

Poland 2008

Public information on pension systems and pension system changes

Short Report



On behalf of the
European Commission DG Employment, Social Affairs and Equal Opportunities



The Peer Review was held in Warsaw (Poland) on 27-28 May 2008 and hosted by the Polish Ministry of Labour and Social Policy. In addition to the host country, ten peer countries took part: Bulgaria, Estonia, Germany, Hungary, Lithuania, Malta, Portugal, the Slovak Republic, Sweden and the United Kingdom. Also participating was a stakeholder representative from the European Older People's Platform (AGE), together with representatives of the European Commission's DG Employment, Social Affairs and Equal Opportunities.

1. The policy under review

Across Europe, demographic change has been posing significant challenges for pension systems. This has led to increasing pressure for reform. Those reforms have already been implemented in a number of EU Member States, but public understanding and acceptance of them requires the provision of information which must be both detailed and intelligible.

This Peer Review examined the experience of the host country Poland with a public relations campaign for pension system reform, but it also looked in detail at three main aspects of the action taken by the various countries participating in the review:

- **Information on the introduction of pension system changes.** Pension systems have to be made sustainable – but at the same time, the level of pensions must remain adequate. These transitions imply a transfer of risk from the pension schemes to the beneficiaries. Without clear public information, the changes introduced may not have the desired effect. People need to take an interest in their pensions much earlier in life, as crucial decisions about their pensions will, in future, have to be taken long before retirement.
- **Information about pension rights.** As pension systems change, they become increasingly complex. The challenge is to inform people, in a relatively simple way, about how their pension will look in future.
- **Information on choices in pensions.** Today, people have more and more choice within the pension systems of EU Member States. This may certainly have its advantages, but it can also give rise to uncertainty and anxiety. How can people be informed in such a way that they will be satisfied with the options that they have taken?

2. Key lessons and aspects of transferability

What can be learnt from the experience of the countries taking part in the Peer Review? Among the key points to emerge:

- **Public information on pension reform** falls into two distinct categories: **alerting** people to the possibility of choice on offer, but also to the responsibilities that it entails; **informing** people about the new government policy and creating a public consensual understanding for it so that policies and incentive structures have the desired effects.

- It is particularly important to distinguish between advice and information. The provision of *information* on pensions is a neutral, general function. But government provision of *advice* on pensions is a momentous step. Advice that subsequently proves wrong may have considerable legal and financial consequences. For example, difficulties can be experienced if government communications imply that the existing pension system is the wrong one for everybody as this may well not be the case.
- During a time of reform it is questionable if information from government is always unbiased as it can be politically difficult to be very critical of new systems. Criticism of old systems can also affect behavioural patterns such as when people have had the choice to opt out of old defined benefit systems into funded systems many have done so even when this may not have been the optimal choice for all. For example drawing conclusions presentations and comments at the Peer review by Slovakia and Hungary it was quite clear the opinion was that many citizens had perhaps made the wrong choices with regards to opting into funded pillars in their systems due to the ambitious information flows regarding these tiers of their pension systems. Government is not and should not be the only source of information on pensions. Third-party information sources include NGOs, consumer groups, sectoral organisations and the labour market actors, including employers. However, if employers are empowered to make pension provision choices on behalf of their employees, the employers must also bear the fiduciary liability for those choices. As regards independent advisers, some regulation of fees may be in order, so as to ensure truly unbiased advice. Pension provision rating companies appear to be very successful in some countries.
- By asking people to focus on their pensions throughout their working lives, are governments really pressing them to make the most rational economic decision? Other options, such as savings accounts and investment in property, may in some circumstances represent a better provision for later life.
- Greater choice, if it is to be meaningful, requires **financial education**, which should begin at school. However, **Different groups may need different types of information**. This may be the case for different age groups, but also for different income and occupational groups as well as women and men. Information is often standardised to the entire populations and surveys have found that certain groups have disadvantages in absorbing information
- There is no general best practice to be recommended regarding the **means of reaching people with pension information**. For example, call centres work well in some cultures but not in others.
- The Polish experience suggests that information and awareness-raising campaigns should in the first instance **focus on opinion leaders**, who can subsequently provide independent information and advice to others.
- The peer review discussions tended to steer towards financial information need due to the introduction of funded schemes and the accumulating phase. **Projections of pension pay-outs** are, however, an important information item. Their accurate and understandable presentation requires further discussion.

- The **relative risks** of different kinds of pension provision need to be made clear. While the risks of investment-based provision are evident, the pay-as-you-go system also involves demographic and political hazards. Longevity and changes in purchasing power and working profiles are among the other risk factors that need to be taken into account if there is to be sound consumer choice. The type of pay-out may also influence risk. For example, people need more information about the relative merits of lump-sum payments and various types of programmed withdrawal.
- People need a **unified picture** of their pension options. To ensure this, institutional fragmentation of responsibility for pension policy should be avoided where possible. Publicly provided funds for pensions need to be well coordinated.
- Concerns were expressed over the effects of **advertising** by pension funds. However, rather than prohibiting adverts outright, some argued that it might be more productive to regulate the standardisation of calculations for published rates of return and fees. In this way, comparative advertising would have a more useful information content.
- **The impact of pension information should be regularly evaluated.** Does it lead people to make the choices needed to provide for both adequate and sustainable pensions?
- **Transparency of decision-making** is important to the future of pensions, as of all issues of governance.
- The detailed findings of the Peer Review will be forwarded to the EU's **Social Protection Committee**, for use in its continuing work on pensions.