Social security

Social security, together with healthcare, is part of the wider system of social welfare which allows society's present and future needs to be met.

Social security draws on collective resources to provide support to individuals and households facing specific events or needs which cannot usually be faced with only the resources from their own working activity or other family or individual sources of income. Social security measures therefore perform a form of income redistribution across sectors, categories and geographical area.

Historically, statistics – both official and unofficial – have played a central role in this area. In 1800 the constant rise in accidents and diseases at work, linked to the process of industrialisation, inevitably began to weigh on public finances, given the need to provide economic and health assistance to old age or disabled workers. Insurance was identified as the means to deal with these social problems, which were extending to ever wider areas of the population. At the time, statistical studies and actuarial calculations were widely used to measure the implicit risk of insurance contracts.

The realisation that life and accident insurance were now based on precise statistical calculations led to the belief in Germany that insurance could be managed directly by the State, which would encourage popular insurance on a much wider scale. This led to the development of what would become the fundamental means in Europe to cover accidents in the workplace in addition to invalidity and old-age pensions for workers: State insurance.

At the time, Italian official statistics also made a crucial contribution to laying the foundations of the social security system, thanks to the initiative of the Statistics Department of the Ministry of Agriculture, Industry and Commerce of the time, which at the beginning of the 1870s launched a *Statistics on mutual aid companies*, published in five volumes between 1875 and 1888.[1]

The information on social security presented in this section are not provided on a regular basis due to different degrees of attention dedicated over time to statistical information on the matter and to different phases of development of the social security system itself.

The series of data come from different sources, some managed directly by ISTAT and others by external bodies. For the statistics on contributions and benefits provided by social security institutions and those relating to pensions and pensioners, the creation, in subsequent historical phases, of the three main Italian social security institutions was decisive: INPS (National Social Security Institute), INPDAP (National Social Security Institute for Public Administration Workers) and INAIL (National Institute for Insurance Against Accidents at Work). INPS, founded in 1933 as a public law institution with legal status and independent management, took over the activities previously performed by the National Welfare Fund for Invalidity and Old Age, providing workers' insurance which only became obligatory, however, from 1919. INAIL, which was established by Law no. 860 dated 22nd June 1933, and attributed the sole responsibility for accidents at work to the National Accident Fund for Obligatory Insurance Against Accidents at Work, the name of which was changed to the National Institute for Insurance Against Accidents at Work. Lastly, the National Social Security Institute for Public Administration Workers (INPDAP) was created with Legislative Decree no. 479 dated 30th June 1994, and merged the previous ENPAS, INADEL, ENPDEP and Pension Funds managed by the social security institutions of the Italian Treasury Department.

Thus, from 1921 to 1996, data relating to contributions and social benefits (collections and payments) by social security institutions were provided by different bodies or were taken directly from their final balance sheet. From 1996 the figures are taken from the annual ISTAT survey entitled *Final balance sheet of social security institutions.*

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[1] Ref: Favero G. and U. Trivellato. 2000. *Il lavoro attraverso gli "annali": dalle preoccupazioni sociali alla misura della partecipazione e dei comportamenti nel mercato del lavoro (Work seen through the "yearbooks": from social concern to the measurement of participation and behaviour in the job market)*. Rome: ISTAT. (Statistics Yearbooks, series X, Vol. XXI).

Data on pensions, on the other hand, are much more recent and are mainly based on data collected by ISTAT and, over the last few years, on calculations performed starting from administrative register held by INPS.

Social security contributions and benefits

Systematic information relating to social security contributions and benefits began to be available in 1921. From this date until 1995 data were taken from the financial reports of the institutions involved or from statistical calculation performed by the institutions themselves on their own administrative figures. In order to use these documents for statistical purposes, they had to be broken down and reclassified according to consistent schemes. In some cases, during reclassification it was necessary to use data from different sources that could act as parameters for reconstructing the items in the reports.

Since 1996 ISTAT has implemented the annual survey entitled *Final balance sheets of social security institutions.* The field of observation covers the most representative public and private institutions which provide social security benefits. These may take the form of financial aid, such as pensions, family or unemployment benefits, or support in kind such as providing food, lodging or access to thermal therapies. The resources used to provide benefits are made up of social security contributions paid by employers and workers and by transfers, mostly from the State budget.

ISTAT performs this survey in order to construct general government accounts, drawn up in compliance with the European System of Accounts (ESA95), in addition to the social protection accounts, compiled in accordance with the criteria set out by the European system of integrated social protection statistics (ESSPROS).[2] The baseline data are acquired through survey forms (EP1/EP2 – EP1Bis/EP2Bis). The EP1/EP1Bis form is divided into six sections. Section I covers data relating to current spending and revenue, with an in-depth analysis of spending on personnel. Section II is dedicated to spending and revenue on capital accounts. Section III provides an analysis of receivable and payable transfers while Section IV summarises the overall financial situation (deposits and withdrawals). Section V details items relating to the purchase of moveable property and real estate, distinguishing between used and new assets. Lastly, Section VI reports on the funds set aside to cover employee leaving indemnities.

On the basis of the data collected, ISTAT reclassifies the items in the reports to bring them into line with ESA95 accounting standards. In addition, for the larger institutions data are processed with the aid of a thorough analysis of the financial reports. The units of analysis are revenue and expenditure in the final balance sheet, expressed on both an accruals and cash basis (the sum of collections and payments in both the accruals account and residual accounts).

From 2003 final balance sheet data onwards the main income and expense items are analysed on a regional level and accompanied by a series of indicators designed to provide information on the economic-financial balance of the institutions[3].

Warnings for time series comparisons

Over the years both the reclassification criteria for figures in the year-end balances and the universe of social security institutions included in the survey have changed. The change over time in contributions, benefits and the relationship between benefits and contributions has been affected by the extension of social security to new social categories, in addition to the extension of the range of benefits provided. As a result of this extension, the level of benefits tends to rise faster than contributions.

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[2] Eurostat. 2008. *Esspros Manual: Population and social conditions.* Luxembourg: Methods.

[3] In 2010 the time series running from 1999 to 2007 was reconstructed, and subsequently extended to 2008 (www.istat.it/dati/dataset/20100713_02) . This series is not presented here due to the small number of observations.

- From 1921 to 1931, the considerable gap recorded with regard to INPS between contributions and benefits is due to the fact that, during this early period of the institution's activities, the provision of invalidity, old-age and survivor's pensions – which constitutes the institution's core activity – was very limited because the number of insured parties who were entitled to the pension was still very small.
- From 1921 to 1974, the figures relating to contributions and benefits include contributions made by the State and the duplications due to the transfer of funds between different departments of the same institution or between institutions.
- In 1975 a new data processing method was introduced: contributions are indicated net of contributive and fiscal deductions and benefits are shown net of adjustment entries.
- From 1985 to 1995, the figures relating to contributions and benefits are not available by institution, but only as aggregate figures.
- From 1996 the figures recorded are reclassified in order to harmonise them with ESA95 accounting schemes.

Pensions

The earliest official government figures on pensions and pensioners were provided, as early as the second half of the 19th century, by the Ministry of Finance and the Treasury and, in the early years of the Republic, by the Treasury (State General Accounting Office). However, they are not available for every period, and this, combined with the fact that they refer exclusively to public employee pensions, means that these figures have not been included here. The series presented in this section start from 1951 – albeit not on a regular annual basis – and until 1974 are the result of calculations using data provided by the Ministry of Economy and Finance.

From 1975 to 1996 the official source of pension statistics was the *Statistical survey on pensions* conducted by ISTAT with the main pension institutions, introduced in implementation of a Chamber of Deputies Finance and Treasury Commission resolution dated 23rd January 1975. The technical methods for performing the survey were agreed with pension system experts, as part of the Commission set up to study and formulate proposals to improve social security statistics, established by ISTAT and composed of representatives from the INPS, INAIL, Ministry of the Interior, Italian Treasury (for the private sector), ENPAS and INADEL (for the public sector). The preliminary examination of existing information, performed when the first survey was conducted (1974), revealed inconsistent classification methods not only between different institutions but even between different departments within the same institution. Harmonisation – in part as a result of *ad hoc* analyses carried out by the social security institutions themselves - improved the quality of the data in terms of consistency and comparability, as early as the second edition of the survey (1975) which, for the first time, presented a far-ranging analysis of pensions provided to ex-civil servants.

From 1997, on the other hand, statistical information was produced by ISTAT in collaboration with INPS, using the *Central register of pensioners*, making it possible to produce and publish figures concerning pension recipients for the first time. This administrative register, managed by INPS, aims to collect, conserve and manage data and information on those entitled to:

- general invalidity, old age and survivor's pensions based on obligatory insurance;
- pensions from obligatory social security schemes substituting the abovementioned obligatory insurance;
- pensions from obligatory social security schemes for self-employed workers;
- pensions from any other obligatory social security scheme;
- any other form of supplementary or complementary social security insurance;
- pensions or ongoing welfare benefits;
- war pensions;
- permanent invalidity allowances or allowances for accidents at work or occupational diseases.

Data drawn from administrative sources, reclassified by ISTAT on the basis of pre-established definitions (see Glossary) have been processed according to the Pension Benefits Classification System (SCPP). This classification system was created by ISTAT in accordance with the European system of integrated social protection statistics (ESSPROS). This has allowed ISTAT, from 2006 data onwards, to meet EU requirements set out in European regulation no. 458/2007 to provide Eurostat with data regarding pension recipients on an annual basis.

For a correct interpretation of the statistics presented, we should point out that the term "pension" means regular, ongoing cash payments paid individually by the government or by public and private institutions when the recipient reaches a certain age or number of years of contributions, or upon reduction or loss of his/her capacity to work due to congenital malformation or the death of the person insured.

The number of pensions does not coincide with the number of recipients, insofar as each pensioner may receive more than one pension. For example, the recipient of an old-age pension may also be entitled to a part of their deceased spouse's old age pension. Moreover, each person may be entitled to one or more pensions from different categories, as when an old age, invalidity or survivor's pension is summed with a pension granted due to an accident at work or welfare benefit.

In order to provide, as consistent and complete an overview of the various forms of pension considered, the tables separate benefits into three types, according to the event which caused the pension to be granted:

- *Disability, old-age and survivors' pensions (OADS).* Old-age and disability pensions are provided as a result of the working activities of the individual insured, when he/she reaches a certain age, after a certain number of years of contributions paid or in the case of reduced work capacity (direct pensions). In the event of the insured individual's death either during his/her working life or retirement, the pension may be paid out to dependent relatives (indirect pensions). An OADS pension may also, in certain cases, be combined with other pensions paid out to the same beneficiary, even by the same institution or social security provider. Furthermore, some institutions provide "supplementary" or "complementary" pensions in addition to obligatory social security insurance, while substitute forms also exist which exclude and exempt ordinary OADS pensions.

- *Compensatory pension.* Compensatory pensions are regular allowances paid out for accidents at work or occupational diseases. They are designed to compensate for an injury, in line with its seriousness, or death (in which case the pension is paid out to survivors) following an event occurring during the course of working activities. Damage may also result in indirect pensions, according to the number of survivors entitled to receive support. These benefits are provided only if a minimum number of years of contributions have been paid by the insured individual.

- *Welfare pensions.* Welfare pensions are allowances paid to the blind, deaf and disabled during their active life and again when they reach the age of 65, as well as for citizens with no or insufficient income. War pensions that include living allowances for veterans enrolled in the Vittorio Veneto order and recipients of the Military Cross (Medaglia e croce al valor militare) have also been assigned to this category. The main characteristic of social security pensions is to guarantee a minimum income to people who cannot otherwise obtain it due to congenital or other malformations or simply old age. These pensions, in any case, are not linked to any form of contributions.