Ref. Ares(2014)4029131 - 02/12/2014

EUROPEAN COMMISSION
EUROSTAT

Directorate D Government Finance Statistics (GFS) and quality

Luxembourg
ESTAT/D1/EBC/LA/MS/lt D(2014)

Central Statistical Office of Poland
National Accounts Department
Ms Maria JEZNACH
Director
Al. Niepodległości 208
PL - 00925 Warsaw

Subject: Eligibility of the Polish pension reform of 1999 as amended for a treatment as a systemic pension reform

Ref.: CSO letter RN-5-0713-01/56/2014, ESTAT letter ESTAT/D1/ EBC/LA/MS/lt D(2014), CSO letter RN-5-0713-01/116/2014

Dear Ms Jeznach,

Following your letter of 29 August 2014, Eurostat is now in position to provide its view on the eligibility of the Polish pension reform of 1999 as amended for a treatment as a systemic pension reform under the Single Growth Pact provisions[1].

Background

In its letter of 11 of April 2013, Eurostat considered the Polish pension reform of 1999 eligible for a treatment as a systemic pension reform. In December 2013, the Polish parliament adopted a law *on amendment of certain acts in relation to the definition of principles for pension payments from funds collected in open pension funds* that introduced major changes in the Polish pension system. In this context, in the letter of 28 April 2014, the CSO asked Eurostat to confirm its view on the eligibility of the Polish pension reform of 1999 as amended in 2013. The additional information on the post-reform population coverage of the second-pillar pension scheme (open pension funds – OFE) was provided by the CSO in the letter of the 29 August 2014. The documents were prepared in co-operation with the Ministry of Finance, Ministry of Labour and Social Policy and National Bank of Poland. Upon their receipt, Eurostat has revisited the issue and herewith will present its opinion on the eligibility of the Polish pension reform as amended in 2013.

Description of the case

In December 2013, the Polish parliament adopted a law *on amendment of certain acts in relation to the definition of principles for pension payments from funds collected in open pension funds* that introduced major changes in the Polish pension system.

[1] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

As a result, on the 3rd of February 2014, 51.5% of assets gathered in the mandatory fully funded defined contribution second pillar (OFE) were transferred to the first, pay-as-you-go, pillar, managed by the Social Insurance Institution (ZUS). The value of the transferred assets was registered on the already existing accounts in ZUS, the so-called *sub-accounts* that are subject to indexation by the rate of nominal GDP growth.[2]

At the same time, 51.5% of the assets recorded in the individual accounts of each member in OFE were cancelled. The remaining part of accumulated assets (48.5%) stayed in the open pension funds and cannot be withdrawn by their current members.

Furthermore, the reform of 2013 established the following way of allocation of pension contributions (19.52% of the gross wage):

- 12.22% of the gross wage - on the ZUS account,
- 4.38% - on the ZUS sub-account
- 2.92% - on the OFE account <u>or</u> ZUS sub-account.

Regarding the last component of the pension contribution (2.92%), the insured person may decide if the funds will be directed to the ZUS sub-account or to the OFE account. The decision could be taken only during the so called 'transfer window' period from the 1st April of 2014 to the 31st of July 2014 and then during the same months of 2016 and then every 4 years.

In case an OFE member or a person entering the labour market does not deliver to ZUS a statement with the decision, it is presumed that they want to pay the total contribution to ZUS. The decision can then be changed during the above mentioned 'transfer windows'.

The OFE participants who have less than 10 years left until the statutory retirement age, are not eligible to choose to continue to pay a part of their contributions to OFE - all of their contributions are now paid to ZUS.

According to the information available as of 14th of August 2014, the number of people who made a statement to ZUS to continue paying part of their pension contributions to OFE, equals around 17-18% of those eligible to choose.

Methodological analysis by Eurostat

Applicable accounting rules

The following accounting rules are relevant for the analysis.

- ESA 2010, Chapter 17: Social Insurance including pensions and Chapter 20: The government accounts
- The Eurostat Manual on government deficit and debt (MGDD), Implementation of ESA10, Part III General Government and corporations controlled by government.

[2] In its letter of 10 February 2014, Eurostat expressed its view that the sub-accounts should be classified in the general government sector with no associated liabilities to be recorded in the balance sheet of ZUS http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/PL-Ex-ante_consultation-Subaccounts.pdf

Availability of national accounting analysis

In the letter of 29 August 2014, the Polish authorities expressed their views that the pension reform of 1999 meets the criteria of a systemic pension reform. They emphasised that open pension funds continues to be funded and is compulsory for the majority of employees.

Analysis

Systemic pension reform is an implementation of a pension reform introducing a multi-pillar system that includes a mandatory, fully-funded pillar with a broad coverage in the population. The funded pillar is to be classified outside the general government sector *(ref: Eurostat note to the attention of the Financial Accounts Working Group; Subject: Systemic pension reform, 04.02.2014[3]).*

In its letter of 11 of April 2013, Eurostat considered the Polish pension reform of 1999 as eligible for a treatment as a systemic pension reform. At that time, the reform fulfilled the above criteria. Following the amendments in 2013, Eurostat recognises that there was a major change concerning the character of participation in the second pillar. It was modified from a mandatory to a voluntary scheme. As indicated above, starting from 2014, the insured persons <u>may choose</u> if their 2.92% component of their pension contribution will be directed to the second pillar (OFE) or to the first-pillar (ZUS).

In addition, as a result of the introduction of the 'security slider', the insured persons, during the period of the last 10 years before reaching the statutory retirement age, will not have a right to choose, as all of their contributions will paid to the first-pillar ZUS.

Eurostat thoroughly analysed the arguments of the Polish authorities considering the Polish pension reform as amended as systemic. In particular, Eurostat took into account that fact that the current OFE members will continue to keep the 48.5% part of their hitherto accumulated assets in the second pillar.

Eurostat acknowledges that the undertaken reform will not result in a direct major impact on the population coverage of the second pillar. However, Eurostat considers that this should be only seen as a consequence of the pension system in place before the changes in 2013. From 2014, the transfer of the pension contribution to the second pillar ceases to be mandatory and becomes <u>voluntary</u>, which will gradually impact the population coverage. According to the information available as of 14th August 2014, only 17%-18% of eligible population chose to continue to transfer part of their contribution to OFE. Moreover, due to the 'security slider', the contributions of people who have less than 10 years left until retirement will be automatically transferred to ZUS. Taking the above into account, the coverage of the second pillar will significantly <u>decrease over time</u>.

Conclusions

On the basis of the above considerations, Eurostat is of the view that, after the amendments in 2013, the Polish pension reform of 1999 is <u>not eligible for a treatment as a systemic pension reform</u>. As a result of the changes incurred, the second-pillar ceases to be mandatory and will decrease its population coverage.

[3] ESTAT/D-1/FL/LA/GdV/mh (2013) 122603

Procedure

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than **12 December 2014**.

Yours sincerely,

Eduardo BARREDO CAPELOT
(e-Signed)

Director