

Quaderni di ricerca ref.
n. 31 / Gennaio 2007

**THE PERSPECTIVES OF DEVELOPMENT OF ITALIAN
PENSION FUNDS AND THE EFFECTS ON
THE ITALIAN AND EMU AREA FINANCIAL MARKETS
A simulation model to 2050**

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The perspectives of development of Italian pension funds and the
effects on the Italian and EMU area financial markets

*A simulation model to 2050**

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Draft – 28 August 2006

* The opinions expressed in the paper are authors' only and cannot be attributed to any institution they belong to or collaborate. The research has been developed in the framework of activities of the *reforme* association and *ref.* research center and received financial support from the "Direction de la recherche, des études, de l'évaluation et des statistiques" (DREES) of the French Ministry of health and solidarities.

Abstract

We simulate the development of Italian pension funds in the medium and long run (to 2050) using a cohort model, tracking their potential impact on the Italian and EMU area financial markets.

In the baseline, active membership is assumed to rise to a maximum of 11.6 million in 2025, about half of total people in employment; thereafter, membership rates stabilize, while participants fall in absolute number because of the underlying demographic trends. The amount of resources flowing into pension funds rises substantially in the medium run: annual net contributions reach 0.6% of GDP at around 2025, falling however in the following period and becoming slightly negative from 2040 onwards. Pension funds' assets increase from 3.9% of GDP in 2005 to around 20% in 2035 and then stabilize; to this, a further 10% of GDP must be added, held by the insurance companies in charge of the payment of annuities.

Net flows into equity markets reach a maximum in 2025, with 7 billion Euro (at 2005 prices), of which, however just 350 million invested on the home market and less than 2 billion in the all EMU area. Overall, the effects on the domestic financial market (in particular on the stock exchange) are moderate, in spite of the country bias. Furthermore, it is likely that a large fraction of the resources flowing into pension funds will not come from genuine additional saving, as in the case of the TFR or of contributions coming from a mere individuals' portfolio reallocation.

Keywords: pension funds, institutional investors, cohort-based simulation models

JEL: G23, G15, H55

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