COVIP

Commissione di Vigilanza

sui Fondi Pensione

IMPLEMENTATION OF THE REFORM OF PRIVATE PENSION SYSTEM IN ITALY

Ambrogio Rinaldi (rinaldi@covip.it)

Elisabetta Giacomel (giacomel@covip.it)

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IMPLEMENTATION OF THE REFORM OF TFR

2004

GOVERNMENT (BERLUSCONI) RECEIVED THE TASK

TO REFORM THE RPIVATE PENSION SYSTEM

2004: the Law no. 243 of August 23rd

2005

- GOVERNMENT FOUND AN AGREEMENT WITH TRADE UNIONS ON THE MAIN ISSUES

- ISSUE THE LAW IMPLEMENTING THE PENSION REFORM

(BEGINNING FROM 1ST JANUARY OF 2008)

Legislative Decree 252/05

2006

- PRODI GOVERNMENT

- ANTICIPATION OF REFORM TO 1ST JANUARY OF 2007

- NEW COVIP ISTRUCTIONS TO PENSION FUNDS AS REGARD TO STATUTE, REGULATION AND INFORMATION DOCUMENT TO MEMBERS

- COVIP RULES TO AUTHORIZE PENSION FUNDS TO OPERATE AND ACCEPT THE TFR

- ISSUED THE LAW TO SET UPTHE FONDO DI TESORERIA

2007

- BEGINNING OF THE REFORM: EMPLOYEES CHOICE BY 30 OF JUNE

-MINISTRY REGULATIONS: DECISION ON DOCUMENTS TO BE USED FOR EMPLOYEES CHOICE

- NATIONAL INFORMATION CAMPAIGN

-FROM THE 1 OF JULY THE TFR IS PAID TO PENSION FUNDS/FONDO TESORERIA

- IMPLEMENTATION OF THE IORP DIRECTIVE:

NEW POWERS TO COVIP

-SELF-FINANGING OF COVIP

2008

-BELUSCONI GOVERNMENT

- FINANCIAL CRISIS

THE OBJECTIVES OF THE REFORM

The government issued the legislative decree n.252/2005, entered into force in January 1st, 2007, replacing the previous laws disciplining the private pension provisions.

The new law implemented the reform of the private pension system, following the principles specified in the law n. 243/2004:

- ✓ “encouraging growth of complementary pensions”
- ✓ “improving workers freedom of movement in the private pension system”

ENCOURAGING GROWTH OF COMPLEMENTARY PENSIONS

INCREASING FINANCING

- ✓ mandatory devolution of the s.c.*Trattamento di fine Rapporto* (TFR) – severance pay provision (automatic enrolment) to pension funds
- ✓ workers could become members of open pension funds and PIPs using their own TFR
- ✓ members could pay voluntary contributions after the retirement age

INCREASING INCENTIVES FOR PENSION FUNDS MEMBERSHIP

- ✓ increasing fiscal incentives for workers and employers (reduction of social contributions)
- ✓ strengthening members' protection against lack of transparency
- ✓ the TFR diverted to pension funds as a default option must be managed in a prudential way

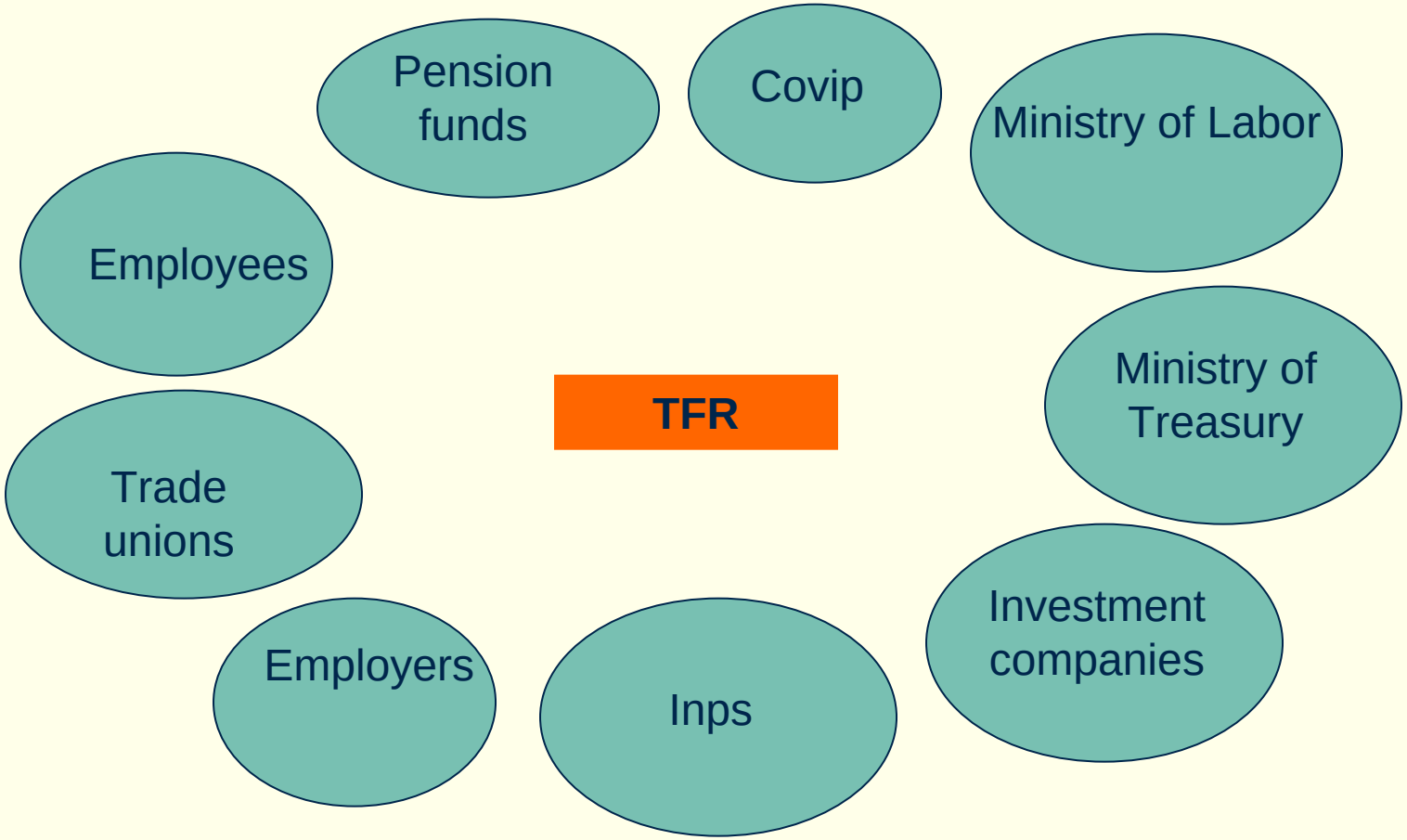
IMPROVING WORKERS FREEDOM OF MOVEMENT IN THE PRIVATE PENSION SYSTEM

- ✓ comparability between products (through uniform rules on transparency and comparability set up by COVIP)
- ✓ portability and transferability of members' pension positions to all different forms of retirement products

STRONGER COMPETITION BETWEEN PENSION FUNDS

HOMOGENEITY OF THE OVERALL SUPERVISION SYSTEM

INSTITUTIONS INVOLVED IN THE REFORM PROCESS



LEGISLATIVE FRAMEWORK

2005: the Legislative Decree no. 252 of December 5th (*Disciplina delle forme pensionistiche complementari*) implementing the principles included in the Law no. 243 of 2004, replaces the Legislative Decree no. 124 of 1993.

2006: 2007 Budget Law no. 296 of December 27th (*Disposizioni per la formazione del bilancio annuale e pluriennale dello Stato*) anticipated the beginning of the reform to 207 and provides that if an employee does not choose to transfer the TFR into a pension plan, the TFR will remain in the firm (if the firm has less than 50 workers) or will go to INPS -National Social Security Institute- (if the firm has almost 50 workers), with no changes in employees' rights.

2007: Legislative Decree no. 28 of February 6th (*Attuazione della direttiva 2003/41/CE in tema di attività e di supervisione degli enti pensionistici aziendali o professionali*) implements the IORP Directive 2003/41/EC.

2007: Decree no. 62 of the Ministry of the Economy and Finance of May 10th, (*Regolamento per l'adeguamento alle disposizioni del decreto legislative 5 dicembre 2005, n. 252, in materia di forme pensionistiche complementari preesistenti alla data di entrata in vigore della legge 23 ottobre 1992, n. 421*) disciplines the compliance of pre-existing pension funds with the Legislative decree no. 252 of 2005.

FONDO TESORERIA

FondoTesoreria is a public fund managed by Inps (National Social Insurance Institute), on behalf of the State; money are deposited in an account open at Treasury.

From the 1st of January 2007 companies with more than 50 employees have to pay to the FondoTesoreria the TFR not invested in pension funds.

FondoTesoreria guarantees the same rights to employees as the TFR is set aside in the balance sheet of the company

The requests of withdrawals and lump-sum by employees have to be paid by the the employers on behalf of the FondoTesoreria (employers will pay less contributions in the future)

Accumulated assets are used for public infrastructure expenditures

FONDINPS

FondInps is a 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 other 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.

EMPLOYEE CHOICE

From the 1 of January 2007 all private employee workers have to choose whether

- To **invest** of the whole accruing annual severance pay provision in a pension fund

Once an employee decides (expressly or tacitly) to transfer his or her TFR flow to a pension fund, he becomes member of a pension fund. The decision is irrevocable.

- Or to **keep** the severance pay provision within the employer (companies with less than 50 workers) or INPS (companies with more than 50 workers)

Employee that decides to leave their TFR within the employer/Inps may decide to transfer the future TFR flows to a pension fund at any time

Employees have to fill a document to express their choices

AUTOMATIC ENROLMENT

If the employee does not explicitly make a choice, over a 6 month period (for a new worker from his hire date), TFR will be **automatically paid into an occupational pension fund:**

- to the contractual fund (if any), or to the open pension fund indicated by the contractual agreements;
- In presence of a plurality of contractual pension funds, the TFR is automatically diverted to the pension fund to which adhere the majority of company's employees;
- If there is not a contractual fund or an open pension fund foreseen by the collective agreements the TFR is devoted to a "residual" **pension fund instituted by INPS (the National Social Insurance Institute).**

AUTOMATIC ENROLMENT

Employees working in companies with less than 50 employee

Explicit decision to keep the TFR	Book reserve in the balance sheet of the employer
Explicitly decision to invest the TFR	Pension funds
Silent	Pension fund/Fondininps

Employees working in companies with at least 50 employee

Explicit decision to keep the TFR	FondoTesoreria
Explicit decision to invest the TFR	Pension funds
Silent	Pension fund/Fondininps

TFR TO PENSION FUNDS

1 January 2007 **30 June 2007** **1 July 2007**

Period of choice about the destination of the TFR:

explict or tacit adhesion

TFR kept in the company or FondoTesoreria (companies with more than 50 employees)

diversion of the TFR accrued between 1 January to 30 June and further contributions to the pension fund choosen by the employee

+ TFR and contributions accruing from 1 July

INFORMATION TO EMPLOYEES

- **The Government together and the Ministry of Labor have to promote a national campaign to inform all employee about the reform and to made them aware about their choices (17 mln euro have be foreseen for the campaign)**
- **Before the expire period for the choice (6 months) employers have to made employees available of all the necessary information they need for their choice.**
- **Whether, 30 days before the expire period for the choice, an employee has not express his will, the employer has to inform him about the pension funds where the TFR will be invested**

INFORMATION TO MEMBERS

EXPLICIT CHOICE

before joining members have to receive

information document

statute/regulation

pension projection document

TACIT CHOICE

Pension fund has to inform employee about the adhesion and about the right to receive employer contribution

IMPACT ON THE ROLE AND TASKS OF THE SUPERVISOR

- COVIP acquired general competence on all forms of supplementary pensions

- Reinforced regulatory role: issue of standard rules to be adopted by all pension entities

- Supervisory activity: …
  - increased attention to transparency, comparability, information as a support to individual members' decisions (major risk factor)
  - issue of standards for information documents to be adopted (publication of examples of compiled standard documents for a virtual PF)
  - Simplified authorization procedures
  - Increased authorization activity: need to re-examine and re-approve fund and plan rules for all authorized pension entities, as adjusted to the reform, in a very short interval (3-6 months)

RULES REGARDING TRANSPARANCY AND COMPARABILITY

TRANSPARANCY

All the pension funds have to made available To potential new members an informative document (*Nota informativa*) written in conformity with the scheme provided by COVIP

All the pension funds statutes and regulations have to be compliant with the schemes provided by COVIP

All the pension funds have to respect the COVIP rules concerning the way in which the publicity can do

All the pension funds have to comply with COVIP rules concerning the manners to adopt when new adhesions are collected

COMPARABILITY

RULES REGARDING TRANSPARANCY AND COMPARABILITY

TRANSPARANCY OF COSTS

All the pension funds have to indicate the costs applied to members in a detailed and homogenous way, in conformity with COVIP instructions

All the pension funds have to indicate the Total Expenses Ratio (TER) in conformity with COVIP instructions

All the pension funds have to indicate a Syntetic costs Indicator (ISC) in conformity with COVIP instructions

COVIP publies on its web site the ISCs of all funds

COMPARABILITY OF COSTS

AUTHORIZATION OF PENSION FUNDS

All pension funds, already operating at 31.12.2006, had to be re-authorized to operate in order to be able to accept the TFR.

After the re-examination and re-approval of fund and plan rules as adjusted to the reform, pension funds had to be registered again in Covip registry

Whether pension funds did not receive the approval by 30.06.2006, members could decide to trasfer their position to an pension fund.

Pension funds not authorized (compliance with new rules and offer of the default option) could not receive the TFR