

New old age pension system in Poland

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- Old-age pension reform in Poland began in 1999 for those persons not employed in agriculture.
- People born after 1968 are mandatorily in both pillars – the pay-as-you-go pillar and the accumulation pillar.
- People born between 1949 and 1968 could decided whether or not to join the accumulation system. About 70% of them entitled decided to join, however later a certain number withdrew.
- Elderly persons stayed in the pay-as-you-go pillar.

- The pension insurance contribution rate is 19,52% of wages.
- For those in both pillars the contribution is split:-
I pillar (pay-as-you-go) - 12,22 %
II pillar (accumulation) - 7,3%
- Total contributions are paid equally by employers and employees - 9,76% each, but pillar II contributions (7,3%) are paid only by employees.

- Employers submit employees to insurance and covers contributions on their behalf. The total contribution is paid to the Social Insurance Institution (ZUS).
- ZUS calculates the amount due to the II pillar and sends it to open pension funds.
- ZUS also takes legal action if the employer does not pay the contributions due
- Open pension funds pay ZUS a commission of 0,8% of received contributions for its services.

- ZUS keeps the Central Register of Members of Open Pension Funds.
- ZUS acts as an intermediary between payers (employers), insured persons and open pension funds.
- Contribution clearing is centralised – they flow into one account with ZUS and are then redirected to the accounts of specific open funds along with a list of contributions for each member.
- The open pension fund converts the contributions to participation units and notes this on individual accounts of the insured.

- Annually ZUS informs all insured persons of the amount of contributions due and actual contributions paid to open pension funds.
- An open pension fund must inform each of its members at least once a year, but also upon request, about funds collected into individual accounts, all effected payments converted to participation units as well as the results of the fund's investment activities

- The investment policy followed by open pension funds is regulated by law. Certain limits are set for various kinds of investments. A maximum of 40% of assets may be invested in shares.
- Up to 5% of assets may be invested abroad.

- Twice a year the weighted mean rate of return of all pension funds for the previous 36 months is calculated. For this calculation only, the market share of any fund cannot exceed 15%.
- The minimum rate of return is either a rate lower by 50% of this mean rate of return of all funds or a rate 4 percentage points lower than that mean – whichever is lower.
- If the rate of return is below the required minimum the asset manager must make up the difference from its own capital. If their own capital is not enough, further proceedings are foreseen.

- OPF activities are financed through a fee of currently 3.5% of contributions as well as a monthly fee set as a percentage of net assets.
- A significant reduction of these fees occurred in 2010.

- Today there are 14 OPF's – in 1999 there were 21
- There is a significant market concentration - 55% of all members and 63% of assets are in 3 funds
- The smallest OPF has 10% of the number of members of the biggest and less than 6% of the assets of the biggest
- Market share is influenced by transfers by pillar II participants and to a lesser degree by random placements of those who did not choose a fund, overseen by ZUS

- The economic crisis caused a debate concerning the old-age pension system and the necessity of an accumulation pillar.
- This emphasised the reduction in assets and participant unit values.
- People had forgotten that OPF's are part of the capital market and are subject to the same rules as other financial institutions.

Value of net assets with respect to redirected contribution (February 2010)

	Contributions* (zł)	Net assets (zł)	%
February 10	141 829 085 034,56	179 621 324 145,69	126,65
January 10	141 017 643 918,74	181 861 583 540,76	128,96
December 09	139 283 670 795,27	178 630 091 052,03	128,25
September 09	134 257 698 597,64	168 277 781 433,09	121,62
June 09	128 911 019 304,79	152 908 188 724,79	118,62
May 09	127 116 178 493,65	147 090 669 062,83	115,71
April 09	125 397 635 650,88	144 961 146 808,64	115,60
March 09	123 246 412 492,17	137 198 688 150,87	111,32
February 09	121 225 648 139,90	130 867 800 968,77	107,95
January 09	119 734 152 345,86	136 422 991 309,70	113,94
December 08	118 071 343 547,33	138 261 447 317,79	117,10
November 08	116 544 776 151,62	132 716 427 853,32	113,88
October 08	114 846 054 287,58	130 190 322 822,17	113,36
June 07	88 464 030 934,00	138 289 016 990,90	156,32

Source: IGTE

- There are government proposals to reduce the contribution to OPF's to protect future old-age pensions
- Proposals from the market include
 - introducing several funds within the one OPF with different investment strategies to increase participant security as they get older
 - change investment policies and fund evaluation in order to enhance competition;
 - reduce operating costs, e.g. through a reduction in acquisition.

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- Participants lack in future old-age pensions – out of 13 million notifications on account balances and redirected contributions to ZUS only 0,3% made an inquiry
- There is a low level of knowledge not only among the insured, but also among the political elites.
- Special financial education programs for all of society are essential.

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- 10 years after the start of the reform there are still no rules for calculating and paying annuities
- This affects the views of future pensioners about the security of their pension and leads to extreme proposals to change the old-age pension scheme, e.g. liquidating the accumulation system

Advice for planners:

- prepare and publicise simultaneously all solutions related to the old-age pension scheme – the rules of collecting funds when working as well as the rules for paying pensions when not;
- be optimistic and realistic in presenting the assumptions behind the pension reform but avoid promising the world