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Ageing and the Public Service:
Human Resource Challenges

PART II

Chapter 11

Ageing and the Public Service in Italy

Executive Summary

Italy faces some of the most difficult demographic challenges of all OECD member countries, with disadvantageous aging trends across the full range of indicators: increasing proportion of older workers, increasing number of pensioners, declining birth rates. Furthermore, the ageing process presents short-term challenges for Italy, which will then continue until 2050. However, political recognition of this looming demographic crisis has come only recently. As a consequence, the Italian public sector ageing strategy remains minimalist, particularly relative to the magnitude of the problem.

The ageing strategy is not being conducted as a government-wide, coordinated action plan, but rather on a department-by-department basis. The ageing policy is focused on two main measures: pension reform and strategic adaptation of management tools, both of which are part of a holistic reform strategy for modernising public administration. In this context, it appears that ageing policy, *per se*, has not been accorded a very high priority.

Italy's broader HR ageing strategy is structured along three main axes: *i)* pension reform, aimed at containing public expenditures through improved pension management; *ii)* reforms designed to delay retirement; and *iii)* policies designed to retain older workers. The overarching short-term objectives of this strategy are to postpone large-scale departures from the workforce, while containing increases in public expenditure.

Other reforms of human resource management are being carried out by Italy but do not seem to address demographic challenges directly. For example, current workforce reorganization policies, aimed at downsizing the public sector workforce, do not yet include plans to address the specific capacity maintenance issues and structural challenges related to aging. However, the reform of management strategy – to increase internal mobility, training, and flexibility in employment conditions, among other goals, in order to improve the efficiency of the public administration as a whole – will of course eventually serve the interests of the ageing country.

Finally, there do not seem to be linkages between the devolution of institutional capacities currently underway and the specific policy challenges posed by ageing and there is no evidence that public service delivery will be restructured in response to demographic changes. Nevertheless, studies are currently underway to analyse the effects of ageing with particular attention to the impact on the pension system and healthcare service provision.

1. Ageing: Facts, figures and forecasts

1.1. Ageing population and labour market[1]

1.1.1. Ageing population

In Italy, the ageing process is well underway. The Italian population is ageing very rapidly as a result of a low fertility rate (one of the lowest in the OECD) and rising life expectancy (one of the highest in the OECD). A comparison with data from the early

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Table 11.1. **Age structure of population (%)**

Years / Age	0-14	15-64	Over 65	*Of which* over 80
1.1.1980	22.6	64.4	13.1	2.1
1.1.1990	16.8	68.5	14.7	3.1
1.1.2000	14.3	67.6	18.1	3.9
1.1.2001	14.3	67.3	18.4	4.2
1.1.2002	14.2	67.1	18.7	4.4
1.1.2003	14.2	66.8	19.0	4.6
1.1.2004	14.2	66.6	19.2	4.8

Source: *Annuario statistico italiano 2005*, ISTAT (Italian National Statistical Institute).

1980s demonstrates that the younger cohorts have been considerably reduced – from 22.6% in 1980 to 14.2% in 2004, or a decrease of roughly 8% of the total population – to the point that Italy has one of the lowest proportions of young people in the world. Figures related to the over-80 population are even more striking, having more than doubled in two decades.

As shown in Table 11.2, the Italian population is projected to continue increasing slowly over the next five years (from 57.8 million in 2001 to 58.6 in 2011),[2] then remain unchanged between 2011 and 2021. The turning point will come in the 2020s, after which time long-run trends show a steady decrease in population until 2050. Over these three decades, the population is projected to shrink by more than 6 million, due to the declining birth rate.

Overall, Italy's population is projected to age more rapidly than any other OECD member country.

Table 11.2. **Total population forecasts**

Years	2001	2011	2021	2031	2041	2051
Population	57 844 017	58 585 873	58 032 313	56 941 494	55 041 514	51 890 448

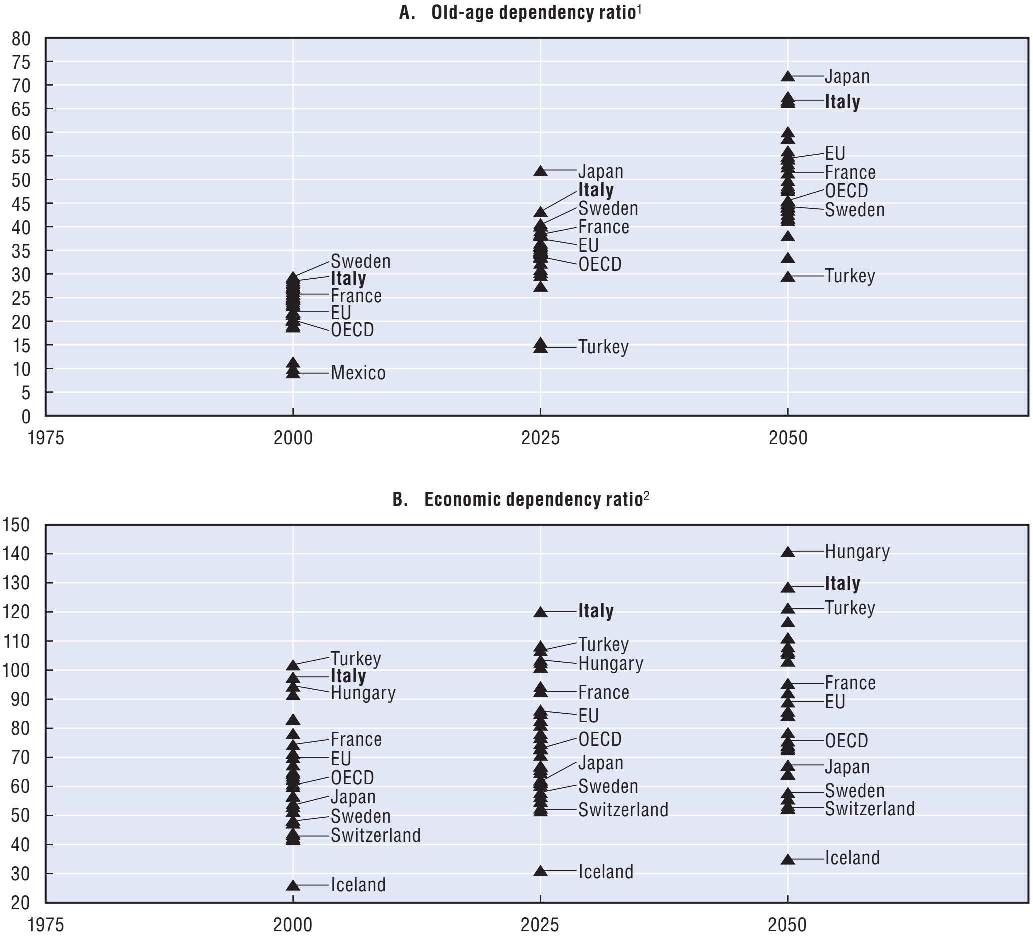
Source: Elaborazioni previsioni della popolazione 2001-2051, *www.demo.istat.it*, ISTAT (Italian National Statistical Institute).

Table 11.3. **Age structure of population (%) – 1990-2050**

Years / Age	0-14	15-64	65+	80+
1990	16.8	68.5	14.7	1.2
2005	14.2	66.4	19.5	2.0
2010	14.0	65.5	20.5	2.8
2020	13.2	63.7	23.2	3.9
2030	12.2	60.8	27.0	4.7
2040	12.4	55.6	32.0	5.8
2050	12.7	53.7	33.6	7.8

Source: "Previsioni demografiche nazionali 1.1.2005-1.1.2050", *Nota informativa*, ISTAT (Italian National Statistical Institute), 22 March 2006.

Figure 11.1. **Demographic and economic dependency ratios 2000-2050 (%)**



1. Ratio of population aged 65 and over to the population aged 20-64.
2. Ratio of persons not in the labour force to those in the labour force. The labour force projections assume that participation rates by age and gender remain constant at their 2000 levels.

Source: Ageing and Employment Policies/Vieillissement et politiques de l'emploi. Italy, OECD, 2005, drawn from National Population Projections; EUROSTAT Population projections (1999 Revision); UN, World Population Prospects 1950-2050 (2000 Revision); and OECD estimates based on labour force surveys.

At around 29% in 2000, Italy has the second highest old age dependency ratio among OECD countries after Sweden. Its old-age dependency ratio is projected to reach 43% in 2025 and 67% in 2050. This significant problem is magnified by a high economic dependency ratio: for Italy, if participation rates remain constant, the economic dependency ratio is projected to rise significantly over the next 50 years, remaining one of the highest among OECD member countries.

1.1.2. Ageing labour market[3]

Depending on assumptions about labour force participation, Italy's labour force will either decline sharply right away (beginning sometime within the next decade and decreasing from 23.6 million to 16.8 million by 2050) or begin contracting after 2015.[4] This decline will have serious consequences for economic growth that can only be offset by either a decline in the unemployment rate, a rise in productivity or faster growth in capital inputs. Promoting higher rates of labour force participation among older people will therefore play a key role in responding to the economic challenges raised by an ageing population.

The proportion of workers over 50 is currently 18% of the total workforce. Assuming participation rates by gender and five-year age groups do not change, 26% of the labour force will be aged 50 and over in 2030 and 23% in 2040 and 2050.

1.2. Ageing civil service

1.2.1. Current situation

The Italian public sector comprised 3 524 691 employees in 2004.[5] Data on the types of contracts reveal that a large majority of this workforce is employed under open-ended contracts (more than 3.3 million in 2004).

The average age of all public employees reached 45.6 in 2004.

1.2.2. Large-scale departure periods

Developments over the three year period, 2002-2004, highlight the magnitude of ageing trends in the public sector: the average age and length of service of public employees increased by about six months each year. At current rates of change, the average age would reach 50 in 2012, which would mean that the public sector was composed of a majority of older workers, expected to leave the workforce within a decade.

Therefore, large-scale retirement in the Italian public sector will likely occur mainly between 2010 and 2020. It is expected that at least 45% of the workforce will leave between 2010 and 2025. This situation is roughly comparable to that of France. Indeed, although other OECD member countries are facing similar challenges, Italy's situation is among the most acute, given that a significant part of its current workforce will exit the labour force in 10 year's time.

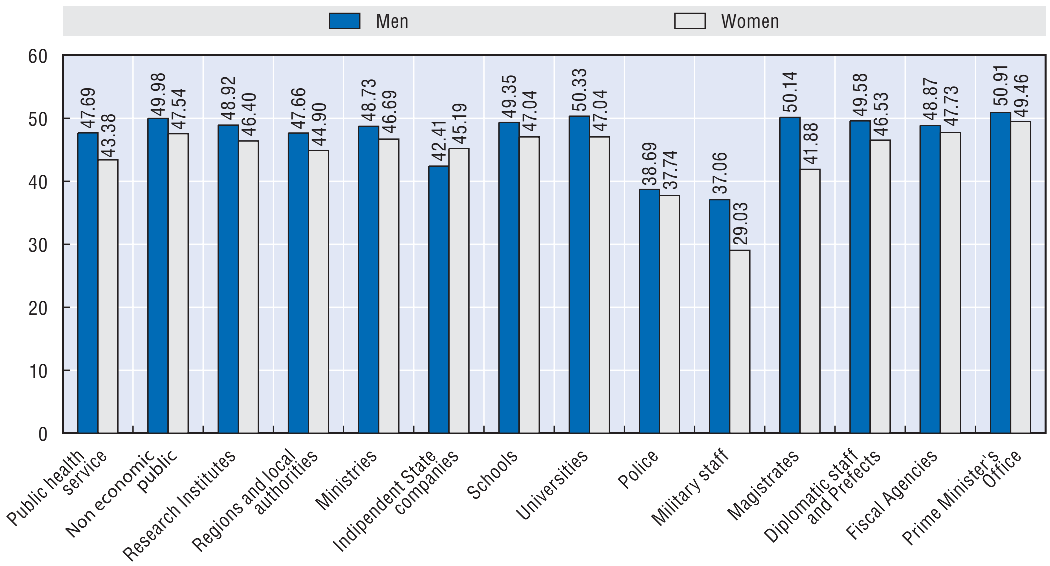
Italy also faces a far more challenging timetable, relative to other countries, for these demographic trends. Although no centralized forecasts concerning the public sector workforce have been provided, it is anticipated that large-scale departures will begin well before 2010.[6] There will be a peak sometime between 2010 and 2025, but the process will continue until 2050. Italy is one of the only OECD countries in which the public sector ageing process will be spread out over several decades.

1.2.3. Most affected sectors and functions

Education and healthcare

Figure 11.2 shows that the average age of education sector staff (including most teachers and professors) is high compared to other parts of the public sector and a bit lower for staff employed in the public health services (including a large portion of doctors and nurses in public hospitals).

Figure 11.2. **Average age of public personnel per specific areas of public sector – 2004**



Source: *Conto annuale* 2002-2003-2004, published by the Department of General Accounts of the Ministry of the Economy and Finance.

Leadership and management functions

Table 11.4. **Number and average age of public managers belonging to state administrations (ministries) per level in 2006**

	Number of managers	Average age
First level	323	58.07
Second level	3 476	56.12

Source: Department for Public Administration.

2. Adapting the civil service to ageing challenges

2.1. Design and leadership of ageing strategies

The design of ageing policies and initiatives has been mainly delegated to the various individual departments and agencies that are affected, even though in recent years the Department for Public Administration within the Prime Minister's Office has had a more pronounced coordination and study function. There are, therefore, no specific guidelines to follow and no specific targets established concerning public sector ageing strategies.

Thus, even in the absence of a robust global ageing strategy for the public sector, as such, some ministries have adopted ageing policies on a departmental and thematic basis. Specifically, the Ministry of Labour and Social Affairs, as well as the Ministry of Health, are particularly concerned with this problem, considering the impact of an ageing population on their core competencies, like pension schemes, social security programs, social policies, healthcare and assistance for the elderly.

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The Italian government acknowledges that the ageing trend not only has systemic implications for public sector management, but also constitutes a seismic shift in macro-economic and social terms. Indeed, there is increasing political awareness that these demographic changes inaugurate a new social reality, necessitating a total re-organisation of the system of public services, and thus an overall strategic ageing strategy. As underlined in the *White Paper on the Welfare State: Proposals for a Dynamic and Cohesive Society*, published by the Ministry of Labour and Social Affairs in February 2003, there has yet to be any strategic planning that might begin to address these problems, even over the medium term. This paper explicitly acknowledges that Italy's "*demographic decline has never been a real priority on the political agenda of past governments*".

So far, and apart from a few sectoral initiatives,[7] Italian human resources policies have focused primarily on public expenditure containment, without reform of workforce planning (renewal rates, forecasted and targeted recruitment, etc.).

2.2. Measures taken to face the challenges of ageing

2.2.1. Decreasing costs and increasing productivity, while maintaining capacity

Policy reforms in public servant management were mainly inspired by the need for containing public expenditures. In this respect, the essence of the ageing policy is concerned exclusively with pension reform.

Pension reform

Policies to contain the costs of future pension liabilities

• Public expenditure increases due to pension costs

The Department of General Accounts (*Ragioneria Generale dello Stato* – RGS) of the Ministry of Economy and Finance recently produced forecasts up to 2050. According to national baseline forecasts (see Tables 11.5 and 11.6), the total number of public pensions (public sector employee pensions plus some private sector employees) is projected to increase from around 18 million in 2005 to 21 million in 2050 while pension expenditures will grow from EUR 174 billion in 2005 to EUR 329 billion in 2050, or a staggering increase of 70%.[8]

The costs of public sector employee pensions (direct pensions, as well as survivor and child pensions, for public sector employees) are expected to double between 2005 and 2050.

• Pension reforms

Before 2004, the legal-institutional framework of the Italian public pension system was significantly reformed. In particular, three major reforms were adopted, in 1992 (Legislative Decree 503/92), 1995 (Law 335/95) and 1997 (Law 449/97), respectively. These reforms instituted a process of moving towards a new "contribution-based regime", in which benefits correlate closely to the amount of contributions paid throughout the retiree's entire working life.

In 1992 the legal pension retirement age was postponed. According to the Legislative Decree of 30 December 1992, No. 503, the retirement age for full pension benefits, both in the public and private sectors, is set at 60 for women and 65 for men (from the prior policy of 55 for women and 60 for men). This law focused exclusively on the minimum pension age, in order to increase the participation rate of older workers.

Table 11.5. **Pension expenditure (2000 prices – millions [euro])**

	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Total pension expenditure	**138 233**	**160 582**	**177 835**	**192 775**	**209 066**	**229 584**	**251 567**	**277 599**	**300 737**	**319 710**	**329 088**	**333 641**
Public pensions	136 280	158 305	174 844	189 530	205 121	224 626	245 279	269 540	290 864	308 609	317 934	321 947
Direct pensions	111 745	130 185	144 853	157 488	170 806	187 990	206 518	228 856	248 533	264 962	273 314	276 761
For private sector employees	70 295	79 886	88 487	94 171	100 613	110 192	123 155	141 420	159 600	175 181	182 558	184 768
For public sector employees	24 903	31 561	34 663	38 892	43 715	49 610	54 240	57 557	59 053	60 041	60 965	62 446
For self-employed	16 548	18 738	21 703	24 425	26 479	28 188	29 122	29 880	29 880	29 740	29 791	29 547
Survivors and child pensions	24 534	28 120	29 991	32 042	34 315	36 635	38 761	40 684	42 331	43 647	44 620	45 185
For private sector employees		18 353	18 738	19 672	20 895	22 211	23 486	24 816	26 199	27 585	28 892	29 980
For public sector employees		6 638	6 949	7 370	7 680	7 921	8 143	8 376	8 606	8 743	8 693	8 417
For self-employed		3 128	4 304	5 001	5 740	6 503	7 132	7 492	7 526	7 319	7 036	6 788
Old age means-tested transfers	1 953	2 277	2 991	3 246	3 945	4 959	6 288	8 058	9 873	11 101	11 153	11 694

Table 11.6. **Number of pensions (thousands)**

	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Number of pensions	**17 723**	**18 510**	**18 993**	**19 454**	**20 093**	**20 963**	**22 025**	**23 341**	**24 356**	**24 942**	**24 722**	**24 229**
Public pensions	17 005	17 801	18 204	18 616	19 136	19 847	20 700	21 741	22 501	22 974	22 857	22 379
Direct pensions	12 623	13 179	13 443	13 700	14 132	14 806	15 659	16 720	17 514	18 037	17 984	17 594
For private sector employees	8 016	7 844	7 713	7 699	7 956	8 480	9 259	10 289	11 186	11 796	11 823	11 523
For public sector employees	1 505	1 828	1 911	2 076	2 283	2 502	2 658	2 750	2 766	2 780	2 796	2 824
For self-employed	3 103	3 507	3 819	3 925	3 893	3 823	3 742	3 682	3 561	3 460	3 365	3 246
Survivors and child pensions	4 382	4 622	4 761	4 916	5 004	5 041	5 041	5 021	4 987	4 937	4 873	4 786
For private sector employees		3 031	3 050	3 097	3 105	3 081	3 051	3 043	3 062	3 096	3 123	3 121
For public sector employees		565	624	659	675	683	688	689	686	673	648	612
For self-employed		1 026	1 087	1 160	1 225	1 277	1 302	1 289	1 239	1 168	1 102	1 052
Old age means-tested transfers	718	709	789	838	957	1 115	1 325	1 600	1 855	1 967	1 865	1 850

Source: Mid-long Term Trends for the Pension and Healthcare Systems. Summary and Conclusions, Ministry of Economy and Finance, Department of General Accounts, General Inspectorate for Social Expenditure, December 2005.

The second reform was adopted with the Law of 27 December 1997, No. 449, which provided for retirement age ranges from 57 to 65 years, but a minimum contribution period of 35 years was introduced in order to claim full pension benefits at 57. Another provision of this law allows for any retiree to claim full pension benefits after a contribution period of 40 years, regardless of age. The purpose of this law was to delay departures from the labour market due to retirement and, thereby, to reduce related expenditures.

The third reform – passed by Parliament with the Law of 23 August 2004, No. 243 – introduced two changes in the public pension system, one with structural effects noticeable over the medium to long term – *i.e.* raising the requirements for pension entitlements – and the other with more short-term effects – incentives for postponing retirement. As for the former, the law stipulated that, beginning in 2008, retiring with full pension below the age of

65 for men and 60 for women would only be allowed after a minimum of 40 years of contribution. Furthermore, in all cases, minimum retirement ages with full pension benefits have been set: public employees cannot retire with full pension benefits prior to the age of 60, even if they have met the legal minimum contribution period requirements. The 2004 reform should delay large-scale departures by about two years, somewhere between 2008 and 2014,[9] and by four years, after 2014.[10] However, the large-scale departures will be delayed only over the short and medium term, resulting in even more dramatic and intensive retirement waves from 2015 to 2020, and continuing thereafter.

For workers in the earnings-based and mixed regimes, a further postponement of benefits is envisaged, with regard to the moment at which the requirements are met, by way of so-called "exit windows" (*finestre di uscita*). This regime is also applicable to workers under the contribution-based regime who retire below the age of 65, for men, and 60, for women. The law included an exemption for those who had satisfied, prior to 31 December 2007, the requirements laid down in previous legislation, who would then be entitled to a pension under the requirements previously in force (the so-called *certezza dei diritti*).

No specific measures have been adopted to reform early retirement schemes. However, measures to increase obligatory contributions, combined with obligatory minimum retirement ages, should in fact have a major impact on early retirements. Specific requirements have been set up to eliminate early retirement before the age of 60. As a result, after 2008, when the law fully enters into force, the current high level of early retirement in the public sector is expected to fall considerably.

The Law of 27 July 2004, No. 186 also states that public sector employees who have satisfied the conditions for a seniority pension may request to remain at work until the age of 70. In these cases, the administration has the discretion to accept or reject the request, on the basis of internal needs and the employee's specific professional qualifications, as well as efficiency considerations and scheduled personnel reductions. The administration can also decide to transfer the employee to a different post for their additional years of service.

This measure has recently been abolished by the decree-law of 4 July 2006, No. 223, as part of a process of containment and rationalisation of public expenditure. The decree has been in force since 4 July and it must be changed into law.

Workforce replacement and adaptation to structural changes

• Policies to downsize the public service

Current workforce planning policy focuses primarily on downsizing. From 2003 to 2004, the total number of public employees considered in the survey was reduced by 0.68%. This reduction is consistent with the goal of containing public expenditures, one of the Italian government's abiding goals in public management policy over the past few years.

Table 11.7. **Employees with open-ended contracts**

	2002	2003	2004
Regional/local administrations	605 538	598 771	597 199
Central administrations[1]	261 908	257 215	252 926

1. Central Administrations include: Prime Minister's Office, ministries, agencies.

Source: Conto annuale 2002-2003-2004, published by the Department of General Accounts of the Ministry of the Economy and Finance.

Table 11.8. **Recruitment and departure rates in the Italian public service (%)**

	2002	2003	2004
Recruitment %	2.19	1.05	2.01
Departure %	2.73	2.64	2.71

Source: Conto annuale 2002-2003-2004, published by the Department of General Accounts of the Ministry of the Economy and Finance.

The workforce downsizing strategy relies on three main policies: recruitment freezes, non-renewal of fixed-term contracts, and mechanical effects (*noria effect*). The first of these policies has been in place for several years, as shown in Table 11.8, both for the central and the local levels of government. In the offices of the central administration, from 1990 to 2001, the number of employees increased by only 0.5%, or 203 jobs. This is also a function of the Law of 23 December 1994, n. 724, which introduced a hiring freeze. After 2001 other recruitment containment measures have been fixed by the Financial Law, which provided for the maintenance of required personnel and instituted a hiring freeze to reduce personnel expenditure. In 2003, Italy saw the lowest recruitment rate of recent years, as a result of this measure. The increase in 2004 is primarily due to an increase in the health and regional/local administration sectors.

The second policy has not had a significant impact on the workforce, since the proportion of fixed-term contracts is low (115 860 out of 3 million).

The most significant factor seems to be the divergence between departure and recruitment rates. Although the Italian government has yet to specify official replacement rates, the figures in Table 11.9 clearly demonstrate that Italy has implemented a policy of low replacement rates in order to decrease its workforce. In only three years, recruitment rates have been cut by two-thirds, dropping well below departures rates.[11]

This policy seems to be primarily driven by the goal of containing public expenditures. However, the picture is mixed. The number of open-ended contracts has decreased by 0.82% from 2002 and 2004, but at the same time, the number of flexible working contracts within the administrations has increased. As a result, the number of both open-term and flexible working contracts within the administrations has been stable from 2002 and 2004 (a decrease of less than 0.1%). If we include the employees outside the administration, the decrease in the "total public workforce" is about 0.42%.

- Mobility and career progression

  According to the Italian government, the primary challenge posed by ageing is the availability of a highly qualified and mobile workforce. In particular, the Italian public sector is characterised by a bad geographical distribution of public employees: there are a considerable number of vacancies for public offices in the North, whereas there are a

Table 11.9. **Employees by type of contract**

Type of contract	2002	2003	2004
Open-ended contract	3 388 717	3 359 017	3 360 984
Flexible working contract	91 391	102 963	115 860
Employees from outside the administration	59 363	52 296	47 847
Total	3 539 471	3 514 176	3 524 691

Source: Conto annuale 2006, Italian Ministry of Economy and Finance.

higher number of workers in the South. This fact implies an organisational and managerial imbalance in the public administration and affects its general level of productivity. This means that internal mobility issues are of the highest priority in public sector management reforms. This correlates well with the priorities of holistic public administration reform. In both cases, mobility is seen as the most important management tool to be reformed over the coming years as part of an ageing strategy, so as to be able to respond to the specific capacity maintenance issues raised by ageing.

Career progression is an important issue, closely linked with the ageing process in the public sector. However, decisions concerning the career progression system are directly influenced by unions, who favour an approach to career progression based on age and seniority.

- Knowledge management and training

  As part of the overarching objective of increasing public sector efficiency, one of the main focuses of the current modernisation reform is on training and increasing the quality of personnel – both new recruits and current employees.

  In particular, in 2002, the Minister for Public Administration and CRUI, a university organization, signed an agreement to co-operate on training, so as to establish a closer relationship between universities and the public administration to promote public sector awareness. Furthermore, in 2005, the Department for Public Administration adopted a directive that provides training in public administration so that students can gain public sector working experience. However, these measures are not at all specifically linked to the ageing policy.

- Flexible employment conditions

  This is one of the most visible measures of Italian public sector holistic reform. According to the "*Conto annuale*" in recent years, the use of the different types of flexible work has increased in the public sector. Flexible work contracts can be fixed-term contracts, work/training contracts, temporary agency contracts, socially useful job contracts, or consultancy and "co-ordinated" freelance contracts.

  Flexible employment is a direct response to many of the problems confronting the Italian public administration: declining financial resources, contract rigidities, the need to update competencies in light of constitutional reform, the hiring freeze, public sector ageing, and the need to delay retirement. However, aging policy is not the primary impetus for this reform.

- Changes in the compensation system/salary incentives

  The Ministry of Finance has underscored the issue of public service salaries, together with pension liabilities and growing health expenditures, as one of the main challenges posed by the changing demographic structures. In particular, public employees over the age of 50 are especially concentrated in the higher levels of the public administration, with correspondingly high salaries and old age benefits.

  However, no specific compensation reform has been planned, either within the context of an ageing strategy or within the framework of broader HRM performance management. Over the coming years, demographic changes in the public sector profile may lead to a revision of current salary determinations, which are based on seniority/length of service.

2.2.2. Institutional changes: service delivery

Institutional division of responsibilities

Italy is aware of the cost issues and restructuring needs of the public healthcare service, and has launched some measures and initiatives to address them. The approach has mainly been focused on the integration of the social and healthcare service sectors (on the basis of the *White Paper on the Welfare State*), as well as on the need, related to Italian constitutional reform, to involve local administrations.

The measures related to constitutional reform,[12] which came into force after having been approved by the Parliament (Law n. 3 of 2001) and confirmed by referendum, introduced the subsidiarity principle and a new division of legislative powers between the central government and regional and local administrations, strengthening the role of the latter. In particular, in addition to their guaranteed powers, regions may now request special legislative autonomy with regard to specific policies (*e.g.* healthcare).

Resource reallocation between levels of government and sectors

The effects of the ageing trend have been highlighted by the Italian authorities, especially their impact on social structures and services, which must be strengthened and prepared to respond to new demands.

- Education sector

  Population forecasts provide valuable insight into the evolving demands and priorities for public services over the coming decades. According to recent age-related spending forecasts, public expenditures on education as a share of GDP are projected to decrease from 4.3% in 2002 to 3.5% in 2030 and to 3.7% in 2050.[13] However, they are projected to increase again – albeit only very slightly – between 2030 and 2050.

- Healthcare sector

  OECD data projections have generated several scenarios, including demographic effect measurement, health status of the elderly population and income elasticity: public health care expenditures are expected to rise from 6.0% of GDP in 2005 to a bracket of 6.5-9.7% in 2050 (the median scenario forecast is 7.9%). Projections including long-term care expenditures are the following: from 6.6% in 2005 to a bracket of 10.7-13.2% of GDP in 2050, above the OECD average.[14]

  Other forecasts, conducted at the EU level, have calculated the increases in public spending on healthcare due only to ageing. By this measure, there will be an increase from 5.8% of GDP in 2004 to 6.7% in 2030 and 7.2% in 2050.[15] The declining trend in education expenditure appears quite smooth compared to the sharp increase in projected healthcare expenditures.

  There is no indication of plans to reallocate resources across sectors and levels of government. However, the constitutional reform on decentralisation and regional autonomy mentioned above may have a decisive impact over the coming years, especially with the introduction of the financial autonomy principle. Regions and local authorities, partially responsible for the hospital sector, have been assigned new rules for state funding, in addition to the reshaping of local finance (*i.e.* the possibility of levying new regional taxes, etc.). Indeed, current government reform on devolution represents a significant step forward. Regions are now recognized as financially autonomous, which means that further resource reallocation across levels of government and/or sectors may

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be affected over the coming years – although there is no indication that the increasing healthcare demands due to ageing will be a top priority on the reform agenda.

Staff reallocation according to public service priorities

There is no consistent policy framework for reshaping public service delivery or reallocating staff across sectors and levels of government. Nevertheless, a workforce downsizing policy has been adopted, affecting all central administrations except for health.[16]

3. Impact of government strategy and reforms

3.1. Cost containment

3.1.1. Financial impact of pension reform

According to Finance Ministry forecasts, in December 2005,[17] the ratio of pension expenditure to GDP, after an initial phase of containment, will begin to increase, reaching a peak of 15.5% in 2038. This dynamic will be followed by a phase of rapid decline, bringing the ratio down to 14.1% in 2050.

This rapid decline in the ratio of pension expenditures to GDP, in the final phase of the forecast period, is due largely to the cost savings of the transition from a mixed to a contribution-based pension scheme.[18]

The analysis by sector shows a predominant role played by private sector dependent workers, most of whom are insured by the Private Employee Insurance Fund (*Fondo Pensione Lavoratori Dipendenti* – FPLD). Pension expenditures in this sector only show a slightly lower increase than total expenditures, in the first part of the forecast period, and a slightly greater increase in the second. The expenditures for public employees, on the other hand, show a greater increase than the total in the first period and lower in the second.

3.2. Capacity maintenance

As shown in Table 11.10, the 2004 pension reform, which significantly altered pension requirements, is projected by the Ministry of Finance to have a profound impact, over the coming decades, on the employment participation rate of older workers. This indicator is projected to increase from 64.1% in 2005 to 70.7% in 2050, for the age cohort 15-64, due mainly to two correlated factors: the delay of the effective retirement age, after a decade of pension reforms, and the restructuring of the composition of the labour market due to demographic changes.

The 2004 pension reform is expected to have a substantial impact on two main factors: *i)* the participation rate of older public sector workers will increase, since after 2008 the option of retiring before the age of 60 will be largely constrained; by 2014, the effective retirement age will have increased by three to five years, on average. In this respect, the

Table 11.10. **Public pension expenditures, as a % of GDP**

	1995	2000	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
Total pension expenditure/GDP	13.4	13.8	14.4	14.4	14.2	14.3	14.5	15.0	15.4	15.4	14.9	14.1
Average pension/(GDP per worker)	15.1	15.7	17.1	17.3	16.9	16.4	15.6	14.9	14.1	13.4	12.7	12.1
Number of pensions/workers	88.5	87.8	84.1	82.8	84.0	87.6	92.9	100.8	108.6	115.0	117.2	117.1

Source: Ministry of Economy and Finance, Department of General Accounts.

Italian reform appears as one of the most ambitious pension reforms of all the countries studied. *ii)* Pension costs will be significantly contained, through a lengthening of contribution periods.

However, despite the fact that these reforms may delay large-scale departures by at least three years, this will probably not be enough to address severe capacity maintenance issues caused by personnel attrition. The absence of any financial incentives for delaying retirement – either compensation increases after the retirement age or pension benefit increases for longer working periods, or both – as well as the lack of policies for improving employment conditions for older workers and a specific ageing policy for leadership functions, may undermine the effectiveness of these reforms.

The lack of emphasis on capacity maintenance may be augmented by the current policy of downsizing the public workforce, which has not been linked to any prognosis on capacity maintenance. The Financial Law of 30 December 2004, No. 311, affirms the commitment to containing expenditures for public personnel at all government levels, for the period 2005-2007. Currently, and for immediate future, the top priority for public administrations will be strictly concentrated on the containment and rationalisation of public expenditure.

In addition, new management reform may be implemented in the coming years, specifically to respond to ageing challenges. Indeed, the Italian government has emphasized that particular attention should be paid to public management. To contribute to a modernisation of human resources management and to support the reform and innovation of public administration, effective measures should be adopted to strengthen public management, mainly focusing on recruitment and training. First, public employee mobility across administrations should now be interpreted in a different way, in light of Financial Law, No. 311. In fact, it should be considered as an important instrument for personnel recruitment. Second, financial resources must be allocated for training initiatives, in order to support and supplement the reorganisation of public service personnel. Training should fill the existing gap in the public administration concerning specific competencies.

3.3. Taking advantage of ageing to reorganise public services and improve efficiency

As previously emphasized, workforce downsizing in the public sector impacts both the central and local governments, regardless of which level is responsible for health and long-term care delivery. A hiring freeze is in place for all government employees, including in the health and education sectors. Since demand will certainly increase over the coming decades, and since there is currently no plan to reallocate resources and staff across levels of government and sectors, the general workforce downsizing policy may lead to difficulties in delivering health and long-term care, over the medium and long term.

However, there is positive movement to put public service delivery at the top of the agenda. Although there is no formal linkage with the ageing strategy at this time, the improvement of public service delivery is one of the goals consistently mentioned by the government as being most important.

4. Conclusion

Addressing the consequences of ageing is not a top priority on the reform agenda. Except those regarding pension policies, recently adopted management reforms have not been specifically inspired by problems connected to ageing in the public sector. As a result, personnel attrition, especially in terms of maintaining public sector attractiveness, skill deficits, and some of the cost increases due to ageing have not been addressed in recent general management reforms. Accordingly, the public management reform process – which is primarily focused on initiatives related to digitalisation, decentralisation of functions, containment of public expenditure, and improvement of services – may potentially be undermined or compromised by the ageing process. In general, public administration and constitutional reforms are mainly oriented to introducing new competencies and professionalism in the public administration, rather than to addressing ageing-related issues.

However, in recent years, greater attention has been paid to ageing problems through the studies and analysis carried out by the Department of Public Administration. There have also been other positive developments in Italy, especially the implementation of a consistent policy to retain older workers. It will almost certainly be necessary to adopt a broader and more comprehensive approach in the future, in order to tackle all the problems that confront the public sector, in general, and the management of public workers, in particular. Specifically, the ageing strategy would need to be better defined in relation to holistic administration reform. These two policy arenas are, in fact, highly complementary, and should be better and more explicitly inter-articulated. Indeed, new measures do seem to be in the pipeline to develop targeted management reform in order to deal with ageing challenges, including the reform of internal mobility, as well as recruitment and training policies. However, thus far, reform strategies remain focused on the adaptation of management tools, with highest priority accorded to cost containment, and low priority to capacity maintenance in public service delivery.

Notes

1. This section is based on *Ageing and Employment Policies/Vieillissement et politiques de l'emploi. Italy,* OECD, 2005.
2. According to a variant scenario.
3. This part is based on *Ageing and Employment Policies/Vieillissement et politiques de l'emploi. Italy,* OECD, 2005.
4. For details on assumptions and scenarios, please refer to *op. cit.* p. 37.
5. "Conto annuale 2002-2003-2004", published by the Department of General Accounts of the Ministry of the Economy and Finance, *www.contoannuale.tesoro.it/sicoSito/presentazione_conti.jsp*. The data come from a survey of roughly 10 000 public administrations with 3.3 million employees and a total annual budget of more than EUR 144 billion.
6. The proportion of older workers is considerable. Moreover, the effective retirement age is low, due to early retirement schemes and other incentives to retire. The reforms adopted in order to restrict early departures will certainly not convince all public sector workers to remain in the workforce longer.
7. For example, in the white paper cited above, the Italian government has worked out a set of measures, instruments, projects and resources for the healthcare sector to prevent critical situations from developing and to ensure effective care and assistance to older people.
8. Calculated at constant prices, based on 2000 figures.
9. The current effective retirement age is 57 for women and 59 for men.
10. After 2014, the retirement age is expected to increase to 62 (or an increase of five years for women and three years for men, compared with current effective retirement ages).

11. Departure rates decreased in the years 2001-2003, mainly due to changes in the retirement age. This does not suggest, however, that large-scale departures will be constrained over the short and medium term.

12. The amendment of Title V, Part II of the Constitution, related to the regional and local organisation of the state.

13. "The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States on Pensions, Health Care, Long-term Care, Education and Unemployment Transfers (2004-2050)", *European Economy Special Report, No. 1*, DG Economic and Financial Affairs, European Commission, 2006.

14. OECD forecasts; "Projecting OECD Health and Long Term Care Expenditures: What are the Main Drivers?", *Economics Department Working Paper No. 477*, pp. 31 and 35. For healthcare spending, the scenarios mentioned here are the "demographic effect," "cost-containment" and "cost-pressure" scenarios. OECD average: from 5.7% in 2005 to 6.3-9.6% of GDP in 2050; median scenario: 7.7% of GDP in 2050. For long-term care spending, the scenarios referenced above are the cost-containment scenario and cost-pressure scenario, respectively. OECD average: from 6.7% of GDP in 2005 to 10.1-12.8% of GDP in 2050.

15. "The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States on Pensions, Health Care, Long-term Care, Education and Unemployment Transfers (2004-2050)", *European Economy Special Report, No. 1*, DG Economic and Financial Affairs, European Commission, 2006.

16. The Ministry of Universities and the Prime Minister's Office are also exempted.

17. "Mid-long Term Trends for the Pension and Health Care System. Summary and Conclusions." The forecasts of the Department of General Accounts updated to 2005, Ministry of Economy and Finance, December 2005, *www.rgs.mef.gov.it/ENGLISH-VE/Regulation/Social-exp/Forcast-ac/Summary-and-conclusions_EC.pdf.*

18. These forecasts, with their starting point values appropriately updated, were used for the preparation of the section relating to the long-term sustainability of public finances, in the 2004 Stability Programme for Italy.

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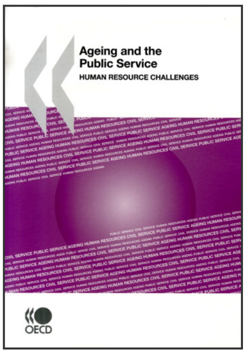

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