Poland: Changes to the mandatory pension funds and development of auto-enrolment employee capital plans

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Funded pensions in Poland suffer from a lack of social trust. For over five years, politicians have been discussing the potential liquidation of the mandatory funded pension savings in Poland, but no final decision has been taken. The new occupational-based employee capital plans (PPKs) are now fully phased-in, with the last group of public institutions offering the PPKs in April 2021. Less than a third of workers are covered by the employer-based plans, which is less than expected. Most workers opted out from the auto-enrolment plans, which indicates, among other things, a low level of trust in State-regulated long-term savings in Poland.

Description

In April 2021, the Polish Government proposed changes leading to the liquidation of the mandatory open pension funds (OFE), which are pension funds managed by private financial institutions that invest money on the capital market. These changes modify the initial idea presented in 2020. The proposal was postponed because of the outbreak of the COVID-19 pandemic. Due to disagreements in the ruling coalition, the proposal is now stalled in Parliament.

If the proposal is adopted, OFE participants will have to decide whether their savings accumulated in OFE are to be transferred either to Individual Retirement Accounts (IKE), private savings, or to their Notional Defined Contributions (NDC) accounts in the Social Insurance Institution (ZUS), a pay-as-you-go system. The changes will affect 15.4 million people who have assets in OFE. Currently, OFE accumulated assets are around 150 billion zł (€33.3 billion), and the average account balance is 9,689 zł (€2,153). If OFE members decide to transfer their savings to an IKE (the default option), they will have to pay a 15% conversion fee to the State budget. This means that a person choosing an IKE will have to pay an average of 1,453 zł (€323). The remaining assets will be largely invested in shares on the Warsaw Stock Exchange. Later, from 2024, the proportion of assets invested in shares will be gradually reduced. The asset structure of the new IKEs will only change five years before retirement age (which is 65 for men and 60 for women). The money will then go to a special pre-retirement fund; this is supposed to be safer, as a maximum of 15% of the assets will then be held in shares, and the rest will be invested in debt securities. The savings will be managed by the same companies that manage open pension funds, i.e. Universal Pension Societies transformed into Investment Fund Societies. The alternative is to transfer the assets to the ZUS, without a transfer fee. These savings will then be fully credited to the insured person's NDC account, and the corresponding assets will be transferred to the Demographic Reserve Fund. These funds will not be passed on to successors in the event of the death of a participant in the system.

While the fate of the OFEs is still unknown, pension savings have been boosted by the completion of the phasing-in of the occupational Employee Capital Plans (PPKs). The last stage of enrolment to the PPKs, for public institutions and the smallest companies, was completed at the end of March 2021. This means that PPKs can provide support to 6 million employees in companies that employ more than 10 people, 2.5 million people working in the public sector and 3.5 million workers in micro companies. 32.6% of employees (2.9 million people) are now enrolled in either a PPK or an Employee Pension Plan (PPE). This is far below government expectations that more than half of workers will be covered by a PPK.

In February 2021, after more than one and a half years of operation of the PPKs, the value of their assets was 3.44 billion zł (€764 million), i.e. more than 40 times less than the assets in the OFEs. Of these assets, 1.78 billion zł (€396 million) are from employees' contributions, and the rest are contributions from employers and subsidies from the budget.

PPK participants receive two subsidies from the State. Upon joining the PPK system, they receive a welcome payment of 250 zł (€56), and systematic savers can receive an annual subsidy of 240 zł (€53). The basic employee contribution is 2% of salary, and the employer tops it up with 1.5%. Both may declare higher payments. This means that the average earner who joined a PPK in December 2019, has so far paid 1,590 zł (€353) to the PPK, and has 3,462 zł (€769) on his or her account, i.e. over 117% more than he/she has paid in.

Outlook and commentary

Since the introduction of the pension reform in Poland in 1999, numerous attempts have been made to stimulate the growth of pension savings. These have included the introduction of mandatory pension savings, as part of the first pillar pensions, establishment of the Employee Pension Plans, and introduction of Individual Pension Accounts and Individual Accounts of Retirement Savings (with tax deductions). After the Great Recession in 2008, which affected public finances in Poland, the government started to scale down the mandatory pension savings, by lowering the part of the contribution transferred to the OFEs, transferring around half of the pension funds' assets invested in public bonds to the pay-as-you-go part and redeeming them, as well as making contributions to the OFEs voluntary. The liquidation of the OFEs, proposed by the government in 2021, completes the termination of mandatory funding in Poland. The proposal has sparked two major controversies. First, the 15% conversion fee is perceived as an additional tax paid to support the government budget, which is suffering increased deficits due to the cost of government policies during the COVID-19 pandemic. This will lower the value of people's pension savings, and, given the time value of money (i.e. provided money can earn interest, any amount of money is worth more the sooner it is received), it is more than the potential income tax paid on withdrawal of these assets after retirement. The second controversy concerns the point that funds transferred to the NDC accounts cannot be passed on if the individual dies; this is perceived as a loss of existing rights. There were disagreements on these points in the ruling coalition and the final decision has been postponed. The fate of the open pension funds remains unknown.

The changes made to mandatory funded pensions have undermined people's trust in the stability of long-term savings. The numerous attempts to stimulate individual pension savings, including the most recent PPK initiative, have therefore not resulted in widespread pension savings among the working-age population. The large-scale unwillingness to participate in the PPKs shows that Polish workers do not trust the government proposals to boost their pension savings.

Further reading

In Polish only:

Rządowy projekt ustawy o zmianie niektórych ustaw w związku z przeniesieniem środków z otwartych funduszy emerytalnych na indywidualne konta emerytalne [Proposal for an act amending selected acts related to the transfer of assets from open pension funds to individual retirement accounts]

Financial Supervision Authority (2021), Informacja dotycząca pracowniczych planów kapitałowych (PPK) - IV kwartał 2020 roku [Information on the Employee Pension Plans, 4Q 2020]

Government Portal on PPKs

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