COVIP

Commissione di Vigilanza

sui Fondi Pensione

THE STRUCTURE OF PRIVATE PENSION SYSTEM IN ITALY

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DEMOGRAPHICS AND MACROECONOMICS (2007)

Nominal GDP (EUR bn)	1 535.5
GDP per capita (EUR)	26 070.0
Population (000s)	58 880.0
Labour force (000s)	24 728.0
Employment rate	59.0
Population over 65 (%)	19.7
Dependency ratio[1]	46.9

Employee workers (mln) 12,2

PRIVATE PENSION SYSTEM

CONTRACTUAL PENSION FUNDS (Fondi pensione negoziali)

Typically set up by collective bargaining and closed to the workers not pertaining to a given economic sector or professional category

OPEN PENSION FUNDS (Fondi pensione aperti)

Promoted by banks, insurance and investment companies, "open" to the general public

INSURANCE BASED PERSONAL PENSION PLANS (Piani individuali pensionistici - PIPs)

Unit linked policies and traditional life policies promoted by insurance companies with specific characteristics common to all pension funds

"OLD" OCCUPATIONAL PENSION FUNDS (Fondi preesistenti)

Instituted before November 1992 – large variety

MAIN CHARACTERSTICS OF THE PRIVATE PENSION SYSTEM

Private pension plans are mainly **defined contribution** and can be both occupational and personal. Membership is **voluntary**.

Occupational plans can be offered as a result of collective bargaining between employers' associations and trade unions at several levels. Membership occurs on a collective basis.

Personal plans can be offered by banks, insurance companies, investment firms and asset management companies. Membership is on an individual basis.

Pension plans can be implemented through pension funds or insurance-based contracts. Pension funds have to be **funded** and managed on an individual account basis.

Different rules for different type of pension plans/funds

The financial management of assets is done by specialized asset managers (banks, insurances, investment companies); pension fund keep the legal ownership of assets under management. Assets are kept in a depositary bank.

MEMBERSHIP

Private and public-sector **employees** are eligible to be covered by **defined contribution** occupational pension plans on a collective basis if they fall within the membership area of these plans. They can also adhere to personal plans on an individual basis.

Self-employed persons may establish pension plans for their members that may be **defined contribution or defined benefit**. Self-employed persons may also adhere to an open pension fund or a PIP on an individual basis.

CONTRACTUAL PENSION FUNDS

They are the result of **collective bargaining** between employers associations and trade unions and they offer occupational plans. These funds are independent legal entities: in fact it is envisaged a legal separation between the fund and the sponsoring employers.

Membership is only open to employees or self-employed workers fulfilling conditions set in the collective agreements establishing the pension fund.

Contractual pension funds are **not** allowed to **manage directly** their assets: the governing board must, therefore, delegate such activity to professional managers (banks, insurance companies, investment firms and asset management companies).

The **governing** board and board of auditors are composed of employer and employee representatives on a paritarian basis.

The so-called ***Responsabile del Fondo***, appointed by the governing board, has the role to verify that the fund is managed according to the interests of members and beneficiaries and in compliance with respect to legal and statutory provisions (investment rules, conflicts of interest rules, etc.).

OPEN PENSION FUNDS

They are **promoted by banks, insurance companies, investment firms and asset management companies**; they can offer both occupational and personal plans.

These funds do not have independent legal status; however, their assets are required to be **separated** with respect to those of the financial company promoting them.

The financial company must appoint the *Responsabile del Fondo*, meeting the independence requirements established by Law.

The *Responsabile del Fondo* also provides the necessary information to a supervisory board (so-called *Organismo di Sorveglianza*); the latter must be appointed by the financial institutions managing pension funds open to collective membership and has the role to oversight that the activity of the pension fund is put in place in the sole interest of members, also with a whistle-blowing role with respect to the Supervisory Authority. When at least 500 members belong to the same firm/group, the Law requires that components of the *Organismo di Sorveglianza* are appointed by workers and by the firm/group on a paritarian basis.

PIPs

Personal pension plans realized through life insurance contracts, so-called **PIPs**, have been introduced by Law no. 47 of 2000.

They are offered by insurance companies and they can collect only individual adhesions.

PIPs compliant with the Legislative Decree no. 252 of 2005 can receive the TFR diverted by private sector employees on an individual basis.

Plans' assets are required to be separated with respect to those of the insurance company managing PIPs.

As open pension funds, insurance companies offering PIPs must appoint the so-called *Responsabile del PIP*.

PRE-EXISTING PENSION FUNDS

They were already operating before the Legislative Decree no. 124 of 1993.

They are both autonomous and non autonomous (book reserve) and they offer occupational plans.

They are structured as defined contribution and defined benefit schemes. As a result of the recent pension reform, pre-existing pension funds are expected to become an ever-shrinking share of the private pension system since the new legislation does not allow them to expand further their membership area.

Furthermore, their rules, regulations and reporting requirements are specific to them for several aspects. After 1993 all existing defined benefit plans have been closed to new members: many of them have been wound up and converted into defined contribution plans.

The Decree of the Ministry of the Economy and Finance no. 62 of 2007 contains specific measures for pre-existing pension funds in a move aimed at making these funds, with some exceptions, more aligned with the Legislative Decree no. 252 of 2005.

FONDINPS

FondInps is an occupational pension fund instituted by INPS (the National Social Insurance Institute).

It is a "**residual pension fund**": it set up in order to accept the diversion of the TFR when there is not a contractual fund or an open pension fund foreseen by the collective agreements TFR.

FondInps is subject to all rules (governance, information, supervision..) applied to pension funds.

On request, members are allowed to transfer their personal account to an other pension fund after 1 year of participation.

Fondinps is registered to COVIP Register.

DIFFERENT SOURCES OF CONTRIBUTION

Severance pay provision *(trattamento di fine rapporto – TFR)* is the main source of financing

Employees may adhere to a pension fund paying only the TFR but they can choose to pay further contributions

Employees may add to pension plans contributions according to the collective agreements (occupational plans) or voluntarily (personal plans). Additional voluntary contributions are allowed. (no legal upper limit on employee contributions but they are generally within the maximum amount for which tax relief is granted.)	In occupational pension plans, **employers** must match employee contributions according to the collective agreements. Additional voluntary contributions are allowed. Employer contributions are taken into account for the upper limit on tax-deductibility of employee contributions

Contributions could be invested in different lines within the same pension fund.

BENEFITS

➢Benefits are distributed as annuities; ➢benefits could be up to 50 per cent in lump sum; ➢The payment of pension annuities are, in general, entrusted to a life insurance company (annuities could be paid out directly by the pension funds if previously authorized by COVIP).	➢ retirement under the compulsory system and at least 5 years of contributions to the fund ➢ retirement age is the same required for the public pension ➢ pensions can be retrieved 5 years before the normal retirement age only in case of unemployment for more than 48 months, invalidity ➢ In case of predecease the entire position is redeemed by heirs or other designated beneficiaries.

EARLY WITHDRAWALS

Members may take partial early withdrawals from their individual accounts under the following conditions:

-at any moment, up to a maximum of 75% of the individual account, for health expenses;

-after at least 8 years of membership, up to a maximum of 75% of the individual account, for buying/repairing the first house for themselves or their children;

-after at least 8 years of membership, up to a maximum of 30% of the individual account, for any other reasons.

Early withdrawals receive an unfavourable tax treatment except in the case of cash advance for health expenses.

In the case of unemployment for more than 48 months or in the case of a severe disability, members can withdraw 100% of their individual accounts (50% in the case of unemployment for more than 12 months and less than 48 months).This option does not work in the five years before the payment of private pension benefits (annuities or lump sums).

PORTABILITY

Employees may transfer their his/her individual accounts, and also their his/her own contributions, to another pension plan at any point in time after **two years of membership**. Collective agreements set the conditions under which also employer contributions may be directed to the new pension plan.

Upon changing employers and if the membership conditions are no longer met, an employee may either withdraw his/her individual account. In these cases benefits receive an unfavourable tax treatment.

Pension funds must execute the requested transfer within six months of the application date. The costs applied have not to limit the right of transferability of the individual account.

FISCAL TREATMENT

Employee contributions are tax-deductible up to an upper limit on total employee and employer contributions of EUR 5,164 a year. TFR is excluded from this limit.

Net investment income is taxed at an annual rate of 11%.

Pension benefits (annuity or lump sum), net of the amount on which tax has already been paid, i.e.:

- contributions exceeding the tax-deductible limit and on which tax was therefore paid;
- net investment income on which tax has already been levied on the pension fund at 11%

are taxed in a more favourable manner than general tax income. The tax rate is 15%, with a reduction of 0,3% for every year of participation after 15, not beyond a maximum reduction of 6%. Benefits received as cash advance for buying house or for other reasons or as lump sum in case of voluntary left employment are taxed less favourably (23%).

INVESTMENT MANAGEMENT

Investment management carried out by	Professional managers	Institution setting up the plan/fund	Directly managed by the fund
Contractual pension funds:	X (Banks, insurance companies, investment firms, asset management companies.An agreement must be signed between the governing board of the pension fund and the asset manager outlining the guidelines for the investment of fund assets)	Not allowed	Not allowed
Open pension funds	Allowed	X	
Pre-existing pension funds	Allowed	Not allowed	Allowed
Pip	Allowed	X	

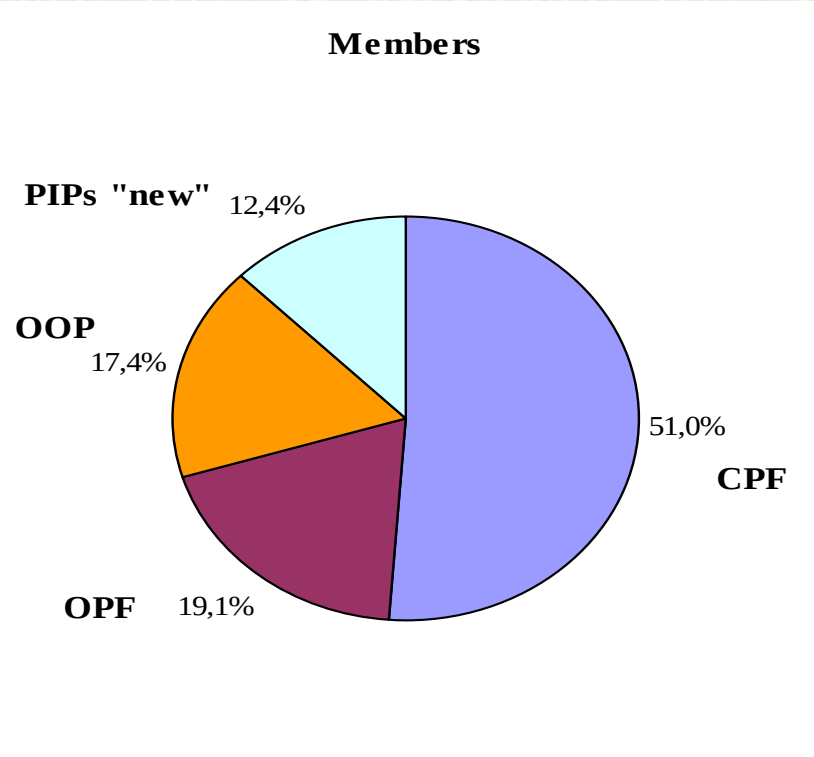
INVESTMENT RULES

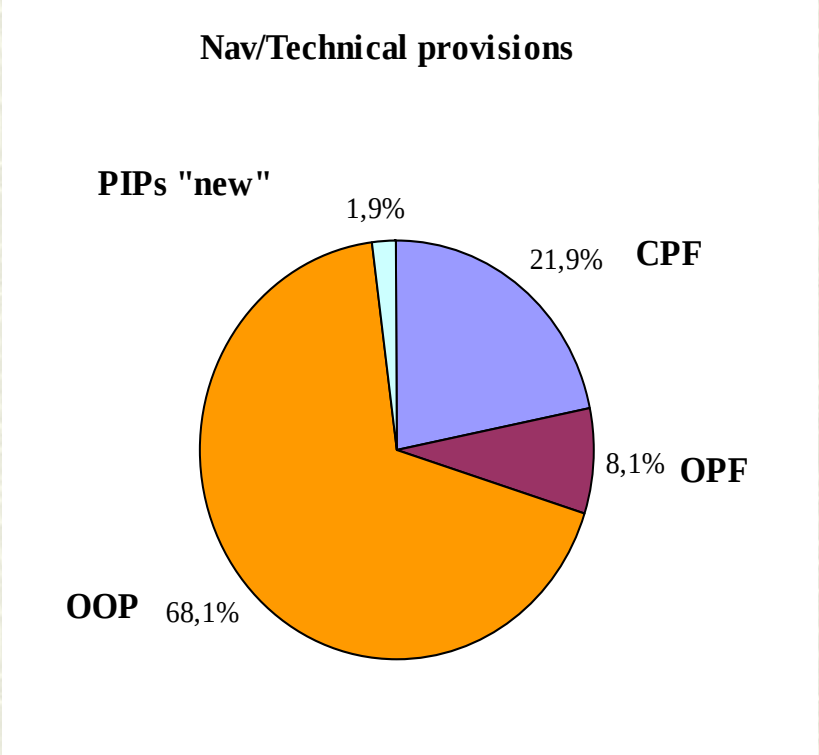
Rules set by the Legislative Decree no. 252 of 2005 and the Decree of the Ministry of the Treasury no. 703 of 1996 are fully applicable to contractual and open pension funds; several exceptions are provided for pre-existing pension funds. With respect to PIPs, investment rules for insurance products do apply.

cash	< 20%
direct investments in real estate are	not allowed
closed-end (securities and real estate) investment funds	< 20% of the pension fund's assets (25% of the total net asset value of the closed-end fund)
borrowing, lending and short selling;	not allowed
derivative contracts	only if the financial leverage is not more than one
currency matching	a minimum of one third of the pension fund's assets
investments in securities issued by a single issuer or connected group of companies;	< 15%
investments in securities issued by the sponsoring employer	single-employer funds: < 5% of the pension fund's assets (10% in the case of a group); multi-employer funds: < 20% of the pension fund's assets (30% in the case of industry-wide pension funds);
investments securities issued by non-OECD residents	max to 5% only if they are traded on regulated markets of EU member countries, USA, Canada and Japan;
investments in securities issued by OECD countries or residents	or max 50% if assets not traded on regulated markets

MARKET STRUCTURE AND DEVELOPMENT

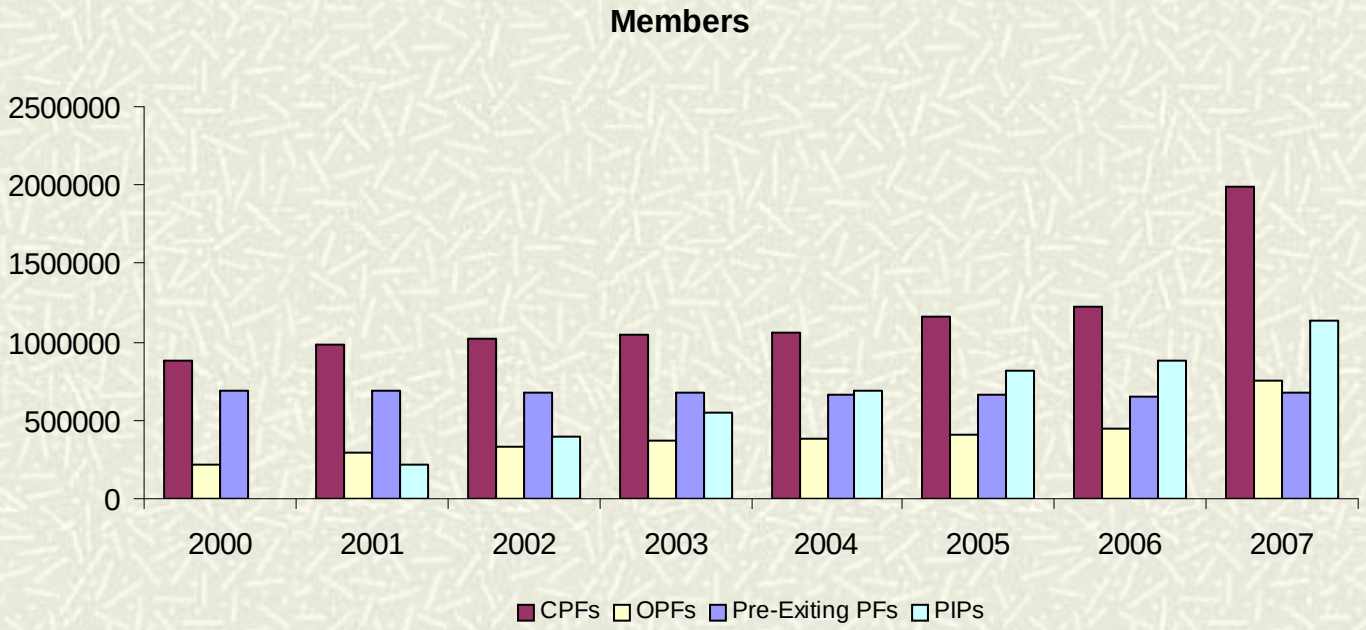
PRIVATE PENSION SYSTEM: MEMBERSHIP AND ASSETS





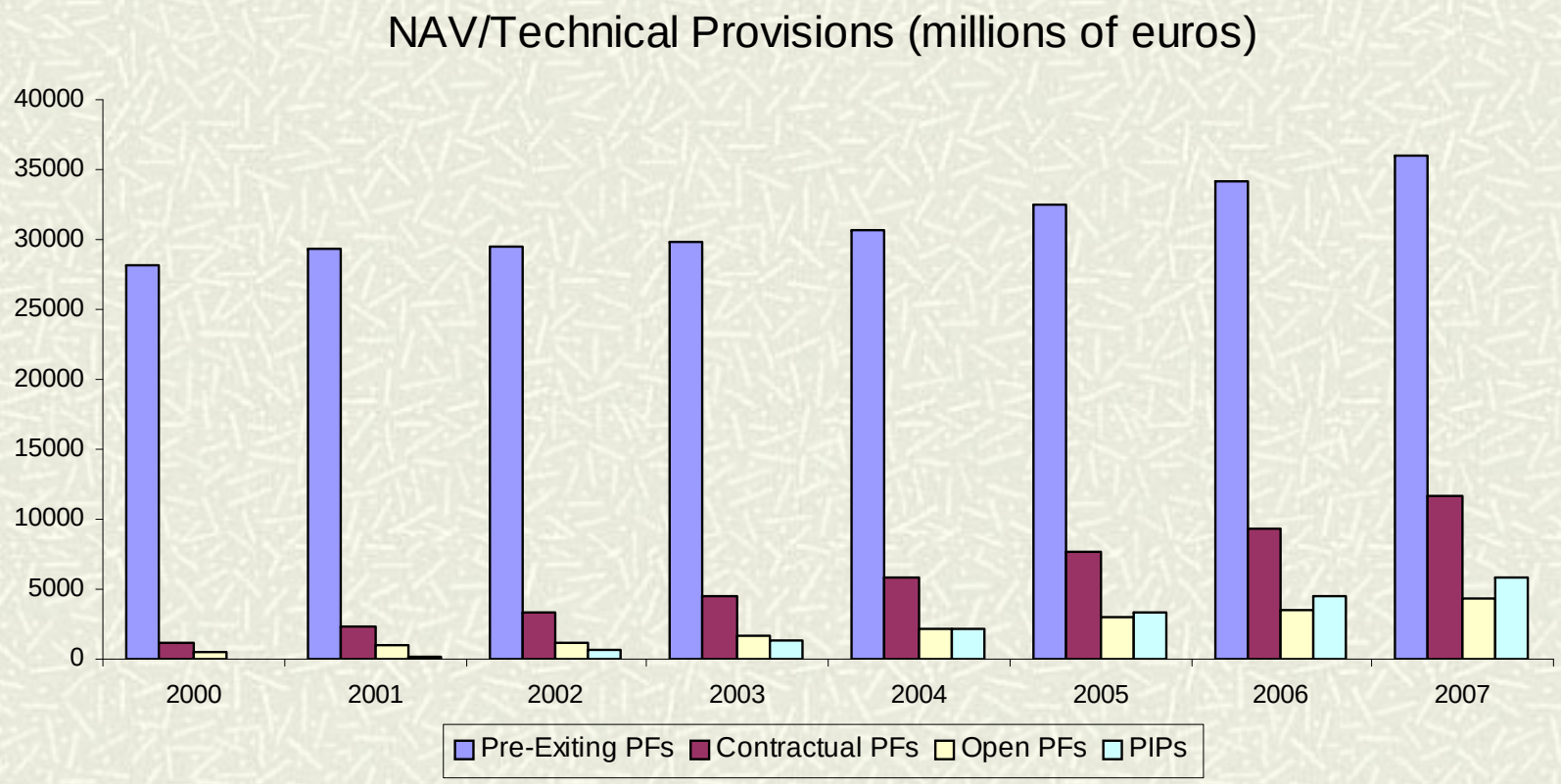
Source: Covip, data at December 2007

PRIVATE PENSION SYSTEM: MEMBERS



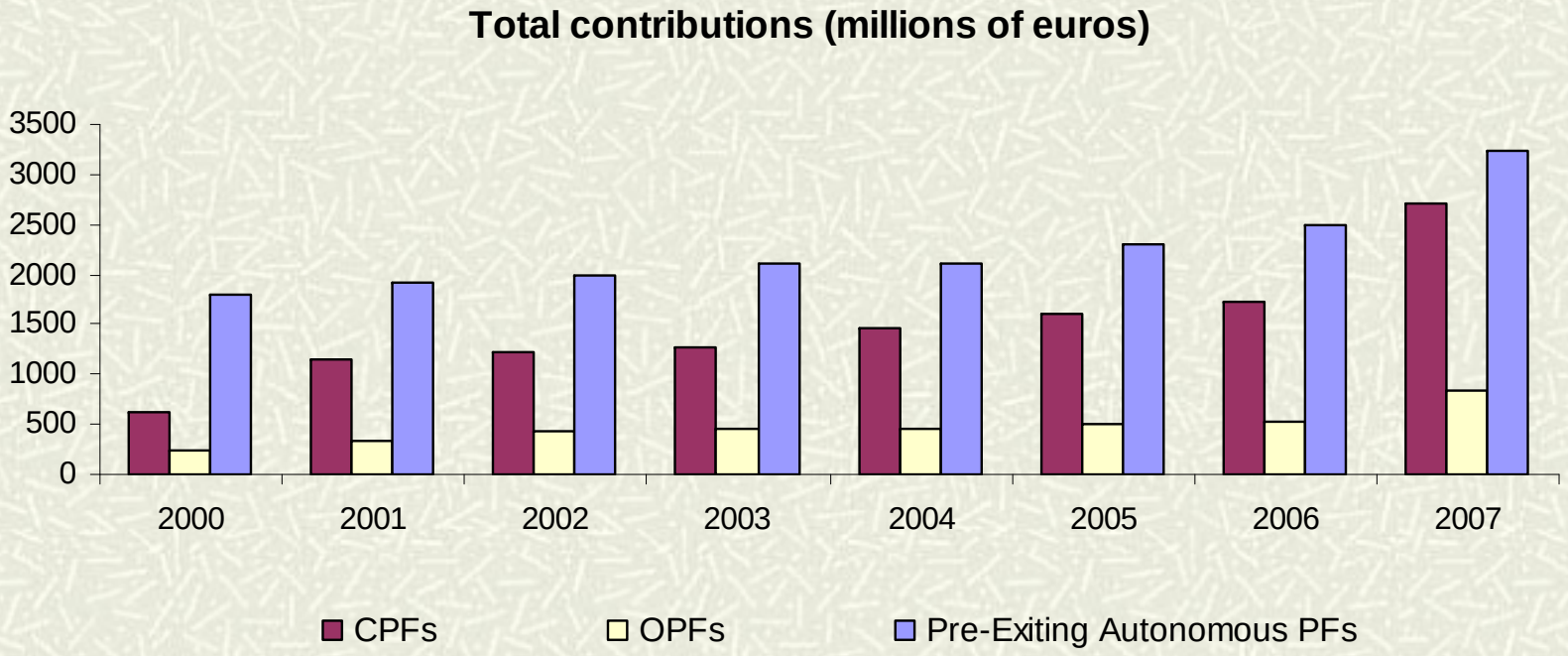
Source: Covip

PRIVATE PENSION SYSTEM: NAV



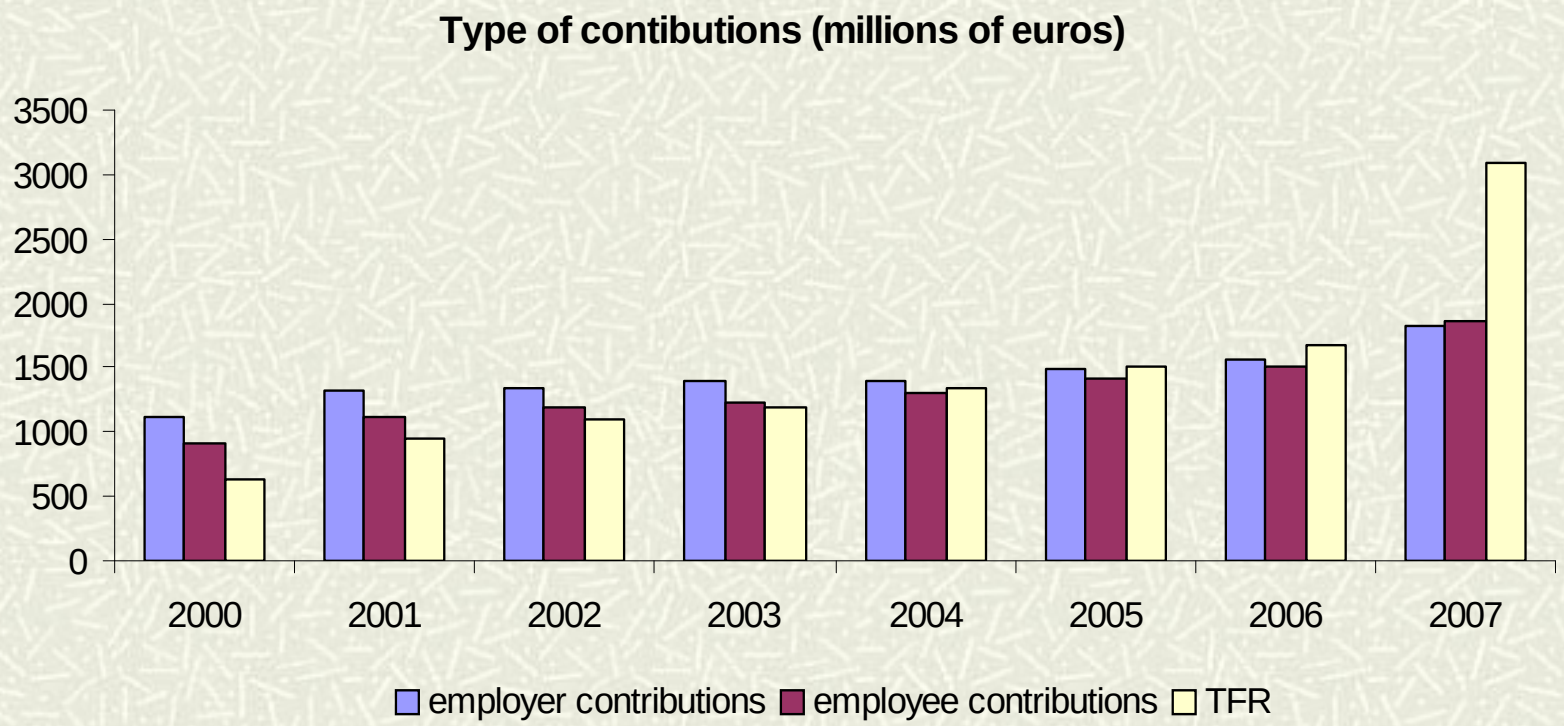
Source: Covip

PRIVATE PENSION SYSTEM: CONTRIBUTIONS



Source: Covip

PRIVATE PENSION SYSTEM: CONTRIBUTIONS



Source: Covip

CONTRACTUAL PENSION FUNDS: INVESTMENT OPTIONS

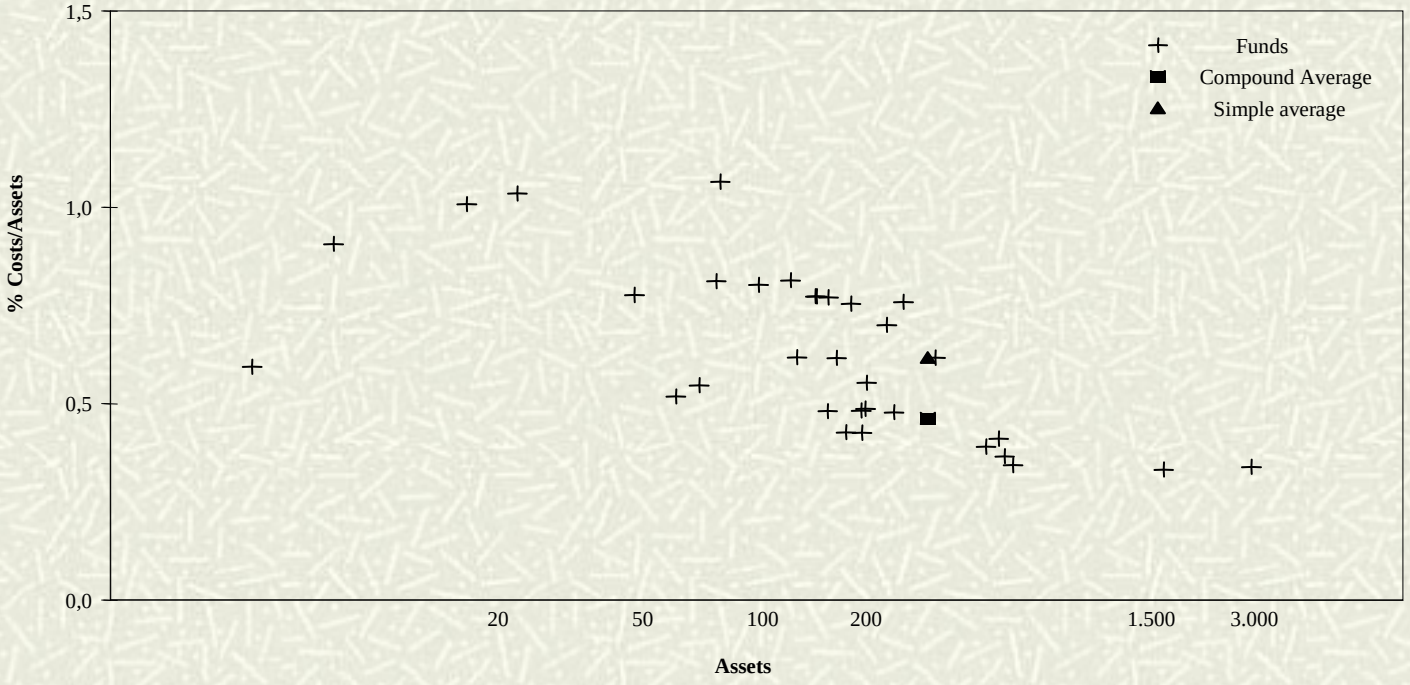
Funds/Sub funds	Funds	Subfunds	Members		Net Technical Provision	
	Number	Number	Number	%	Mln euro	%
Pension funds with assets under management	**36**		**1.891.786**		**11.492**	
Single Option	4		125.992	*6,7*	632	*5,5*
Multi investment options	32	95	1.765.794	*93,3*	10.860	*94,5*
Bonds		*59*	*1.012.158*	*53,5*	*5.805*	*50,5*
Balanced		*28*	*728.181*	*38,5*	*4.724*	*41,1*
Equity		*8*	*25.455*	*1,3*	*331*	*2,9*
Other funds	**6**		**96.853**		**107**	
Totale fondi pensione negoziali	**42**		**1.988.639**		**11.599**	
Guaranteed Funds[(1)]	**31**	*31*	*229.472*	*12,1*	*560*	*4,9*

Source: Covip, data at December 2007

CONTRACTUAL PENSION FUNDS: TYPE OF PLANS

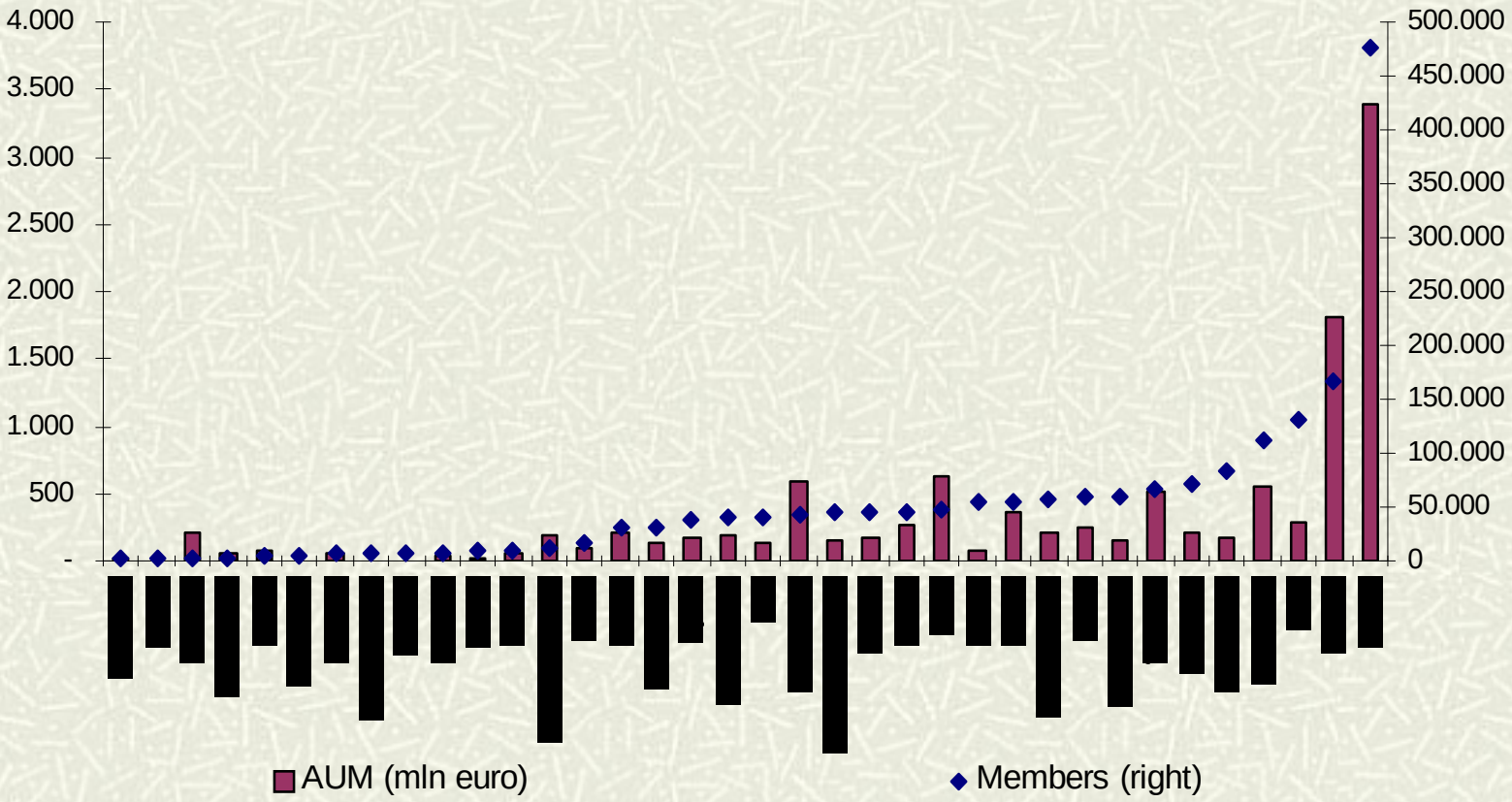
	Funds	Members	Net Technical Provisions (mln euro)
Contractual pension funds	**42**	**1989.000**	**11.599**
PF addressed to employee workers	38	1.975.000	11.537
Funds limited to the employees of a company or a group of companies	9	304.000	2643
Funds regarding a certain category of employees	29	1671.000	8.893
PF addressed to self-employed workers	4	14.000	62
Territorial pension funds	3	161.000	778

CONTRACTUAL PENSION FUNDS : COSTS



Source: Covip, data at December 2007

CONTRACTUAL PENSION FUNDS



Source: Covip, data at December 2007

OPEN PENSION FUNDS: PROMOTING COMPANIES AND INVESTMENT OPTIONS

	Fonds/Subfunds	Members		Net Technical provision	
	Number	Number	%	Mln euro	%
Open pension funds managed by:					
Insurance companies	57	352.000	47,0	1.849	43,0
Banks	1	35.000	4,7	90	2,1
Saving companies	17	246.000	32,9	1.485	34,6
Investment companies	6	115.000	15,4	874	20,3
Total open pension funds	**81**	**747.000**	**100,0**	**4.298**	**100,0**
Sub-funds(2)					
Bonds	164	270.808	34,6	1.252	29,2
Balanced	117	275.090	35,2	1.523	35,4
Equity	79	236.066	30,2	1.523	35,4
Total subfunds	**360**	**781.964**	**100,0**	**4.298**	**100,0**
Guaranteed subfunds(2)					
Subfund addressed to silent members	67	104.854	66,9	269	55,3
Other subfunds	33	51.945	33,1	217	44,7
Total subfunds	**100**	**156.799**	**100,0**	**486**	**100,0**

Source: Covip, data at December 2007

PENSION FUNDS PERFORMANCES

	2003	2004	2005	2006	2007	2008 October
Pension funds	**5,2**	**4,5**	**8,6**	**3,4**	**1,4**	**-8,2**
Contractual Pension Funds	5	4,5	7,5	3,8	2,1	-6,7
Open Pension Funds	5,7	4,3	11,5	2,4	-0,4	-12,6
Pip (Unit Linked)						-21,4
TFR	***2,8***	***2,5***	***2,6***	***2,4***	***3,1***	***2,8***

Source: Covip

PIPs: INVESTMENT LINES

Unit linked annuites 65

With profit annuities 95

- 17 BOND
- 19 BALANCED
- 49 EQUITY
- 10 FLEXIBLE

PIP	Members	Of which: private sector employees	Nav/Technical provisions (mln euro)
“old”	**703.000**	**286.700**	**4.770**
“new”	**486.000**	**296.000**	**1.020**

Source: Covip, data at December 2007

OLD OCCUPATIONAL PENSION FUNDS: TYPE OF FUND

Type of Fund	Numbers of funds	Members	Retirees	Nav/Technical provisions (mln euro)
Autonomous	**294**	**647.000**	**114.000**	**32.565**
Non Autonomous	**139**	**34.000**	**30.000**	**3.516**
banks	122	33.000	28.000	3.378
insurance companies	7	80	1.000	35
non financial companies	10	710	1.000	103
Total	**433**	**681.000**	**143.967**	**36.081**
In percentage of total pension funds	*68,8*	*17,4*		*68,1*

Source: Covip, data at December 2007

OLD OCCUPATIONAL PENSION FUNDS: DB VS DC

	Funds	Members	Retirees	Nav/ Technical provisions (mln euro)
Pension sistem				
Defined contribution funds	248	497.000	32.000	21.140
Defined benefit funds	130	27.000	45.000	4.466
Mixed funds	55	157.000	67.000	10.475
Total	**433**	**681.000**	**144.000**	**36.081**

Source: Covip, data at December 2007

AUTONOMOUS OLD OCCUPATIONAL PENSION FUNDS: PORTFOLIO ALLOCATION

Percentage

	Type of plans			Total
	Defined contribution	Defined benefit	Mixed	
Cash	*13,4*	*10,9*	*7,1*	*10,5*
Debt securities	*39,0*	*50,5*	*40,1*	*40,7*
Equities	*7,1*	*6,4*	*8,3*	*7,5*
UCITs	*25,1*	*10,6*	*12,6*	*18,2*
Real estate	*5,2*	*15,7*	*18,5*	*11,9*
Holdings in real estate companies	*3,5*	*1,8*	*5,0*	*3,9*
Other assets	*6,7*	*4,0*	*8,5*	*7,1*
Total	**100,0**	**100,0**	**100,0**	**100,0**
For memory:				
Nav/Technical provisions	**21.103**	**2.404**	**9.059**	**32.565**

Source: Covip, data at December 2007

SINTETIC COST INDICATOR

Percentage

	Number of Funds	2 years	5 years	10 years	35 years
Contractual pension funds *(average)*	36	1.1	0.6	0.4	0.3
Minimum		*0.4*	*0.3*	*0.2*	*0.1*
Maximum		*4.2*	*2.2*	*1.2*	*1.1*
Open Pension Funds *(average)*	79	2.0	1.3	1.2	1.0
Minimum		*0.6*	*0.6*	*0.6*	*0.5*
Maximum		*4.5*	*2.8*	*2.1*	*1.8*
PIP *(average)*	72	3.6	2.4	1.9	1.5
Minimum		*2.2*	*1.5*	*1.3*	*0.7*
Maximum		*5.4*	*3.8*	*3.0*	*2.5*

Source: Covip, data at December 2007

COVIP

GOVERNANCE

COVIP IS MADE UP OF:

- **A Governing Board: 1 President and 4 Commissioners (appointed by the Government)**
- **A staff of about 70 persons (based in Rome)**

MANDATE AND FUNCTIONS

MANDATE

to insure the correctness and transparency of the behaviors and the sound and prudent management of pension funds, having regards at the interest of members and beneficiaries and at the overall efficient functioning of the complementary pension system

MAIN FUNCTIONS

- **RULE-MAKING**
- **SUPERVISION**
- **COLLECTION AND DISSEMINATION OF DATA AND INFORMATION**

SUPERVISION INSTRUMENTS

prior licensing
regular and specific reporting
complaints by members
whistle blowing
meetings with fund administrators/directors
on-site inspections
sanctions
decadence of the board and nomination of a special commissioner
withdrawal of licence

EVOLUTION IN SUPERVISORY PRACTICES

Covip activity is focusing more on the effective fulfillment of the pension promise

- Decreased emphasis on formal aspects and ex-ante approvals
- Increased responsibility entrusted with funds' governing bodies
- Increased focus on the operational aspects of pension funds (asset management, collection of contributions, general administration, costs, etc.)
- Supervisory activities focused on risk elements
- Attention given to financial education issues
  - initiatives directed to general public
  - monitoring the capability of pension funds to help their members making choices in line with their needs and risk tolerance