European Commission

New occupational pension savings scheme in Poland

ESPN Flash Report 2019/01

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From June 2019, a new occupational pension savings scheme (Employee Capital Plans) will be introduced in Poland. The scheme will cover all workers and be based on an auto-enrolment mechanism with a possible opt-out. Contributions will be paid by employees and employers, with co-payment from the State budget. According to the government, this new scheme will improve the adequacy of the pension system in Poland.

Description

In November 2018, the new Act on Employee Capital Plans (ECPs) was signed by the President and adopted for implementation from June 2019, establishing a new occupational pension savings scheme (*Pracownicze Programy Kapitałowe*). According to government estimates, the scheme will cover all salaried workers in Poland (around 11.5 million people) and potentially increase their pension savings. This is an important addition to the current system, as currently only around one fifth of workers in Poland save for their old age (Centrum Badań Długowieczności i Emerytur Aegon, 2018).

ECPs will be based on auto-enrolment. The scheme will cover all employees hired in accordance with the Labour Code contract who are between 19 and 55 years old. Workers aged between 55 and 70 can join an ECP voluntarily. The default option is participation in the plan, but anybody can opt out of ECPs at any moment. However, any savings accumulated will be accessible only when the participant reaches the age of 60 (with the exception of cases of serious illness or if using part of the savings for housing purposes).

ECPs will be introduced gradually:

- from July 2019, they will cover workers in big companies (more than 250 employees);
- from January 2020, they will cover workers in medium-sized companies (50-249 employees);
- from July 2020, they will cover workers in small companies (20-49 employees);
- from January 2021, they will cover all remaining workers.

Contributions to ECPs will be financed by employers, employees and the State budget (namely, the Labour Fund, which is used to finance unemployment benefits and active labour market policies). The mandatory contribution will amount to 3.5% of the wage, with an optional additional contribution of up to 4.5% of the wage (see table). Employees with salaries below 120% of the minimum wage will pay reduced mandatory contributions, but no less than 0.5% of their wage.

An additional co-payment will be made from the public Labour Fund. This will include an introductory lump-sum payment of PLN 250 (€60) and an annual payment of PLN 240 (€57) for those who contribute more than the minimum amount to an ECP.

Amount of ECP contributions	Mandatory contribution	Voluntary contribution
Financed by employer	1.5% of the wage	up to 2.5% of the wage
Financed by employee	2.0% of the wage (with **exceptions**)	up to 2.0% of the wage

Employers will choose an asset manager from among the following: investment fund companies, insurance companies and pension fund societies, which manage the open pension funds (i.e. the funded component of the mandatory pension system) or employee pension funds. The structure of the investment portfolio will be adjusted to the participant's stage in life, with the investment horizon set at a fixed date (2030, 2035, 2040, etc.). In the 2030 Fund, the share of equities must not be higher than 15% of the total assets, while in the case of the 2070 Fund, it must be no more than 80% of the total assets.

Payments out of ECPs can be made after the participant reaches the age of 60. The standard pay-out option is a lump-sum withdrawal of 25% of the accumulated funds (untaxed), and the rest can be taken in the form of 10-year scheduled withdrawals. The entire amount can be paid out in a lump sum, but in such a case 75% of the ECP savings will be taxed. The savings can also be used to purchase an annuity.

Outlook & commentary

The introduction of ECPs fills part of the gap that emerged after the multi-pillar pension system was done away with in 2014. However, it is difficult to predict the percentage of employees who will choose to stay in the ECP scheme. Benefits of the new scheme include:

- generation of additional old-age savings and increased old-age income in the future;
- private ownership of assets accumulated in the ECPs;
- additional stimulus for the development of the capital market in Poland.

The risks related to the introduction of ECPs are as follows:

- higher tax wedge due on contributions paid to ECPs, as additional contributions will reduce net wages and increase total cost for employers;
- increased fiscal costs due to co-payments from the Labour Fund.

According to economists at the independent think-tank GRAPE, the increase in overall savings as a result of introducing ECPs will be smaller than government estimates. They assess that other individual (gross) savings may be reduced by as much as 70% of the amount paid into the ECP account. Moreover, the savings in the ECPs will be less than the initial level of savings in mandatory open pension funds. Despite these reservations, ECPs may have a positive impact on GDP development in Poland. Representatives of the pension funds industry emphasise that ECPs can be successful and meet the goals set for them if the market is healthy, and that they will offer attractive rates of return compared to other alternatives.

Further reading

https://financialobserver.eu/daily/poland-introduced-employee-capital-plans/

http://orka.sejm.gov.pl/opinie8.nsf/nazwa/2811_u/$file/2811_u.pdf

http://www.instytutemerytalny.pl/wp-content/uploads/2018/10/20-odsłon-PPE-vs-PPK_październik-2018.pdf

Centrum Badań Długowieczności i Emerytur Aegon (2018). Nowa umowa społeczna: plan emerytalny w XXI wieku https://www.aegon.pl/siteassets/media/badanie-emerytalne-pl/2018/aegon_raport-emerytalny_2018.pdf

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