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**Labour Market Flexibility & Pension Reforms:
Flexible Today, Secure Tomorrow?**

*Athens University of Economics and Business
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**The Interplay of Labour Market Flexibility & Pension Reforms
Italy in Comparative Perspective**

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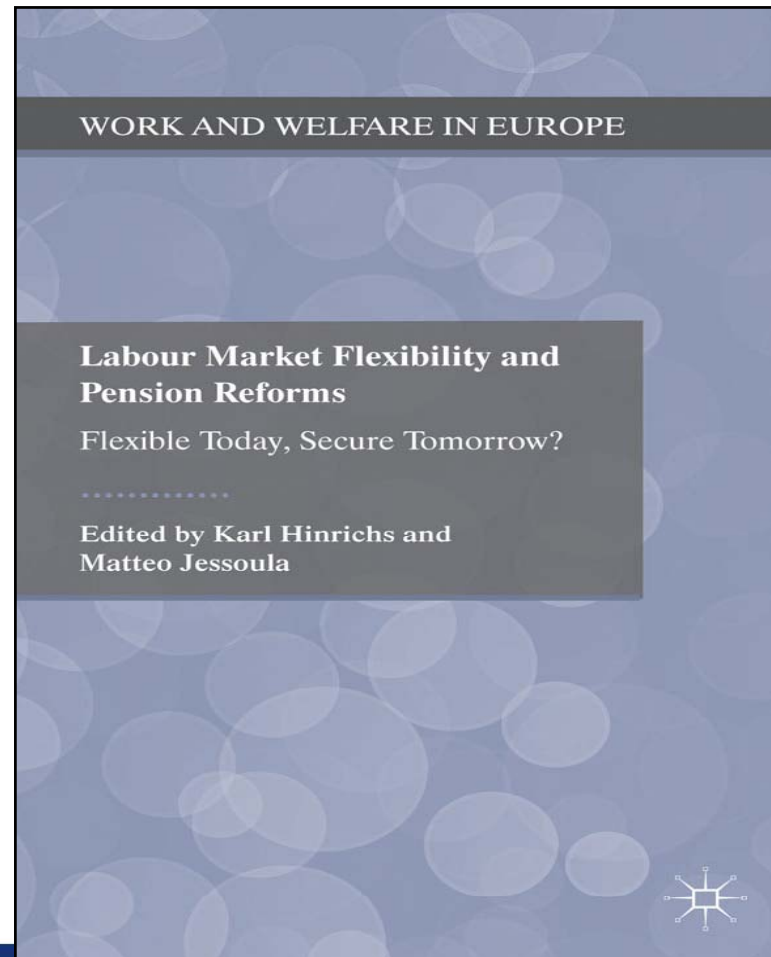
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**The Interplay of Labour Market Flexibility & Pension Reforms
Italy in Comparative Perspective**

K. Hinrichs & M. Jessoula

Labour Market Flexibility & Pension Reforms. Flexible Today, Secure Tomorrow?

Palgrave, 2012



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Structure of the presentation

- **The empirical background**
- **Focus of the book, research questions, case selection**
- **Italy in comparative perspective**
framing the analysis
main findings

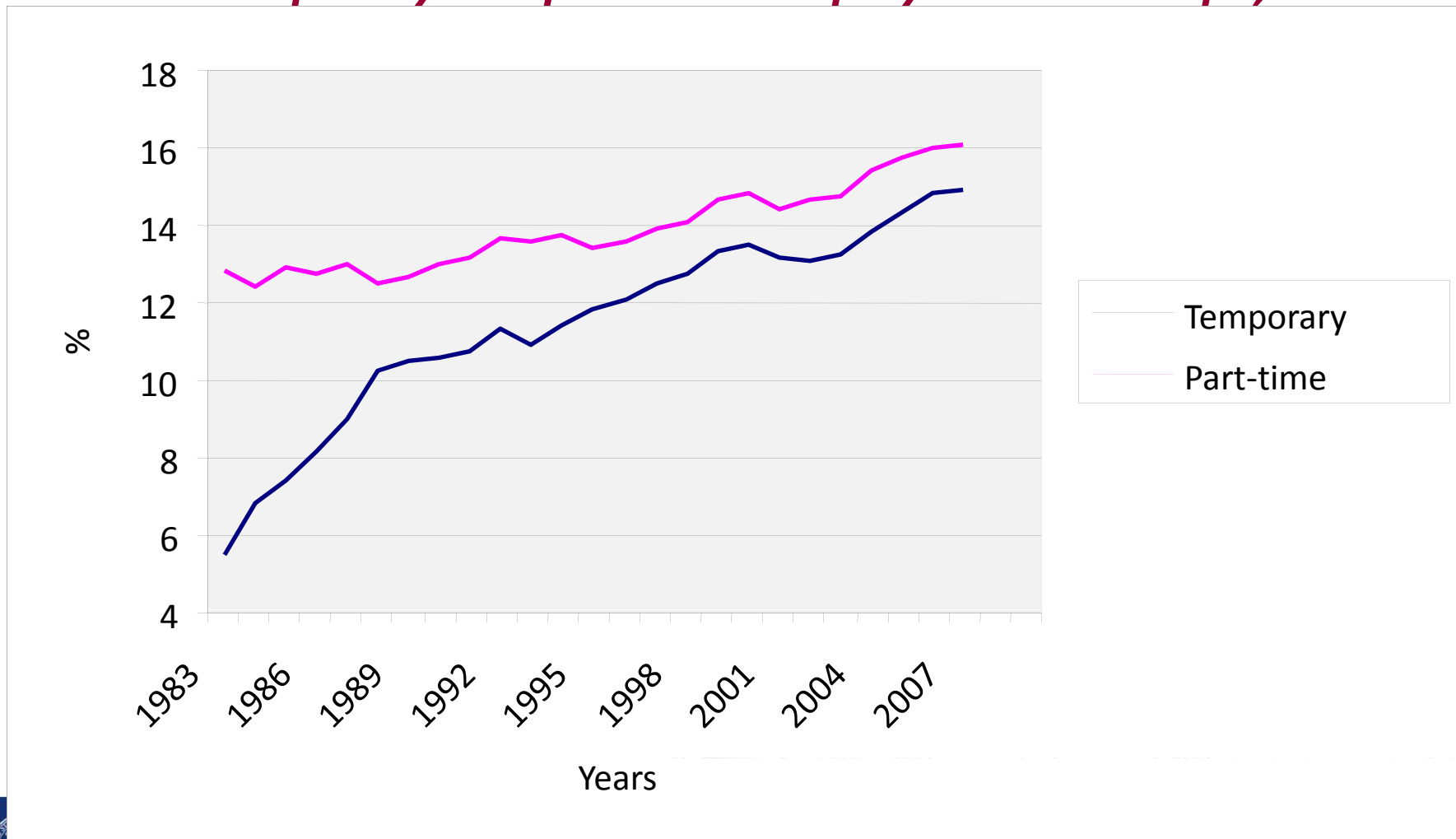
The Interplay of Labour Market Flexibility & Pension Reforms Italy in Comparative Perspective

After Flora's diagnosis (1986)

- In his analysis of the welfare state “growth to limits”, **Peter Flora (1986)** identified **three major challenges** to social protection systems:
 - a) **population ageing** and - need of a new intergenerational
 - b) changes in the **gender division of work** – new gender contract
 - c) a **shift in values** calling for a new relationship btw the State/citizens/market
- All this required “long and complex processes of **institutional adaptation**” to preserve the capacity of welfare states to ensure **socio-economic security** as well as **equality**
 **in order to prevent system and social disintegration**
- Within this framework, **labour market flexibility** was perceived as a potentially effective adaptive response to changed circumstances

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Labour market flexibility, temporary and part-time employment in Europe, 1983-2008



- **Parametric reforms**

for cost containment and harmonization

- pensionable age
- reduced benefits
- strengthened contributions-benefits link
- more explicit redistribution

- **Structural reforms**

- development of supplementary funded pillars - spread of DC schemes

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Focus of the book & research questions

- The volume analyzes the **flexibility-security nexus** by focusing on the **post-retirement phase**
- Does the **interplay** between **pension reforms** and the spread of “**atypical**” **employment patterns** negatively influences **economic security in old age**?
- **Do reforms of public and private pension schemes compensate or aggravate** the risks of increasingly flexible labor markets and atypical employment careers after retirement?
- **The same analytical framework** is employed to analyze developments in **7 European countries** with diverse pension systems, as well as different labor market arrangements and various degree of flexibility.

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Case selection

**Traditional single-pillar
countries**

**New multipillar
countries**

**Traditional multipillar
countries**

Germany

Poland

Netherlands

Italy

Switzerland

UK



What do we mean by ATYPICAL?

- **JOBS**

- non full-time permanent contracts**

- fixed term, part-time,
economically dependent workers (project workers)
(self-employed)

- **EMPLOYMENT**

- interrupted – fragmented careers**

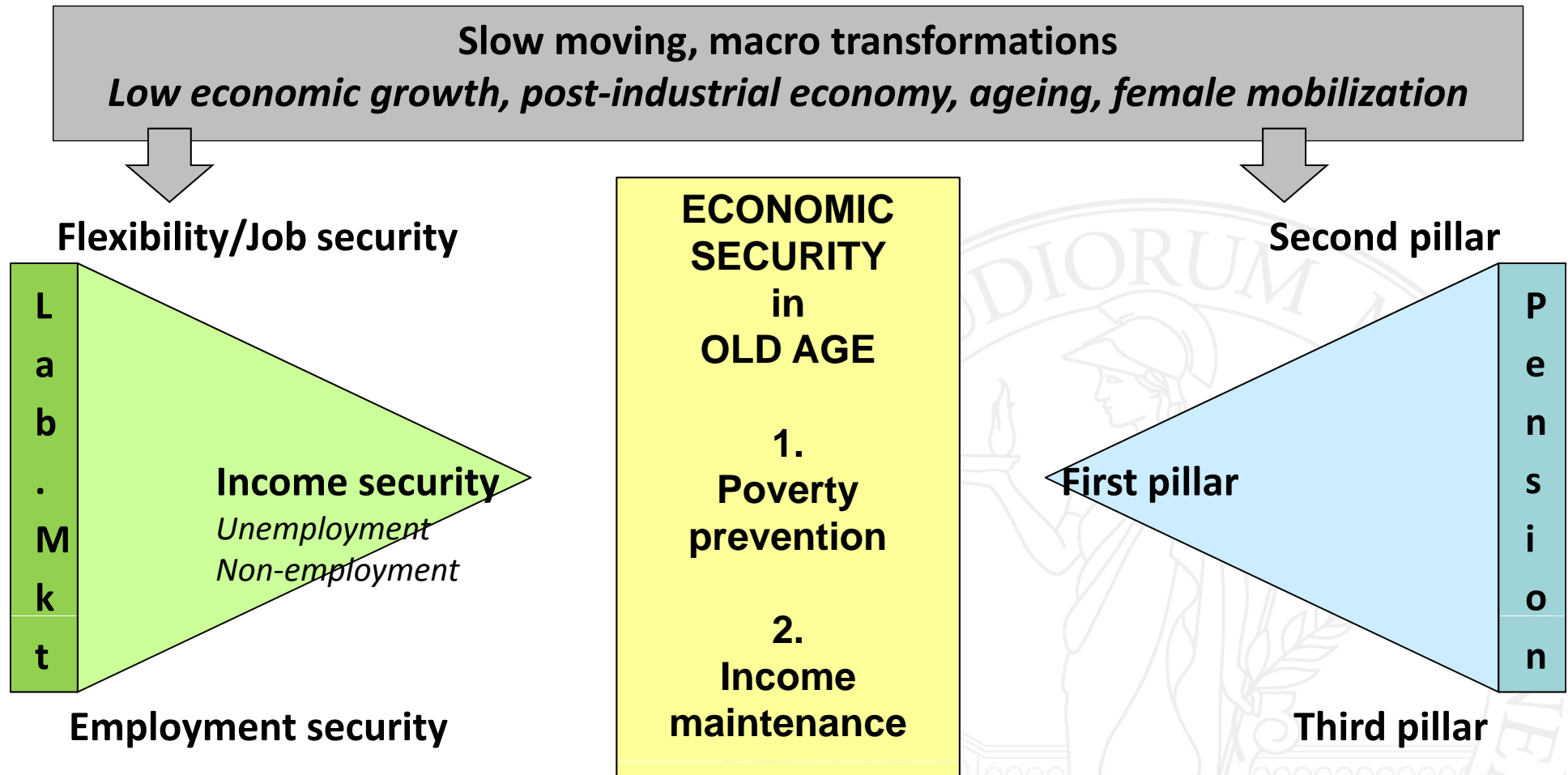
- with several spells of unemployment and/or non-employment (e.g. for child/elderly care)

Pension reforms & atypical employment

A critical encounter (?)

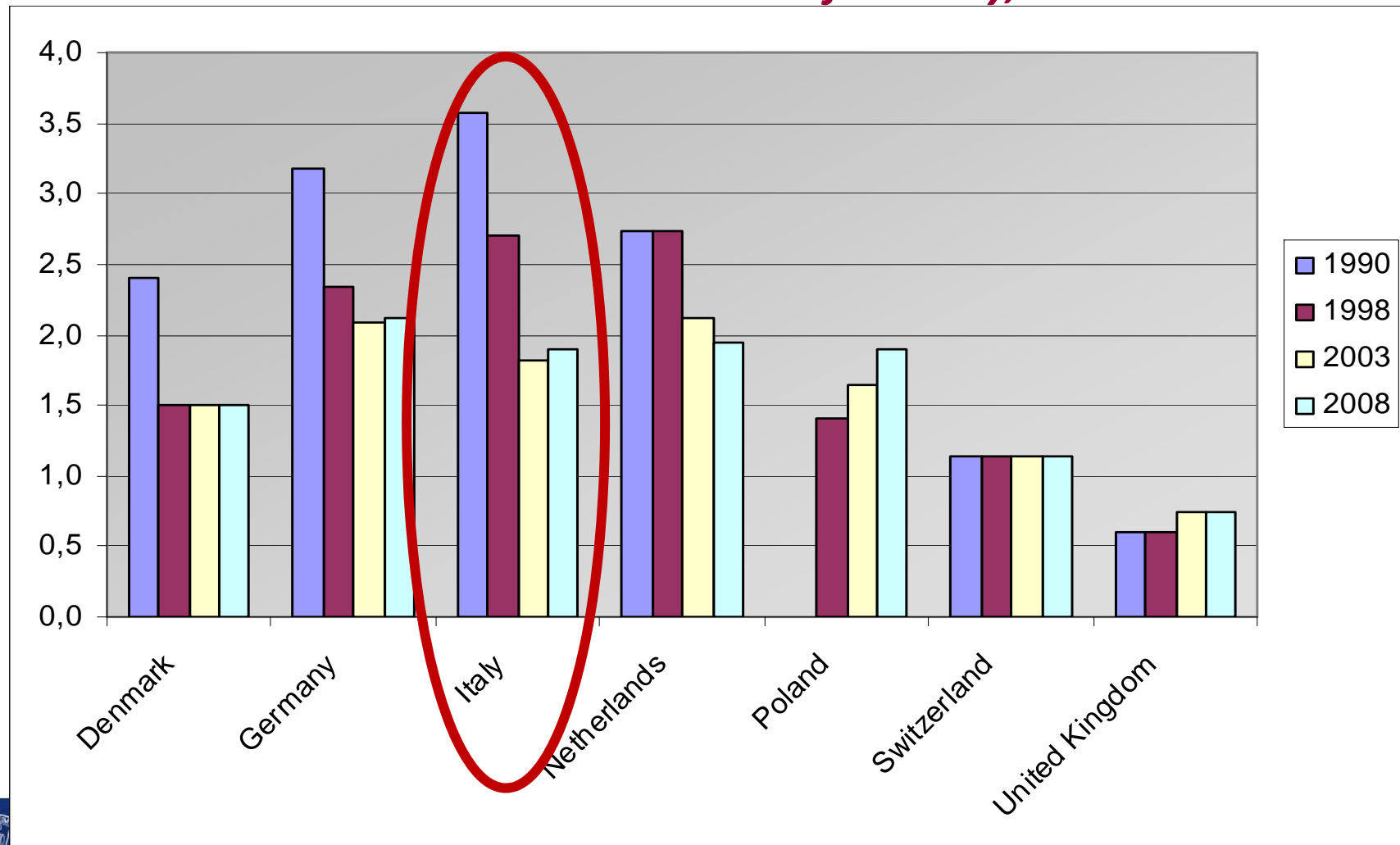
- **Coverage (gaps)** **First pillar**
 Supplementary pillars
- **Contributions rates.... & benefits level**
- **Equivalence principle & actuarial neutrality**
- **Coverage of spells of unemployment and non-employment**

Framing the analysis



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The policy trajectories in Italy
Labour market flexibility, EPL Overall 1990-2008



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Incidence of fixed-term employment (% of dependent employment), 1983-2009

Time	1987	1995	2003	2007	2009
Denmark	11.1	12.1	9.6	9.1	8.9
Germany	11.6	10.4	12.2	14.2	14.5
Italy	5.4	7.2	9.5	13.4	12.5
Netherlands	9.4	10.9	14.5	18.0	18.3
Poland			19.4	28.2	26.5
Switzerland			12.1	12.9	13.2
UK	6.3	7.0	5.9	5.8	5.7
EU15	9.0	11.4	13.1	14.8	13.7

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Incidence of part-time employment (% of total employment), 1983-2009

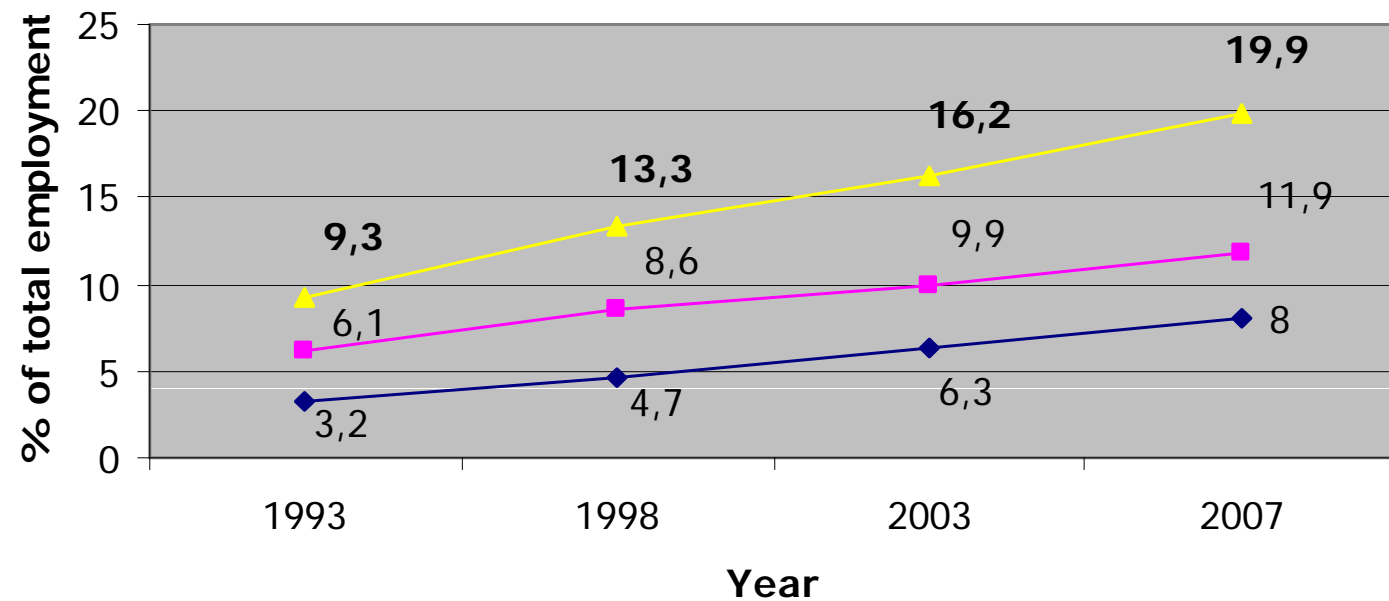
	1987	1995	2003	2007	2009
Denmark	19.9	16.9	15.7	17.7	18.9
Germany	11.0	14.2	19.6	22.2	21.9
Italy	8.5	10.5	12.0	15.1	15.8
Netherlands	26.4	29.4	34.6	36.1	36.7
Poland			11.5	10.1	8.7
Switzerland		22.9	25.1	25.4	26.2
UK	20.8	22.3	23.7	23.3	23.9
EU15	13.0	14.8	16.6	18.1	18.6

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The policy trajectories in Italy:
Selective flexibility

LABOUR MARKET

- **FLEXIBILIZATION “at the margin”**
- targeted to new entrants in the labor market



**Policy trajectories:
*Selective flexibility***

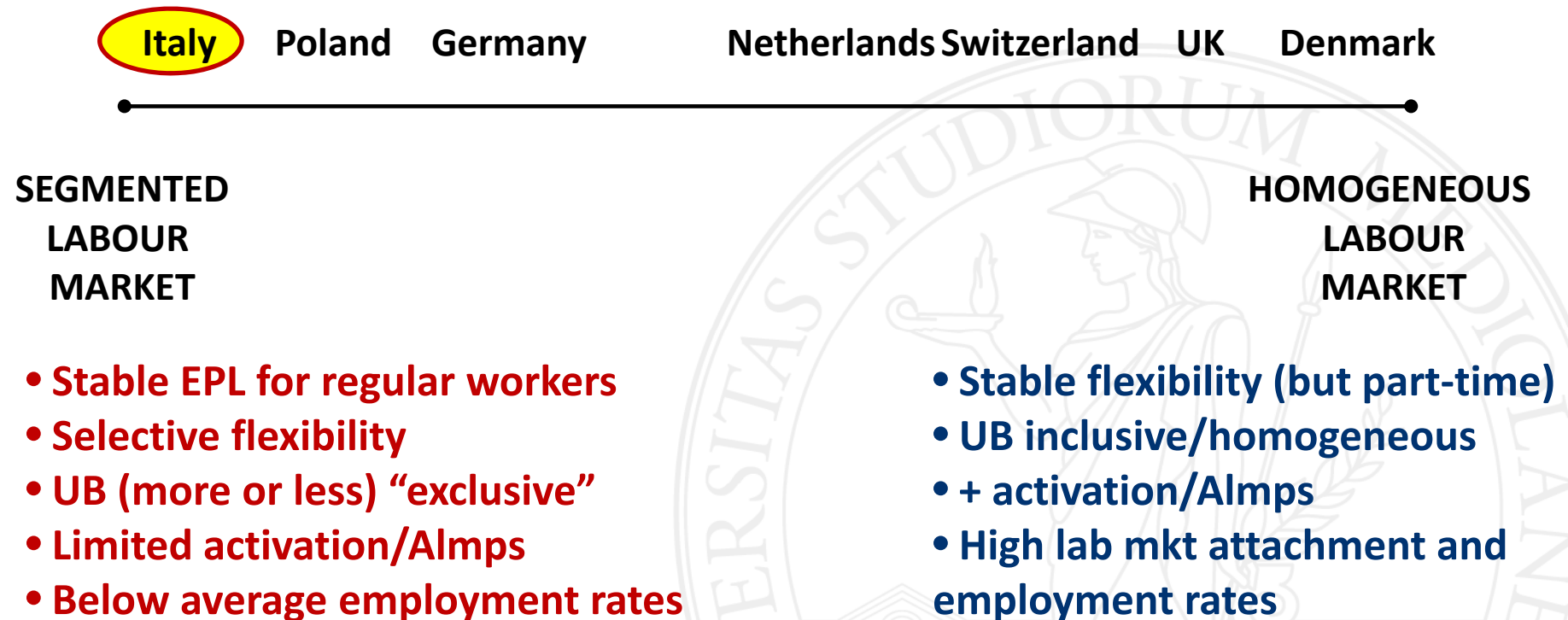
LABOUR MARKET

- **FLEXIBILIZATION “at the margin”**
 - targeted to new entrants in the labor market
- **WITHOUT (SOCIAL) SECURITY**
 - Exclusive UB system
 - Weak ALMPs
 - (Low employment rates)



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A segmented labor market and employment policy model



Policy trajectories: *selective flexibility & defined contribution pensions*

LABOUR MARKET

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- **WITHOUT (SOCIAL) SECURITY**
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 - (Low employment rates)

PENSIONS

- **1st PILLAR: shift to NDC**
 - for the new entrants in the labor market (after 1995)
- **VOLUNTARY MULTI-PILLARIZATION**
 - DC schemes only
 - Possibility to convert pre-existent severance pay-TFR (to expand coverage)

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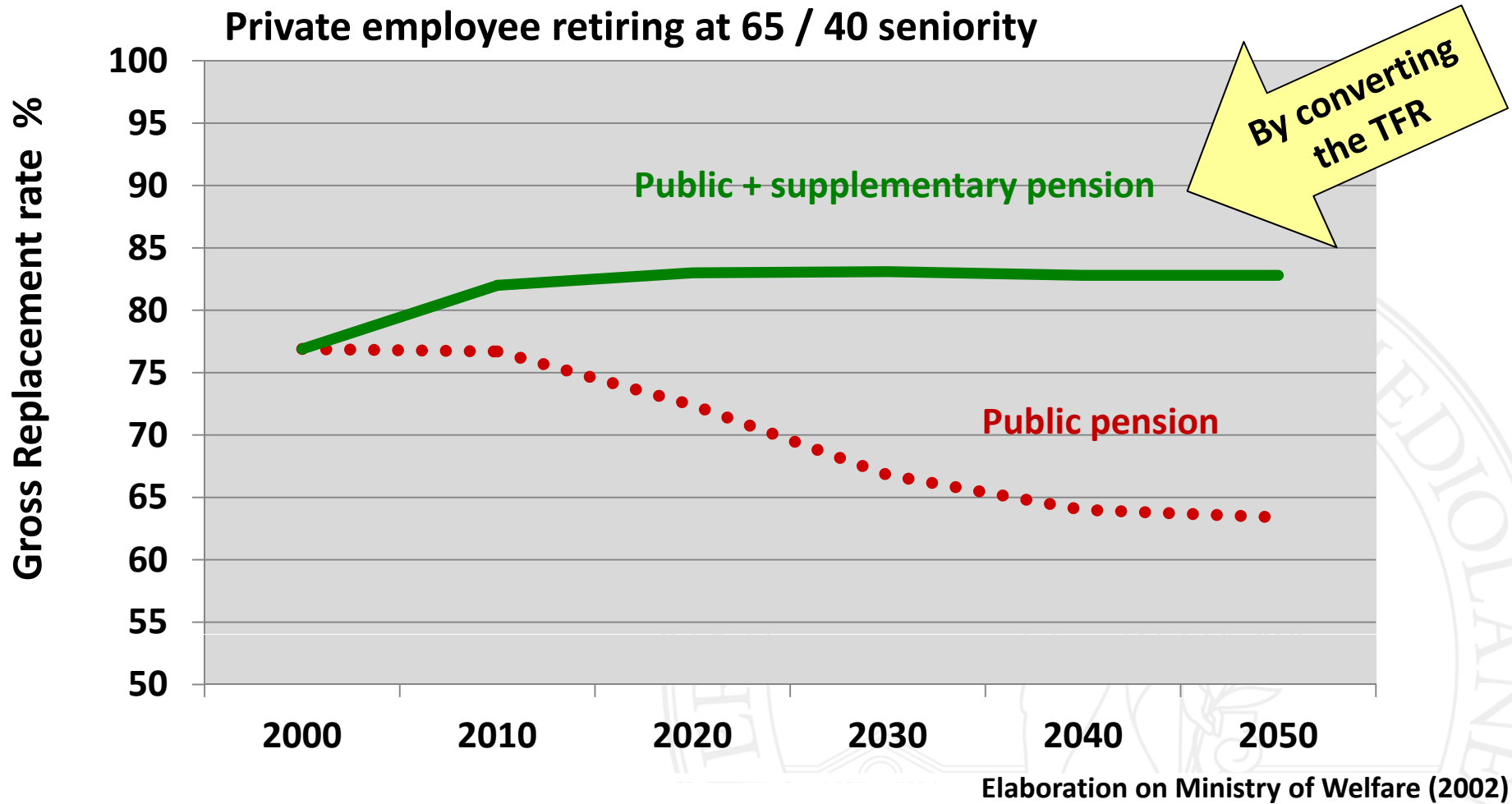
Incisive pension reforms in Italy *Public pensions projected replacement rates %*

	2007	2060	Percentage point change
Denmark	39	38	-1
Germany	51	42	-9
Italy	68	47	-21
Netherlands	44	41	-3
Poland	56	26	-30
UK	35	37	+2

Source: European Commission 2009

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Multipillar NDC +DC pensions and income maintenance



(Pre)conditions for economic security in old age

- **Coverage:** both 1st and supplementary pillars
- **Contributions:** full contributions (33% g.w.) in the 1st pillar
full contribution (9.3% including the transfer of the
severance pay-TFR)
- **Long, uninterrupted careers**
Exit age : 65 years // *seniority: 40 years*
BUT
Exit age: 60.8 in 2009 // *seniority: 32.1 in 2004*
- **(Medium-High income from work)**

The risky Italian combination *Selective flexibility & defined contribution pensions*

- **Coverage gaps**
 - First pillar - NO, FULL COVERAGE
 - Supplementary pillars - LIMITED COVERAGE 30%
 - ATYPICAL GENERALLY NOT COVERED
- **Contribution rates and benefits level:** - REGULATORY DIFFERENCES 1ST PILLAR
some atypical workers disadvantaged:
“Pay less, get less”
- **Actuarial neutrality:** - STRONG, DC + NDC
- **Labour market performance** - MODEST,
intermittent attachment of ATYPICAL w.
ATYPICAL jobs NOT “stepping stones”
- **Coverage of spells unemployment and non-employment** - LIMITED, atypical w. mostly excluded

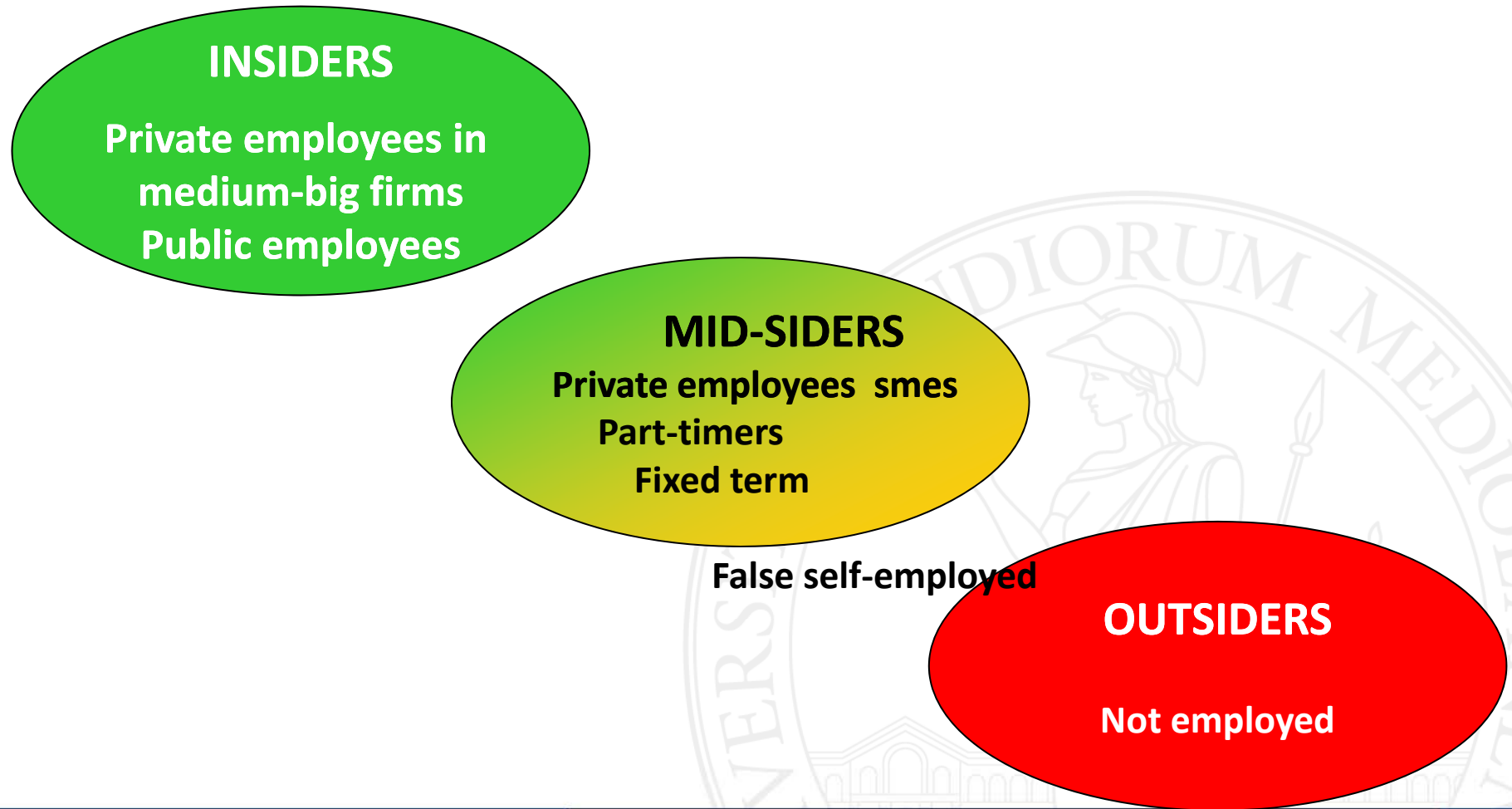
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	1° pillar public pensions	2° / 3° pillar supplementary pensions	TFR
Private employees big firms/unionized sectors	Medium-high (r.r. 50%-55%)	Yes	No
Public employees	Medium- high (r.r.50%-55%)	Generally Not	Yes
Private employees in small firms/ non unionized sectors	Medium-high (r.r. 50%-55%)	Generally Not	Yes
Fixed term workers	Low	Generally not	Yes, but...
Project workers	Very low (r.r. below 30%)	No	No

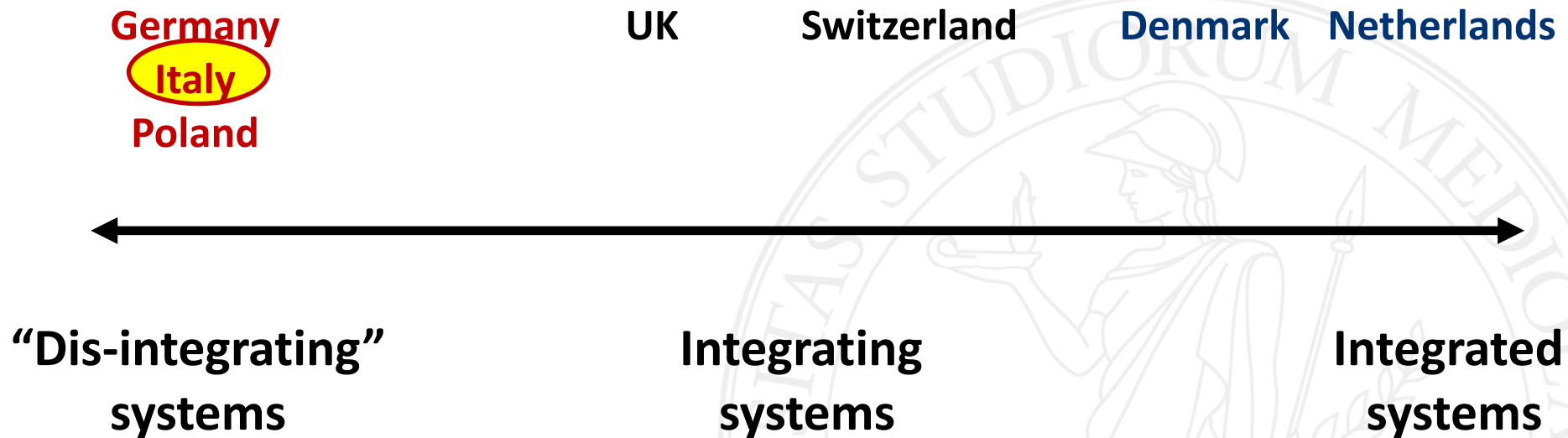


Pension prospects , expected outcomes



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**Institutional (mal)adjustment
Integrated versus dis-integrating systems**



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**Basic (resource-tested and minimum) retirement benefits
as % of average earnings**

Denmark	36
Germany	19
Italy	22
Netherlands	31
Poland	24
Switzerland	24
United Kingdom	28

The importance
of
preventing
old age poverty?

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*Pensions and unemployment:
critical challenge, major issue of concern, but...*

Major issues of concern for Europeans (*Eurobarometer*)*

	Germany	Poland	Italy	UK	Denmark	Netherlands
Pensions	43%	39%	29%	25%	10%	10%
Unempl.	47%	53%	34%	13%	3%	5%

* Multiple responses allowed, total is not 100%

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The Dutch way to integration *flexicurity also in old age*

- Coverage gaps
 - First pillar
 - Supplementary pillars
 - Contributions rates and benefits level
 - Equivalence principle/actuarial neutrality
 - Coverage of spells of unemployment and non-employment
 - Labour market performance
- NO, UNIVERSALISTIC
 - HIGH COVERAGE 90%
 - REGULATORY CHANGES TO INCLUDE ATYPICAL WORKERS (PT/FT)
 - SOME VARIATION IN 2ND PILLAR
 - LOW, GENEROUS FLAT RATE 1ST PILLAR DB SUPPLEMENTARY SCHEMES
 -
 - STRONG