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Poland economy briefing:

Changes in the pension system in Poland

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Changes in the pension system in Poland

In the Polish parliament, work on the Act on Employee Capital Plans (Pracownicze Plany Kapitałowe, PPK) has been completed. PPKs are to be an additional form of retirement security, financed mainly by employers and employees, and by the state. The program is to be targeted at over 11 million employees, including about 9 million people employed in the enterprise sector and over 2 million people working in public sector entities. This is a very important and necessary change that will improve the saving process and will in practice increase the amount of future retirement because it is currently low.

In the Polish pension system, the pension is paid from the Social Insurance Fund. The pension is granted on the application or - in certain situations - ex officio. In Poland retirement is a right, not an obligation, which means that after reaching the universal retirement age, it depends on the decision of each person whether he / she wants to use this right immediately or later due to the desire to continue working. What is important - the later the employee retires, the higher pension will he / she become. The amount of the pension depends on multiple factors: the sum of paid and valorized retirement pension contributions, the amount of initial capital, the amount of funds accumulated on the sub-account and the average life expectancy.

In Poland, a number of separate pension systems operate on different principles in parallel.

The whole pension system also consists of the so-called three pillars - pilar I and II which are compulsory, and the pillar III which is voluntary and assumes an additional deposition of money by the employee for retirement. Most people operate within the system serviced by the Social Insurance Institution (Zakład Ubezpieczeń Społecznych, ZUS), but the detailed rules are extremely complex and contain a number of exceptions.

They relate primarily to pilar I, which is divided into various systems:

- defined benefits system - for persons born before 1949 and not entitled to receive mining pensions or other pension benefits from outside the general insurance system;
- defined contribution system - for most people born after 1949, the pension is paid after reaching the retirement age and its amount depends solely on the sum of the contributions paid. These contributions are recorded in two systems - as part of a pay-as-you-go system (an individual sub-account operated by ZUS - obligatory);

and as part of the capital system (on an account in Open Pension Fund run by Polish Development Fund - from the year 2014 voluntarily);

- unusual pension systems - they concern certain professional groups served by industry pension systems: uniformed services, miners, teachers, railwaymen, prosecutors, judges and farmers (who pay pension contributions to a separate fund - Agricultural Social Insurance Fund). These groups have completely different rules for calculating pensions, lower retirement age and more favorable conversion years, which in practice means that their employers pay lower contribution and the insured receives higher pensions (case of i.e. miners, prosecutors, judges) or are paying very low contributions but receive lower pensions as well (the case of farmers, in total 1.4 million people).

In pilar II there is a certain freedom, because the payment for the second pillar is obligatory, but the employee can decide whether he / she wants to transfer the amount to his / her own sub-account in the Social Insurance Institution or in the Open Pension Fund (it invests the funds in financial instruments allowed by the applicable regulations and within the limits allowed; the funds accumulated on this account may be inherited by family members).

There are moreover additional voluntary forms of pension insurance in Poland - so-called pillar III.

It is the changes in this pillar III that are the object of interest of the Polish government, which would like to simplify the way of saving for retirement and to remove a large part of the obligations imposed on employees and transfer them to employers. Their form are currently proposed Employee Capital Plans, which are to constitute a capital system of voluntary, private long-term savings for employees, created and co-financed by employees, employers and the state. The assumption is to make citizens save for future retirement, what has not been educated and realised so far (due to relatively low wages). This is necessary in the situation of an aging society, which lives longer in retirement. The burden on the state is huge, which translates to the level of payoff, because they are very small - according to data from the Social Insurance Institution, the most frequently paid retirement in 2018 was PLN 1.065 gross [PLN 906 net] (in conversion EUR 248 gross, EUR 210 net). This is just over half of the statistical pension, which is PLN 2.179 gross [PLN 1.806 net] (in conversion EUR 506 gross, EUR 420 net).

The obligation to establish a PPK lies with all employers who employ at least one person who is subject to compulsory retirement and disability insurance under the titles listed in the Act on the PPK. All employees from 18 to 55 years of age who are subject to compulsory retirement and pension insurance from the titles specified in the Act will be automatically registered to the PPK.

Payments to the accounts of PPK participants

PAYMENTS TO THE PPK	BASIC PAYMENT (MANDATORY)	ADDITIONAL PAYMENT (OPTIONAL)	MAXIMUM PAYMENT
PAYMENTS FINANCED BY THE EMPLOYEE	2.0% of gross remuneration	up to 2.0% of gross remuneration	4.0% of gross remuneration
PAYMENTS FINANCED BY THE EMPLOYER (they are not subject to obligatory contributions for pension and disability insurance)	1.5% of gross remuneration	up to 2.5% of gross remuneration	4.0% of gross remuneration
		TOTAL MAXIMUM PAYMENT:	8.0% of gross remuneration
SURCHARGE FROM THE STATE	Welcome payment - 250 PLN (EUR 58) Annual payment - 240 PLN (EUR 55,5)		

PPK is a voluntary and fully private system of long-term savings, which is to improve the financial security of Poles. The introduction of the new law is to lead to a significant qualitative change in the process of saving for retirement in Poland. The bill assumes that new solutions will be introduced in stages. The order of creating a PPK will depend on the size or type of a company - the largest employers (employing over 250 employees) are obliged to join the PPK from July 1, 2019 (in total, the largest companies in Poland employ 3.3 million employees); medium enterprises (employing from 50 to 249 employees) must join the system till January 1, 2020 (in total app. 2 million employees); small enterprises (employing 20-49 employees) and public finance sector units are compelled to do that till July 1, 2020 (over 1.1 million employees). Other employees, including microfirms and self-employed employees, are obliged to join the program by January 1, 2021. Although all employers must join the program and each of the employees in Poland will be automatically assigned to it, it should be emphasized that it is a voluntary program because the employee will be able to opt out of saving at any time.

Both ministries preparing the current change and abandoning the existing regulations - the Ministry of Finance as well as the Ministry of Family, Labour and Social Policy - are determined to facilitate the system, because the employer will be now obliged to inform the employee what is happening with his / her PPK. The PPK participant will be able to resign from making payments to the program on the basis of a written declaration submitted to the employer.

However, the project assumes the possibility of returning to the program. Every 4 years, the employer will inform the employee who made the declaration of resignation from making payments to the Employee Capital Plan, about re-making payments. This means that if the PPK participant wants to resign from making payments to the PPK, then every 4 years will have to submit an appropriate declaration. At the same time, the PPK participant who resigned from participation in the program will be able to join him again at any moment.

As indicated by the president of the board of the Polish Development Fund, Paweł Borys, those Employee Capital Plans are a private system and funds in PPK are therefore private, just like bank deposits. PPKs are to be operated by investment fund companies (Towarzystwa Funduszy Inwestycyjnych, TFI) that have permits to conduct business in Poland. One of the additional requirements for TFIs that want to participate in the PPK is a minimum of three years of experience in managing investment funds. Today, that kind of permit have over 60 TFIs. Initially it is estimated that more than half of them will be interested in presenting their offer for PPK services. Polish Development Fund is to create a special portal that will provide easy access to product information, offers of individual TFIs, contract standards and will provide a source of knowledge for both employers and employees.

According to the government, the project is to be cheap and provide a low cost limit (0.6%). On the other hand there will be an obligation for the employer to make payments to the PPK. For failure to comply with the obligation, the employer will pay a fine of 1.000 to 1.000.000 PLN (from 232.5 to 232.550 EUR). All this will be controlled by the National Labor Inspectorate. The money collected by the participant of the PPK will be paid to him after he reaches the age of 60 (the same age for men and women).

According to the Finance Minister Teresa Czerwińska, Employee Capital Plans are the first savings program aimed at over 11 million citizens, who has a chance to become truly universal, thanks to payments made both by the employer, employee and the state budget. Also the Minister of Family, Labour and Social Policy Elżbieta Rafalska, underlines that PPK will enable the creation of a common, voluntary system supplementing the source of income after reaching the retirement age.

Conclusions

The solution proposed by the government - change of the current method of paying the so-called pillar III and facilities for employees, are a step in the right direction. Still, they cause a lot of controversy. So far, 25% of large companies have done nothing to prepare for the implementation of Employee Capital Plans, despite the fact that PPK regulations in companies employing at least 250 people will become effective from 1 July this year. Among companies employing from 50 to 249 employees (those that will take over the obligation to implement the PPK from January 1, 2020), preparations in this respect have not been started in over 62% of them. Meanwhile, not selecting a financial institution offering a PPK for employees on time will result in high fines for entrepreneurs.

For the moment, one of the most important tasks of the employer is to select an institution that will manage the accumulated capital on behalf of employees. Temporarily, there are no offers yet, so entrepreneurs cannot analyze them in order to choose an institution.

Moreover companies do not want to increase the savings of their employees due to the resulting costs for the organization, as they will translate into nearly 1% increase in total employment costs in large companies.

A relatively small increase in employment costs due to implementation of PPK causes huge discussions in some companies, especially in those where the net result is low in relation to costs. Central Statistical Office data indicate that despite good economic climate in 2018, the net result in the corporate sector fell from PLN 150 billion to PLN 138 billion, and net profitability decreased from 4.4 to 3.7%. This may indicate that companies are experiencing a significant increase in labor costs in recent time and are afraid of another raise bound with PPK. Employees are also concerned, since so far they have not been accustomed to saving for future retirement. Analysts calculate that PPK will reduce their earnings by 3.2% annually. Therefore, the implementation of the PPK will require a large information campaign presenting the advantages of saving and considerable effort prepared by the state.