Long Run Distributional Impact of Pension Reforms in Italy: a Micro Simulation Approach

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In the 1990s Italy has enacted radical parametric reforms of its pension system which introduced a tight actuarial link between contributions and benefits in the pay-go system and equated the internal rate of return of contributions to the expected growth of GDP. These reforms have sensibly reduced expectations for future replacement rate of pension benefits after retirement.

In the new institutional framework, private wealth has gained a crucial role both in determining overall wellbeing after retirement and, ex ante, in affecting saving/investing –as well as retirement-decisions.

The paper uses a dynamic micro-simulation model to assess the medium/long term distributional implications of the recent pension reforms. In order to embody the behavioural responses to changes in the institutional environment, the paper analyzes the dynamics of social security wealth and of private assets accumulation by modelling consumption/saving behaviour within a life cycle theoretical framework which takes habit formation into account. The simulation model allows to reach interesting conclusions on household consumption/saving choices, allocation of wealth among its main components (real, financial, pensions) as well as its inter-generational transmission which are crucial for a full assessment of the long run distributional effects of the pension reforms.

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