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"The *Quota 100* mechanism three years after its launch"

Summary

Just a few months after the end of the trial of the *Quota 100* early retirement mechanism, INPS and the PBO have published a working paper entitled "The *Quota 100* mechanism three years after its launch". It analyses the use of this early retirement option on the basis of contribution data for INPS pension funds and information obtained from monitoring pension applications. The paper is the result of an initial collaboration between INPS and the PBO, benefitting from the sharing of data and analysis between the two institutions.

Like other "flexible retirement" measures (*Opzione Donna*, *APE sociale*, *APE di mercato*, early retirement for early career starters belonging to specific categories), the *Quota 100* programme was introduced with the aim of restoring – albeit for a limited period of time and for specific cohorts of individuals only – a degree of flexibility in retirement choices after the 2011 reform (the so-called "Fornero Act") introduced in response to the difficulties generated by the 2008 financial crisis and the need to ensure the medium/long-term sustainability of the public finances.

The INPS and PBO analysis seeks to ascertain which categories of worker have made greater recourse to the *Quota 100* mechanism, what the effective take-up rate among potential beneficiaries has been, the extent to which retirement was brought forward compared with the requirements under the Fornero Act and how the costs of this additional retirement channel compare with expectations. An econometric analysis was used to highlight which subjective characteristics increased the probability of opting for the *Quota 100* programme. This information could be helpful in developing any future proposals to modify retirement flexibility and in evaluating their financial impact.

The study was an opportunity to systematise and leverage the data produced by INPS's monitoring of retirement flows and make this information available to all, starting with political decision-makers in view of the upcoming items on the pension agenda. The data presented in the joint document will be updated annually to account for new participants in the programme until the pool of potential beneficiaries is depleted. The updates will be more concise and, as the data becomes available, will also include use of the *Quota 102* option.

The following offers a summary of the main findings.

As at 31 December 2021, the total number of applications accepted in the 2019-2021 period came to under 380,000, well below the expectations set out in the Technical Report (TR) accompanying Decree Law 4/2019. The main participants in the *Quota 100* programme were males. Almost 81 per cent of pensioners under the *Quota 100*

mechanism retired directly from their jobs, while under 9 per cent were inactive but not retired (applicants who, despite having paid contributions in the past, were not working or receiving other benefits), just over 8 per cent were receiving income support benefits, and about 2 per cent were continuing to make voluntary contributions to fill gaps in their contribution history. Almost half of pensioners came from private employment, just over 30 per cent from public employment and about 20 per cent from self-employment.

While pensions paid out under the *Quota 100* system were more concentrated in absolute value in the North, less so in the South and even less in the Centre, as a percentage of the employment base or of the average outlays for early retirement (those most similar to *Quota 100*) the highest proportion came in the South and the lowest in the North, with the Centre falling in the middle. Retirements from the private sector amounted to 0.4 per cent of the associated employment base (with a peak of 1.2 per cent in the "Transportation and storage" sector), compared with 1.3 per cent in the public sector (with a peak of 2.9 per cent for "Central government functions").

Workers tended to retire at the earliest possible date, with at least one of the age or contribution requirements at the minimum level. The ratio between actual early departure and the maximum early exit permissible (enrolling in the *Quota 100* programme as soon as possible) averaged just over 90 per cent for most of those having recourse to the *Quota 100* mechanism. On average, retirement was moved forward by 2.3 years from the earliest date possible under ordinary requirements. This had a significant impact on benefits: on average, they were reduced by 4.5 per cent for each year retirement was moved forward for self-employed workers, 3.8 per cent for private-sector payroll employees and 5.2 per cent for public employees. The average age at the start of retirement was just over 63 years, while average contribution history was 39.6 years.

Using the annual databases of contributors to INPS pension funds together with information from the monitoring of the *Quota 100* programme, it was possible to estimate the take-up rate for persons becoming eligible in 2019 and 2020, which turned out to be lower than that conservatively assumed in the Technical Report accompanying the decree that introduced this pension option.

Retirement under the *Quota 100* mechanism generally took place close to the date beneficiaries met the requirements: for those becoming eligible in 2019, the overall take-up rate at the end of 2021 was 49 per cent, of whom 39 per cent in 2019, 14 per cent in 2020 and 4 per cent in 2021 (by construction, changing the denominator as appropriate; the sum of the individual segments does not give the overall take-up rate). For those meeting the requirements in 2020, the overall take-up rate at the end of 2021 was 47 per cent, of whom 41 per cent in 2020 and 10 per cent in 2021. The overall take-up rates will increase, especially for 2020, until the entire pool of potential retirees has met the requirements for ordinary retirement programmes (approximately five years after qualifying for the *Quota 100* programme). A breakdown by employment status shows that the unemployed, the inactive but not retired and above all those making voluntary contributions record take-up rates that are considerably higher than those of the active population.

The distribution by income level of those who opted for the *Quota 100* mechanism shows that take-up rates increase significantly in the transition from the first to the second income quintile and then remain broadly stable up to the fourth quintile before decreasing for the last quintile, returning to levels comparable with the first quintile. Finally, at the geographical level, take-up rates appear to be fairly uniform among regions.

Bearing in mind these findings, actual expenditure – definitive up to 2021 and projected from 2022 to 2025 – can be estimated at around €23 billion. This is about €10 billion less than the €33.5 billion originally appropriated with Decree Law 4/2019 and over €5 billion less if we take account of the defunding decided only a few months later in the Update to the 2019 EFD and the 2020 Budget Act.

Two remarks concerning these estimates are in order, however. First, from the outset the official assessments reflected an advisable element of prudence given the difficulty of formulating hypotheses concerning take-up rates in the absence of solid data from previous programmes with similar characteristics to the *Quota 100* mechanism. Second, the reduction in expenditure registered at the end of the period could be smaller than the estimates presented in this paper, given that in the coming years take-up rates could be higher than those recorded between 2019 and 2021. In particular, looking forward, not only will those who became eligible in 2019 and 2020 and have not yet applied be still eligible for the *Quota 100* option but, above all, so will all those who became eligible for the first time in 2021, for whom a higher take-up rate than the rates used to produce the estimates cannot be ruled out a priori.

Finally, the integrated information base was used to conduct an econometric exercise to assess the relevance of selected socio-economic variables in the decision to opt for the *Quota 100* programme.

The exercise found that the probability of opting for *Quota 100* is higher the greater the maximum potential early exit compared with ordinary requirements. This could reflect the value of the option of choosing the most appropriate time to retire under *Quota 100* system over a relatively longer period of time. This finding coexists with the fact that, for a given acceleration of retirement compared with ordinary requirements and the same final income, the probability of opting for *Quota 100* increases as contribution histories lengthen, a circumstance that can be explained by the fact that those who have had a shorter working life benefit less from retiring early because they would receive a relatively smaller pension.

The analysis confirms that those making voluntary contributions, the unemployed and the inactive but not retired are more likely to retire under the *Quota 100* mechanism than the active population. Furthermore, with regard to the pension fund in which they are enrolled, private-sector employees display the highest probability, followed by public employees and, finally, the self-employed.

All other characteristics being equal, women have a slightly lower probability of opting for the mechanism than men, although the differences by pension fund category are large. Only male private-sector payroll employees (the largest category) retire earlier than women, while in the other categories the probabilities of retirement are similar, with women being slightly more likely to retire.

With regard to income, the probability of opting for the *Quota 100* programme generally increases in the transition from the first to the second income decile and from the second to the third. Subsequently, the probability of retirement remains substantially unchanged, before decreasing in the shift from the eighth to the ninth decile and in that from the ninth to the tenth, where it falls below the level for the first decile. This pattern is plausibly attributable to the fact that, for the lowest incomes, the main driver in the decision is the size of the pension, while higher income earners consider the intrinsic gratification of their jobs. As income increases through the lower deciles, the probability of qualifying for a pension of an amount enabling workers to leave their job increases. In upper few deciles, the increase in income is probably associated with more rewarding duties that motivate employees to continue working even if they would be eligible for a large pension.

In conclusion, although the number of participants in the *Quota 100* programme was smaller than the initial official forecasts, this retirement option was still used by a large number of workers. At the end of 2025 (when the pool of potential participants will be virtually depleted), they could possibly number more than 450,000. The initial official estimates were based on a prudent assessment of participation, as the calculation involved assessing the exercise of rights for which at the time of the assessment there were no consolidated data on the propensity to retire early. This information is now available (the *Quota 100* programme can be seen as a natural experiment) and, with due caution, could enable more accurate future estimates of the impact on the public finances of any new flexible retirement mechanisms with characteristics similar to *Quota 100*. While still maintaining an adequate degree of prudence, this would make it possible to avoid excessive appropriations, which deprive other programmes of resources. Given the current state of the public accounts, financial resources are limited. It is therefore necessary to pay close attention to how they are allocated through planning that, on the one hand, meets the real needs of benefit recipients and, on the other, ensures intergenerational equity and the medium/long-term sustainability of the public finances.

There are several hypotheses at the center of the debate on pension flexibility and on which trade unions and the government are discussing. The intention would be to allow early retirement compared with ordinary pension programmes after introducing changes to the pension calculation system: flexibility would thus have an individual cost as well. These proposals are not directly comparable with the *Quota 100* system since, unlike the latter, they envisage specific reductions in the size of pensions based on the length of the period with which workers retire early compared with retirement under the "Fornero" requirements, beyond those merely deriving from the calculation rules. However, the *Quota 100* take-up rates estimated on the basis of monitoring data could serve as a useful upper limit for assessing the short and medium/long-term financial impact of any changes that increase the flexibility of retirement.