

1. Title (please insert a header)

► Changes in fiscal treatment of pension funds, individual pension plans, life insurance contracts and severance pay.

2. Initiators

► Parliament

3. Funding

► General taxation

4. Beginning, expected end and duration

► Effective beginning: as soon as the Parliamentary iter is finished
► Once and for all Reform

5. Background and rationale of the Reform, expected results

► This Reform is intended to create and develop a private system of pension funds giving more fiscal incentives to savings invested in pension funds, especially compared to other forms of long-term financial investment.
► Another aim is to create a more homogeneous and transparent system of capital income taxation.

6. Country-specific context

► Italy is trying to develop a private pension system based on pension funds and to rationalize taxation on capital incomes.

7. Target groups and target regions

► The Reform of pension funds and severance pay covers all private sector employees, while the Reform of individual pension plans and life insurance contracts covers all savers.

8. Content and objectives

► Taxation on pension funds (closed and open):
contributions paid by both workers and employers can be deducted from income up to 10 million Lire each (\$ 5,400);
pension funds are subject to separate taxation (the same taxation used for investment funds) with a rate not higher than 12.5% on the difference between net wealth at the end

and at the beginning of the year (for investment funds the rate is fixed to 12.5%); annuities distributed by pension funds are taxed in the following way: the proportion corresponding to contributions paid by workers and employers and to the severance pay transferred to pension funds is subject to personal income taxation; the proportion corresponding to the interests accumulated on contributions is tax-exempted; benefits distributed in the form of capital (max 50% of the total) are taxed in the following way: the proportion corresponding to contributions paid by workers and employers and to the severance pay transferred to pension funds is subject to a separate taxation similar to the one used to tax the severance pay; the proportion corresponding to the interests accumulated on contributions is tax-exempted, up to a limit of one third of the total available for annuities and capital.

► Taxation on life insurance contracts:

premiums associated to contracts with insurance nature give right to a tax credit, only for the 19% of the premiums and up to 2.5 million Lire (\$ 1,369). Benefits are taxed in the following way: annuities are subject to personal income tax on 60% of their amount; benefits distributed in the form of capital are subject to a separate taxation similar to that applied for the severance pay;

contracts with a financial nature have no fiscal incentive and their benefits are subject to separate taxation with a rate of 12.5%;

contracts with pension goals are taxed in the same way as pension funds (severance pay can only be used as funding source for pension funds, not for other kinds of private pensions).

► Taxation on severance pay:

returns on severance pay are subject to separate taxation with a rate of 12.5%; the remainder of the severance pay (corresponding to what has been accumulated over the years) is taxed with the same method used so far.

9. Concrete changes vis-à-vis the status quo

► Changes in taxation on pension funds (closed and open):

contributions to pension funds, coming from both workers and employers, were deductible up to 2.5 million Lire (\$ 1,359);

pension funds were subject to a lump sum tax of 10 million Lire (\$ 5,400) per year and incomes deriving from each financial investment were taxed at source;

87.5% of the annuities distributed by pension funds were subject to personal income taxation;

benefits distributed in the form of capital were subject to a separate taxation, similar to that used to tax severance pays.

► Changes in taxation on life insurance contracts:

there was no difference in fiscal treatment due to the nature of the contract, and all contracts were taxed as those with strictly insurance goals.

► Changes in taxation on severance pay:

previous method of taxation was different and lighter.

10. Major conditions for success

- Higher incentives to transfer severance pay to pension funds.
- The favourable fiscal treatment granted so far to life insurance contracts with pension nature is removed, because the Reform treats them as pension funds.
- Possibility to fix a rate of taxation on pension funds lower than 12.5%.
- Higher possibilities of deducting contributions to pension funds from income (up to 10 million Lire).

11. Arguments raised by opponents of the Reform

- Possible phenomena of "tax elusion", as life insurance contracts of different nature can have the formal structure of those subject to the lightest fiscal regime.

12. Effects on other policy fields

- Harmonisation of the overall taxation on capital incomes.
- Harmonization of taxation on incomes deriving from instruments providing resources for retirement.

13. First results

14. Personal judgement

- A positive contribution to the process of tax harmonization of capital incomes.
- A significant contribution to the development of a system of pension funds: life insurance contracts with pension goals and pension funds do not receive the same fiscal treatment, while so far the formers enjoyed a more convenient fiscal position.

15. General available references

- D.Lgs. April, 21, 1993, n° 24
- Lex August, 8, 1995, n° 335
- D.Lgs. February, 24, 1998, n° 58
- Lex May, 17, 1999, n° 144

1.4. State Welfare and Social Assistance

1. Title (please insert a header)

➤ Minimum Income Support (Reddito Minimo D'Inserimento)

2. Initiators

➤ This Reform was mainly introduced upon instigation of the Treasury Minister and of the Minister for Social Affairs.

3. Funding

➤ The cost of this Reform is borne jointly by the central budget (National Fund for Social Policies, 90%) and by the local budgets (10%).

4. Beginning, expected end and duration

➤ The Reform beginning, at national level, is the year 2001 but there will be an experimental two-year period starting from 1998 in few selected municipalities.

5. Background and rationale of the Reform, expected results

- Before this Reform, there was no universal income support program in Italy, except for few social benefit schemes that were not meant to cover the entire population (notably, social pensions).
- The expected results of this Reform consist of reducing the number of people/households living below the poverty line. This should incentive temporary unemployed people of working age to find a job and participate in the active labour policy (welfare to work program).
- The results of a microsimulation exercise* using assumptions similar to the Reform ones, show that the poverty rate can be considerably reduced with this kind of assistance. However, the results also indicate that the implementation of this policy may be very expensive.

6. Country-specific context

- Italy, as well as Greece, was the only European country without a minimum income support program.
- According to the 1998 Istat Report on Poverty in Italy, 2,558,000 households (7,423,000 people) can be classified as poor. Households with monthly income lower than It. Lit. 1,476,000 per month are considered poor.

7. Target groups and target regions

- Target groups are all people/households in needs or identified at significant risk of social exclusion.
- During the experimental period, only 39 municipalities are providing this kind of assistance. In 2001 the benefit will be extended to all regions.

8. Content and objectives

- Object is to reduce poverty and social exclusion and to give an economic and social support to people in need.
- The eligibility conditions to obtain the benefit are as follows:
 - 1) Earning a total monthly income below a given ceiling, for a person living alone in 1998 the ceiling equals It. Lit. 500,000, in 1999 it equals It. Lit. 510,000 and in 2000 it will amount to It. Lit. 520,000. For households with more than one component, the ceiling is modified according to an equivalence scale;
 - 2) being resident in Italy for at least 12 months for EU citizens, and for at least 3 years for non-EU citizens;
 - 3) being willing to work and participate to training programs for people in working age. The beneficiaries must be registered at the labour exchange office.
- The minimum income support is a differential benefit, that is the beneficiary receives the differences between the ceiling and the earned income.

9. Concrete changes vis-à-vis the status quo

- Before this Reform there was no national legislation for minimum income assistance, there were only some local experiments, not co-ordinated at state level, foreseeing some forms of income support.

10. Major conditions for success

- The most important condition for success is a concrete link between the social benefit and active labour policy.

11. Arguments raised by opponents of the Reform

- The major argument is the availability of resources to fund this program subject to the government budget constraint.

12. Effects on other policy fields

- The main effect will be in the field of employment policy.

13. First results

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14. Personal judgement

- With this Reform, the Italian social protection system may provide a comprehensive (and yet still limited) social security net filling the shortcomings of the previous system. However, it would be better to combine an income support program with some forms of in-kind assistance.
- As already stressed, the problem shall lie in gathering the funds to cover the high costs of implementation of the program.

15. General available references

- Decreto legge del 21.12.1997, n.449.
- Decreto legislativo del 18.6.1998, n.237.
- **Analisi delle problematiche istituzionali, economiche e sociali relative all'introduzione del concetto di *minimo vitale* - Comparazioni Internazionali", in Camera dei Deputati e CNEL (a cura di), *Indagine sulla riforma dell'assistenza sociale*, *Atti Parlamentari XIII Legislatura*, Doc. XXI n.2/5, settembre 1998.

1. Title (please insert a header)

➤ Economic condition indicator-Ise- (the so-called "redditometro") and a concrete application of this indicator to health care (the so-called "sanitometro").

2. Initiators

➤ This Reform was introduced upon instigation of the Government, the Finance Minister, the Minister for Labour and Social Security, the Treasury Minister and the Minister for Social Affairs, with the approval of the Inner Minister and Health Minister.

3. Funding

➤ Cost containment does not represent the most important purpose of this Reform. According to the Government's estimates, this Reform has probably zero cost.

4. Beginning, expected end and duration

➤ The beginning, at national level, is the year 2001 but there is a three-year experimental period at local level starting in 1998.

5. Background and rationale of the Reform, expected results

- Before this Reform the eligibility requirements were disomogeneous and not efficient enough to identify the real state of needs.
- This Reform aims at selecting people asking for social assistance on the basis of a more equal and efficient mean-tested indicator.
- The expected results are a better distribution of social benefits among claimants and a reduction of social expenditure.

6. Country-specific context

- The Italian social security net is far from being complete.
- The shortcomings of the social security system are to give sometimes benefits to people that cannot be defined as "poor" and not to give full assistance to people who are in need.
- The introduction of this indicator should help to correctly identify groups with risk of social exclusion.

7. Target groups and target regions

- Anyone who asks for specific, not universal, social assistance programs or for mean-tested programs.
- All residents have universal access to health care, but for some health services the co-payment is differentiated on the ground of "sanitometro".
- After the period of experimentation, this Reform be applied to all regions.

8. Content and objectives

- The amount of social benefits depends on the type of benefit and on the household's economic situation. Object of this indicator is a better discrimination between people who are entitled and not entitled to receive social assistance according to their economic situation.
- To calculate the economic condition indicator, the following elements must be taken into account:
 - household composed by the claimant, all members living with him and his dependent relatives (according to the personal income tax definition) even though they are temporarily absent.
 - family income obtained by the sum of the taxable personal income (minus income from agriculture and plus income from financial assets calculated with an average rate of interest on long-term Treasury bonds) of all family members who are part of the house. If the household lives in a rented house, there is a deduction of 2.5 millions; the deduction is larger (3.5 millions) if the household does not own any house in the place of residence.
 - family net wealth obtained by the sum of real estate and financial assets (minus liabilities and a deduction of 50 millions or 70 millions in case of home ownership) of all family members. The family net wealth is multiplied by a coefficient that varies from 0 to 0.20 (in case of "sanitometro" this coefficient is equal to 0.10).
 - The sum of family income and weighted family net wealth is divided by an equivalence scale according to the number of components and social-demographic conditions. This system of weights permits to compare the income of different-sized households net of economies of scale. In this way the social benefits depend on the size and composition of the family. The result is the Equivalent Economic Condition Indicator.
- This indicator is a general instrument of selection, but the specific eligibility criteria, regarding the definition of household, thresholds, the weight of wealth determined in accordance with specific provisions, will be set by the local administrations that provides social assistance.
- The elements for the calculation of "sanitometro" are a little bit different from those relevant for the Ise.
- The application of this indicator to the health system determines the thresholds as follows:
 - for households whose Ise is equal to 18 millions: complete exemption (social clause)
 - for households whose Ise lying between 18 and 36 millions: partial exemption
 - for households whose Ise exceeds 36 millions: no exemption (co-payment not exceeding a fixed amount).

9. Concrete changes vis-à-vis the status quo

- This is the first time that the provision of social assistance benefits is based on a mean-tested indicator which considers both income and wealth in order to identify the "true" economic condition of the household. In the past only income or some social-demographic characteristics were used. In particular, the eligibility criteria for the health care system were based on age, while according to the current legislation they are based on the household's economic situation and on the type of sickness.
- Local authorities, consistently with their autonomy, can define differentiated eligibility requirements.

10. Major conditions for success

- People requiring social assistance must declare their personal and financial situation. Thus, there is a real risk of non-reporting and under-reporting.
- Efficient control of the existence of eligibility criteria and the given information.
- The use of this indicator may have an important indirect effect in discouraging groups of people with high level of evasion from claiming social benefits because of the risk of fiscal controls. (self-selection).
- Creation of an integrated data bank system.
- The control can be limited by the law on privacy.

11. Arguments raised by opponents of the Reform

- To select possible beneficiaries two different criteria may be applied: income/wealth indicator or consumption (well-being) indicator. Opponents consider the latter a better instrument according to their theoretical approach.

12. Effects on other policy fields

- This indicator could be used to rank people. In this way it is possible to differentiate public utilities prices/tarifs (for example electric tariffs) according to the user's economic position.
- This indicator can be an incentive to introduce more efficient fiscal policies against evasion.

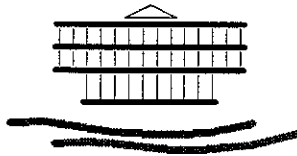
13. First results

14. Personal judgement

- Ise, as a selective instrument, should help create more equality, thanks to a better identification of people in need of care and to a more efficient resource allocation.
- The need for continuous control and the discretionality left to local administrations in introducing different indicators are very important elements for the success of this Reform.
- The management costs supported by local administration and claimants could be very high.

15. General available references

- Decreto legge del 21.12.1997, n.449.
- Decreto legislativo del 31.03.1998, n. 109.
- Decreto legislativo del 29.04.1998, n. 124.
- Decreto del Presidente del Consiglio dei Ministri del 7.05.1999, n.221.



Bertelsmann Stiftung

International Reform Monitor

Reforms reported by JAPAN (NIPSSR)

- 1.1. Health care reform
- 1.2. Pensions reform
- 1.3. Reform on long term care
- 1.4. Social welfare reform

Six-Monthly Survey
No. 1 / 1999

July 1999

1.1. Health Care

1. Title (please insert a header)

➤ Reform of Medical Insurance System

2. Initiators

- Ruling parties (at the time, the Liberal Democratic Party [LDP], Social Democratic Party [SDP] and New Party Sakigake)
- Ministry of Health and Welfare, Ministry of Finance
- National Federation of Health Insurance Societies (Kenporen), financial, business and economic circles

3. Funding

➤ Not yet to be determined

4. Beginning, expected end and duration

➤ To be determined (April 2000 is the government's official target)

5. Background and rationale of the reform, expected results

- Problem of imbalance between increase in expenses for medical services and economic growth.
- Criticism of health system for the elderly given the rapid aging of the population
- Demand to reduce the portion of cost for medicine (including injections) within the total medical cost which is high in comparison with those in other OECD countries
- Demand for suitable distinction between acute and chronic phases of medical care, demarcation of roles between hospitals and clinics
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6. Country-specific context

- Japan has accomplished almost complete "free access" to medical facilities, but this has hampered the adequate working of referral system.
- Given the fast pace of population aging, the rapid rise of medical expenditure for the elderly has created a severe financial burden on the medical insurance system.

- An strong interest group, the Japan Medical Association, has gained even more strongfold than before due to electral reform, and thus making reforms described above politically difficult.
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7. Target groups and target regions

- The elderly
- Medical institutions, pharmaceutical manufacturers, patients in general

8. Content and objectives

- The objective of the reform is to realize radical reform of medical insurance and medical service supply system to ensure that medical services of quality can be received comfortably in the 21st Century
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9. Concrete changes vis-à-vis the status quo

- Review of medical service system for the elderly
- Reform of drug tariff (At first, a Japanese model introducing a "reference pricing" system was sought, but this was abandoned in April 1999 due to strong opposition from the Japan Medical Association and the pharmaceutical industry. New directions for reform are now under consideration.)
- Reform of medical fee system
- Review of medical service provision system

10. Major conditions for success

- See above.
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11. Arguments raised by opponents of the reform

- The Japan Medical Association and other organizations of medical care institutions are opposing the reform of the drug tariff (opposition to introducing the "reference pricing" system), and proposing establishment of independent medical insurance system for the elderly, etc
- Pharmaceutical manufacturers and US government are opposing the reform of the drug tariff.
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12. Effects on other policy fields

- Long-term care insurance system (to be implemented from April 2000)
- Pharmaceutical industry policies

13. First results

- Not yet to be implemented
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14. Personal judgement

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15. General available references

- Annual Report on Health and Welfare

1.2. Pension and Social Security

1. Title (please insert a header)

➤ Public Pension Reform of 1999

2. Initiators

➤ Government of Japan (Ministry of Health and Welfare, Ministry of Finance)

3. Funding

➤ The share of the national treasury for the above expenditure will be increase to one half in the year 2004 from the current level of one third.

4. Beginning, expected end and duration

- Raising the starting age of benefits payment for old-age benefit of Employees' Pension Insurance (earnings related part)—from April 2013
- Exempting enterprises from payment of employer's portion of insurance fee during child care leave period—April 2000
- Introduction of a gross earnings (including bonus) method for the calculation of contribution levels—April 2003
- More flexible management of public pension reserve funds (schedule to be determined together with that of fundamental reform of fiscal investment and loan system)

5. Background and rationale of the reform, expected results

- Need for restraint of excessive burdens on future working generations
- Low fertility rate which declined very rapidly and is expected to stay at the present low level for the near future
- Low rate of growth since the oil shock and the long-term recession due to the burst of the bubble economy in the 1990s
- Strong opposition from the business against increasing their contribution
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6. Country-specific context

➤ Previously, the public pension reserve fund was managed by the Ministry of Finance using primarily a low-return government bonds. After the reform, the Ministry of Health and Welfare will manage the fund and MHW will utilize private market to get a higher return.

- Public Pension is to be reviewed in every 5 years.

7. Target groups and target regions

- General employees

8. Content and objectives

- The objective of the reform is to make long-term pension management stable by trying to set appropriate benefits and burdens considering the predicted aging of society and decrease in the birth rate. In particular, the reform will attempt to lower future benefit levels to avoid excessive burdens for future working generations.

9. Concrete changes vis-à-vis the status quo

- Restraint of pension levels (Proposal to cut 5% off earnings related part; change in the method of benefit adjustment from wage increase to price increase only.)
- Raising the starting age of benefits payment of the earnings related part from 60 to 65.
- Introduction of gross earnings (including bonus) method for the calculation of contribution levels
- Exempting enterprises from payment of employer's portion of insurance fee during child care leave period
- More flexible management of public pension reserve funds

10. Major conditions for success

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11. Arguments raised by opponents of the reform

- Labor unions (Concerns regarding employment until the starting age of benefits payment and post-retirement living expenses) → Amid conditions of long-term recession, the main object is to maintain short-term employment.
- Economic organizations (Unsatisfied that the requests to increase the burden on the national treasury is not being recognized) → Many are of the view that the increase of the burden on the national treasury would be financed by raising the consumption tax. They face a dilemma that decrease in consumption due to higherr tax will prolong the recession.

➔ Academics (Concerns about the trends toward complete financing of pension through taxes) → The question of whether to secure a source of revenue for the social security system through social insurance premiums or through taxes is being debated by scholars. Some feel that social insurance premiums and taxation are both nondiscriminatory to the people. Others support the method of social insurance premiums because they place importance on the clarification of the right to receive benefits.

12. Effects on other policy fields

➔ Corporate retirement systems, employment policy for the aged
➔ Tax systems (Review of ratio between direct and indirect taxes)
➔ Corporate pension system (Handling of tax-qualified pensions, Japanese-style 401k)
➔ Family policies (Employer responsible portion of child allowance)

13. First results

➔ Yet to be implemented

14. Personal judgement

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15. General available references

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1.3. Nursing and Elder Care

1. Title (please insert a header)

- Introduction of Long-Term Care Insurance System

2. Initiators

- Ministry of Health and Welfare, Ministry of Finance
- Ruling parties (at the time, the Liberal Democratic Party [LDP], Social Democratic Party [SDP] and New Party Sakigake)
- Service businesses which could expect increased business due to the formation of a nursing care service market

3. Funding

- Ministry of Health and Welfare benefit expenses for FY 2000 is estimated at ¥4.2 trillion (see separate sheet for FY1995 price and revenue source breakdown)

4. Beginning, expected end and duration

- Benefit payment for both in-home care services and institutioned care service will begin in FY2000 (April 2000).
- Certification for the need for long-term care will begin in October 1999.

5. Background and rationale of the reform, expected results

1) Socio-Economic Background

- As the number of elderly people increases, the number of elderly needing long-term care is expected to increase. Further, the duration of such care is also becoming longer and more serious. Thus, the personal risk arising from care-needs has become universal and large.
- There has been a continuous rise in health care costs which used to bear the costs for long-term care.
- Function of families as a care-provider is declining with the change in the living arrangements (Percentage of three-generation households with elderly 65 years or over: 43.9%(1987) ->30.2%(1997))
- Family problems such as cases in which people in the prime working age, especially women, have been forced to retire, or take a leave of absence, or to change jobs in order to take care of the elderly.
- Increase in the opportunity costs of quitting work or taking a leave of absence from work in order to assume care-needs of family, The need for employers and society to deal with the problem.
- the opportunity costs of quitting work or taking a leave of absence from work in order to assume care-needs of family, The need for employers and society to deal with the

problem.

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2) Need to Establish a New System

- ➔ To build a social foundations to take care of the new “long-term care” need of the society
- ➔ To correct discrepancies in costs among different institutions providing the similar service for the similar needs
- ➔ To introduce a system which respect viewpoints of those receiving the services
- ➔ To expand the welfare services, both from the demand side, by providing financial support through long-term care insurance system, and from the supply side, by utilizing the private sector.

6. Country-specific context

➔ See above.

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7. Target groups and target regions

- ➔ People aged 65 and over, and those aged between 45 and 64
- ➔ Municipalities and special districts
- ➔ Providers of elderly medical care, health and welfare services

8. Content and objectives

➔ Object of the reform is to establish a long-term care insurance system based on the principle of collective solidarity of the citizens to provide the necessary health care and welfare services to persons who find themselves in situations where they need: care for bathing, excretion, or food intake; functional training, nurse, medical treatment, or other types of medical services due to illness or other condition caused by physical or mental changes arising in the course of aging, and to enable them to lead ordinary lives with a degree of independence suited to their abilities

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9. Concrete changes vis-à-vis the status quo

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