

Over recent decades, several welfare support schemes have been introduced, the most recent of which is the Inclusion Allowance (*Assegno di Inclusione*, or ADI), which replaces the abolished Citizenship Income (*Reddito di Cittadinanza*). The ADI is designed to combat poverty and social exclusion, combining income support with programmes for social inclusion, vocational training, and active labour market participation[24].

Importantly, access to the ADI requires active engagement by the beneficiary. The allowance is conditional upon both a means test and the applicant's participation in a personalised plan for social and labour

[23] See the social allowance pursuant *ex* art. 3, paragraphs 6-7, law n. 335 of 1995.
[24] See legislative decree 4 May 2023, n. 48.

market inclusion (Art. 1, para. 2). The benefit is granted for a maximum of eighteen months, renewable once for a further twelve, and is awarded to only one recipient per household. Eligible households must include members who fall under specific categories such as minors, persons with disabilities, individuals aged 60 or above, or those in a vulnerable condition and enrolled in local health and social care programmes.

Following the submission of an application, the relevant social services conduct an assessment of the household's needs. Members deemed "employable" are referred to public employment centres or authorised private agencies and are required to sign a personalised service agreement within 60 days. The recipient of the ADI, once engaged with support services, is obliged to accept suitable employment offers, under penalty of losing the benefit—though it is worth noting that the law does not explicitly codify this sanction[25].

7. Conclusions

The structural pressures already undermining the long-term financial sustainability of Italy's national social security system highlight the urgent need to reconsider the timing and trajectory of labour market participation. Ensuring sufficient financial resources to sustain adequate pension benefits within a public, pay-as-you-go (PAYG) framework will increasingly require either extending working lives or placing greater reliance on privately funded pension schemes.

Italy and Sweden, through the pension reforms enacted in the 1990s, opted for the first solution—preserving a PAYG structure while introducing a Notional Defined Contribution (NDC) design. This model, however, relies heavily on mandatory savings, in the form of substantial contribution rates borne by workers. The NDC framework offers a viable response to demographic ageing, but only insofar as policymakers are prepared to address a dual imperative: enabling individuals to work longer and ensuring adequate support for those unable to accrue sufficient

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[25] Specifically, the obligation would take effect if the individual is offered a permanent job anywhere in the country, without geographic limitations. However, such a provision appears disproportionate to the personal circumstances and living needs of the unemployed person. The obligation would also apply in cases where a full-time job or a part-time job of no less than 60% of full-time hours is offered, or a fixed-term contract, including through temporary employment agencies, provided the workplace is no more than 80 kilometres from the person's residence or can be reached within 120 minutes by public transport. In addition, the job offer must include compensation not lower than the minimum wages set by the applicable collective labour agreements.

entitlements. Meeting this challenge will necessitate not only sound pension system architecture but also complementary welfare and labour market policies that support increasingly fragmented and varied career paths.

An alternative approach remains available, exemplified by the United Kingdom's Beveridgean model, where the public system assumes responsibility only for securing a basic, adequate level of retirement income. In such a system, the objective is not to replace pre-retirement earnings, but to guarantee subsistence and protect individuals from poverty. From this perspective, the principle of solidarity would become increasingly focused on minimum protections, rather than on maintaining individuals' standard of living in retirement.

Whether the strategy adopted by Italy and Sweden in the 1990s—built around preserving intergenerational equity through contributory logic—will withstand the demographic pressures expected to intensify across Europe, and particularly in Italy, remains to be seen. Should this model prove insufficient, the principle of subsidiarity may require a growing role for private provision to compensate for the shortcomings of the public system.

In such a scenario, those with sufficient means and stable employment histories may be able to secure retirement adequacy through supplementary private pensions. However, the less fortunate—or those considered less 'deserving' under a strictly contributory logic—would be left to rely solely on minimal, subsistence-level benefits provided by the State. This outcome would represent a fundamental shift in the function of public pensions: from a tool of income replacement and social insurance to one of basic poverty alleviation.

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