



Izba Gospodarcza
Towarzystw Emerytalnych

POLISH PENSION SYSTEM

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The Chamber of Pension Funds

KIEV, 8 December 2014

THE CHAMBER OF PENSION FUNDS

About the Chamber

- ❑ Established in May 1999
- ❑ Brings together 11 from 12 Open Pension Funds that manage the assets of 152.248 billion PLN (*95.74% of the market*)
- ❑ Represents interests of its members and supports day-to-day activities
- ❑ Delegates its representatives to numerous institutions, including the Council of the Financial Market Development at the Ministry of Finance
- ❑ Cooperates with a number of organizations, institutions and external experts to strengthen our position and provide an independent, high quality expertise

THE CHAMBER OF PENSION FUNDS

Recent Achievements

- ❑ Contribution to abandoning the idea of introducing a voluntary on asset
- ❑ Convincing the President and Ombudsman to submit motions to the Constitutional Tribunal regarding new Law on OPF
- ❑ Involving a number of employers' and capital market organizations to support Chamber's activities in 2013
- ❑ Establishing rules of payment of outstanding dividend with the Financial Supervision Commission
- ❑ Increasing number of positive publications regarding OPF (*over 300% from June to the end of December 2013*)

Mandatory System – splits contributions into two parts

Voluntary System

Pillar 1 - NDC

- Notional Defined Contribution system with individual accounts
- Contribution of 12,22% gross salary
- The system run by Social Insurance Institution (ZUS)
- Accounts indexed according to wages bill changes insuring immunity

Pillar 2- DC

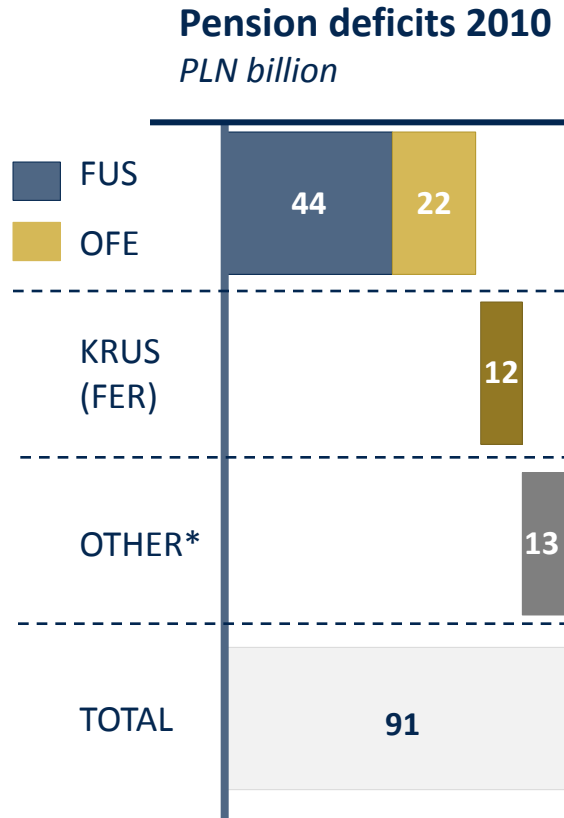
- Funded part of pension system
- Contribution of 7,3% of gross salary
- Managed by private, commercial institutions - Open Pension Funds (OPFs)
- With Financial Defined Contribution formula

Pillar 3

- Individual retirement accounts (IKE) – life insurance with investment fund, bank account, investment fund or brokerage account
- Occupational pension schemes (PPE) – group life insurance with investment fund, corporate pension fund, investment fund or foreign provider

SOURCES OF DEFICIT IN THE PENSION SYSTEM

- analysis prepared by the Ministry of Finances in 2010



* Includes uniformed services, retired judges and prosecutors.

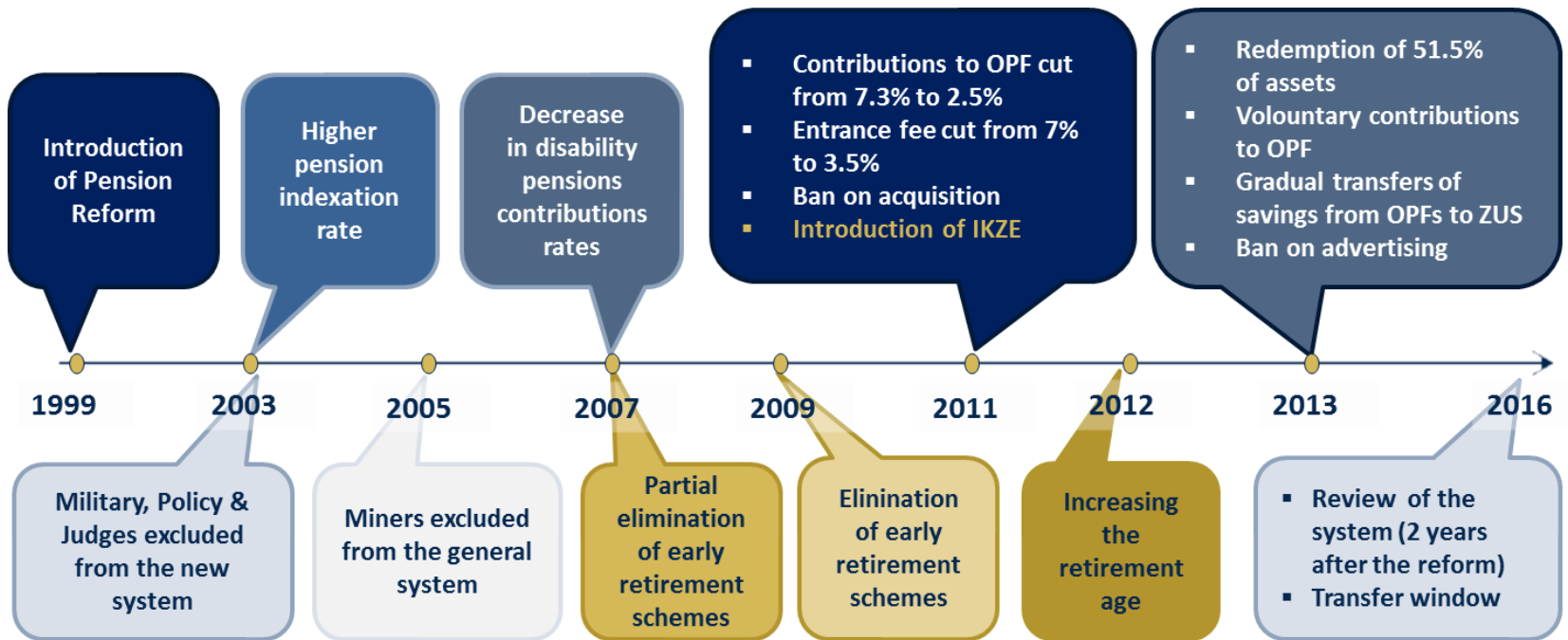
Source: Ministry of Finance

Sources of deficit:

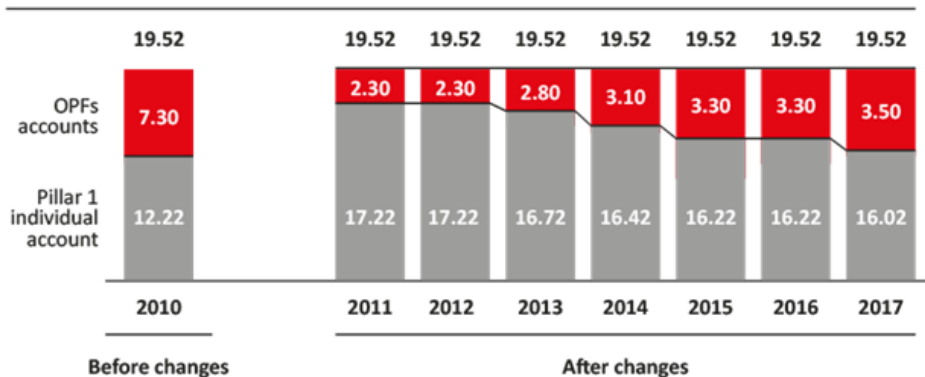
- ❑ Demographic factors (aging population, low activity)
- ❑ Low actual pension age (F: 57.5; M: 61.4)
- ❑ Privileged social groups (early retirement schemes for miners, teachers, etc.)
- ❑ Transfers to OPF (pre-founding)
- ❑ Expenditure coverage with contribution: only 10%
- ❑ Uniformed services employees do not pay contributions (pensions are paid from budgets of respective ministries)
- ❑ Low retirement age (ability to retire after 15 years of work)

POLISH PENSION SYSTEM

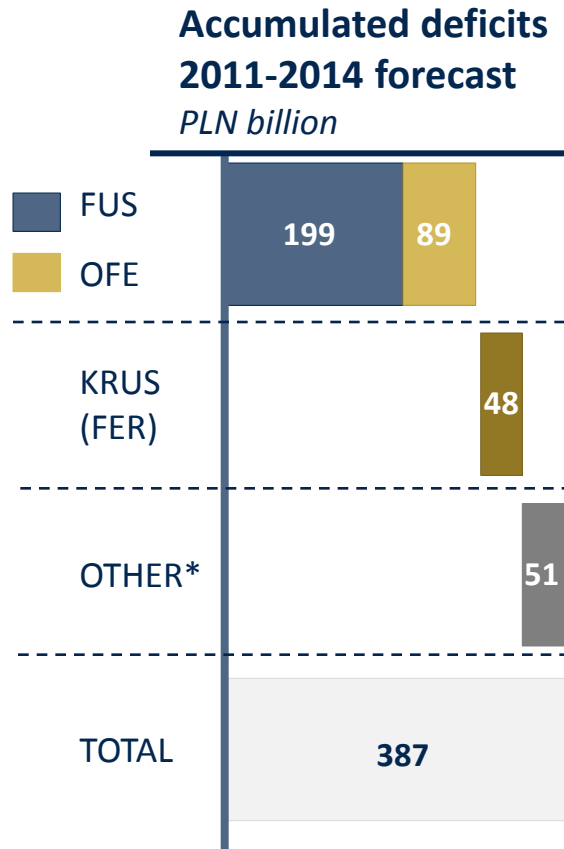
INTRODUCED IN 1999



Pension system contributions
% of gross salary



IN 2013 WE CAME BACK TO THE SAME POINT...



* Includes uniformed services, retired judges and prosecutors.

Source: Ministry of Finance

- ❑ **Searching for money** - in the report regarding pension system the government tried to convince society, that the current pension deficit exceeds PLN 90 bn a year because of OPFs.
- ❑ **Eurostat problem:** classification of funded savings
- ❑ **Questioning the sense of the 2nd Pillar:**
 - ❑ „Roulette of the capital market” (*Professor of the leading economic school*)
 - ❑ „When I am to choose between the interests of some OPFs and the interests of 16 m fund members, I shall choose the latter” (*Minister of Labour and Social Policy*)
 - ❑ „Vagaries of the financial market” (*Representant of SLD - Polish left-wing party*)

KEY PROVISIONS OF THE LATEST REFORM:

- Redemption of 51.5% assets
- Voluntary payment of contributions to OPFs
- Gradual transfer of savings from OPFs to ZUS – 10 years before retirement
- Ban on advertising (under the threat of a fine of 1 - 3m PLN)

- Ban on investing in State Treasury bonds
- Transition period of a minimum level of investments in shares
- Entrance fee were cut from 3,5% to 1,75%
- The foreign investment limit raised to 30% by 2016 (10% in 2014, 20% in 2015 and 30% in 2016)
- Minimum benchmark was abolished

POLISH PENSION SYSTEM

CURRENT SHAPE

Mandatory System

Voluntary System

Pillar 1 - NDC

Pillar 2- DC

Pillar 3

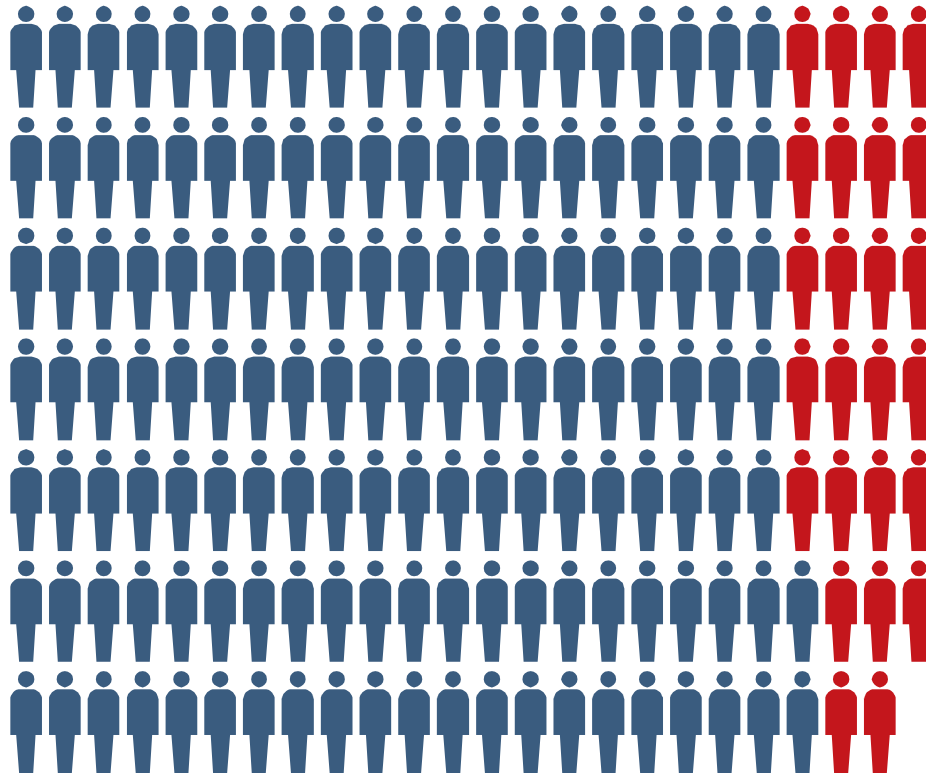
- Notional Defined Contribution system with individual accounts
- Contribution of 16,6% gross salary
- Contribution of 12,22% indexed according to wages bill changes insuring immunity
- Contribution of 4,38% indexation depends on nominal GDP growth in the last 5 years

- Treated by the government as a part of public pension system
- Contribution of 2,92% of gross salary
- Defined Contribution formula

- Individual retirement accounts (IKE)
- Individual retirement security accounts (IKZE) – may be provided by OPFs
- Occupational pension schemes (PPEs)

MEMBERS

BEFORE AND AFTER ADJUSTMENT



16 678 034

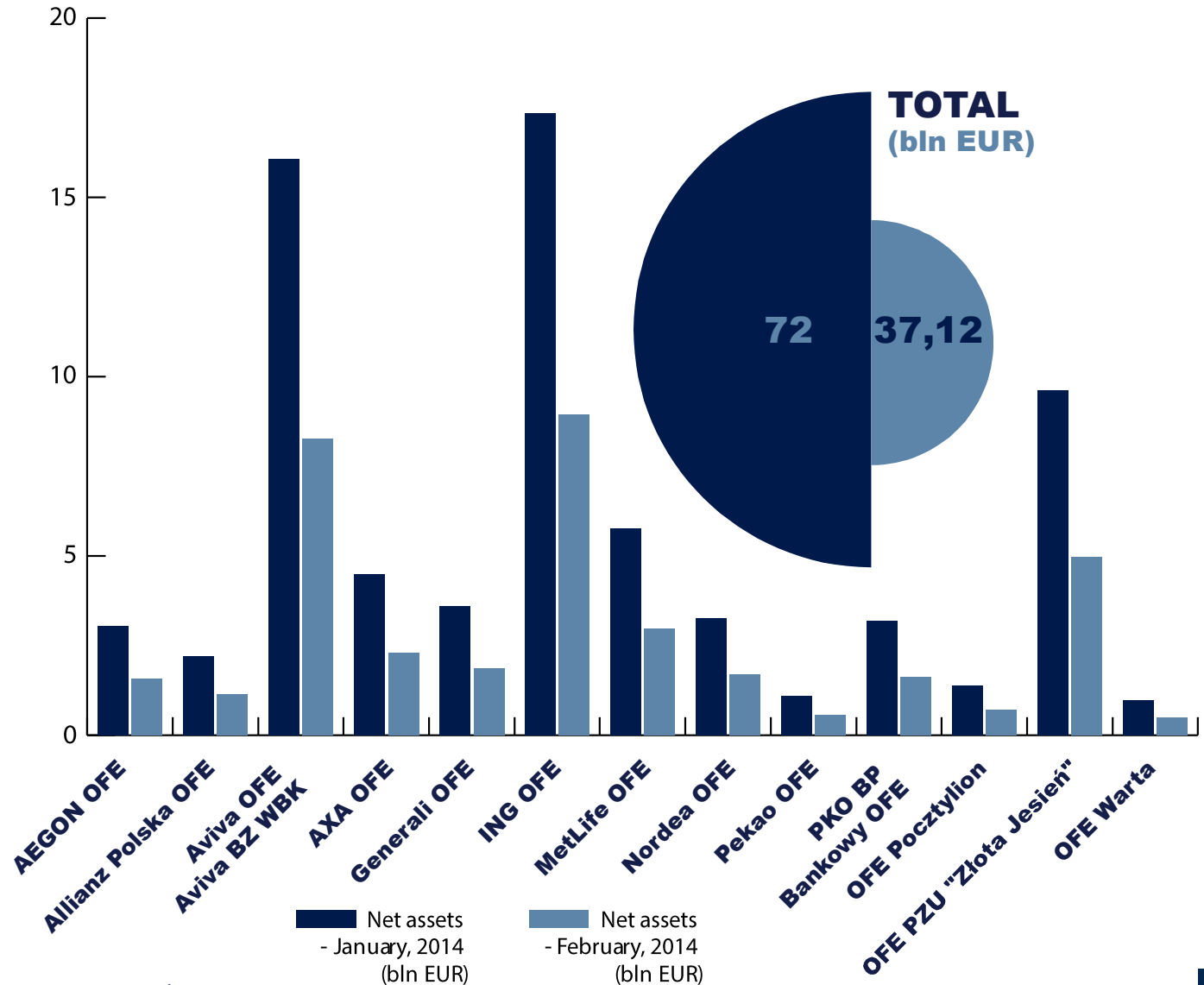
Insured persons,
Open Pension Funds members

2 518 505
(15,10%)

Insured persons who remained
in Open Pension Funds
(July 27, 2014)

OPEN PENSION FUNDS' ASSETS

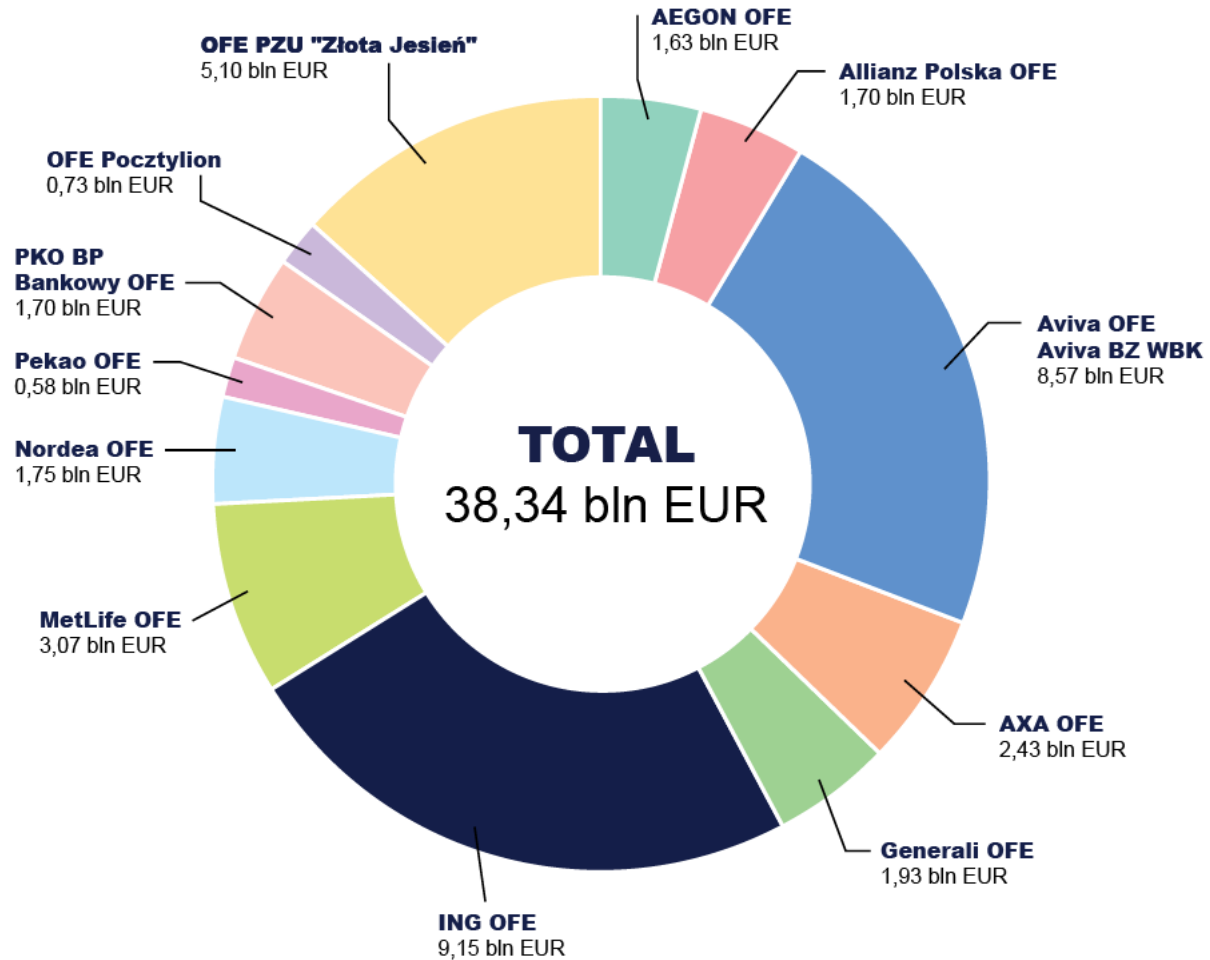
BEFORE AND AFTER FEBRUARY 2014



Data: KNF, March 2014

OPEN PENSION FUNDS' MARKET

BY ASSETS



LOOKING AHEAD...

KEY QUESTIONS THAT NEED TO BE ANSWERED...

❑ **Presidential Motion to the Constitutional Tribunal:**

- Ban on investment in State Treasury bonds
- Order to invest at least 75% in shares
- Ban on advertising

Moreover, the President of the Republic of Poland signals to the Tribunal the existing divergence of opinions as to the status of contributions paid to the open pension funds and those accumulated in the OFE (there is, however, no question asked with a request to resolve this doubt)

❑ **Ombudsman's Motion to the Constitutional Tribunal :**

- Contesting the transfer and redemptions of 51.5% settlement units
- Obligation to re-take the decision on the membership in OPF by insured that were born before 1969

Ombudsman underlines in the Motion that in his opinion money gathered in OPFs are public. However, he emphasizes as well that the future pension obligations will be costly for the public finances and at this point the reform has not been justified enough.

DIFFERENT SCENARIOS AND THEIR CONSEQUENCES

Scenario 1

NON-COMPLIANCE WITH THE CONSTITUTION	INDUSTRY IMPLICATIONS
<p>Ban on advertising</p>	<p>Possibility to increase the number of Clients in 2016</p> <ul style="list-style-type: none"> • No ban on advertising • Numerous comments in media will raise the matter again and lead a discussion concerning OPFs, showing that government's decision regarding the reform was wrong and against the Constitution – <i>the biggest case ever</i>
<p>Ban on investments in state treasury bonds</p> <p>Order to invest in equities</p>	<ul style="list-style-type: none"> • The government will be obliged to lift the ban • Clients would feel more safe and may changes their decision regarding OPF
<p>Re-take the decision on the membership in OPF by insured that were born before 1969</p>	<ul style="list-style-type: none"> • The Constitutional Tribunal may not void the recent decisions of those born before 1969, but will create an opportunity for them in 2016. • There is a very small chance that the Constitutional Tribunal will order the return of assets to OPF.

DIFFERENT SCENARIOS AND THEIR CONSEQUENCES

Scenario 2

NON-COMPLIANCE WITH THE CONSTITUTION	INDUSTRY IMPLICATIONS
<p>Contesting the transfer and redemptions of 51.5% settlement units</p>	<ul style="list-style-type: none"> • Constitutional Tribunal should order the return of assets to OPF • Judgment will mean that in the future the government will not be able to move to ZUS any assets from OPF • Political consequences – the idea of the reform may be questioned and possible future changes will be more difficult to provide

WHAT MAY WE EXPECT?

❑ **New ideas for changes in II pillar**

- All main political parties are convinced that introduction of II pillar was a mistake and was/is too costly
- The Constitutional Tribunal probably will not address the issue of whether the assets accumulated in OPFs are private or public. This may reinforce the belief among politicians that these assets are public
- The idea of providing full voluntary, transfer of assets to ZUS earlier than 10 years before the retirement and further cutting fees, may appear again

❑ **Consolidation is still inevitable**

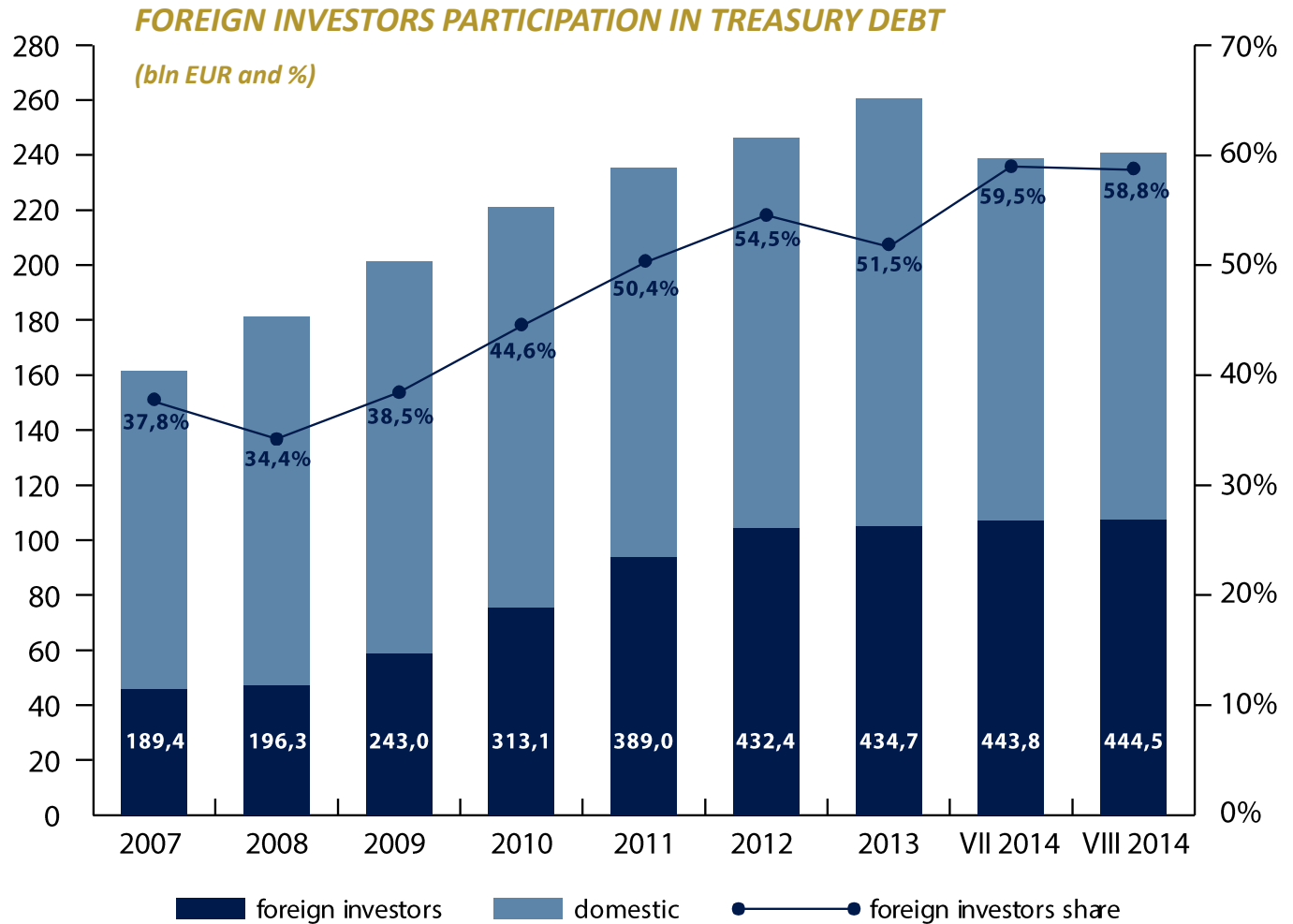
CHANGES IN II PILLAR MAY CREATE AN OPPORTUNITY FOR CHANGES IN III PILLAR

HOW DOES III PILLAR LOOK LIKE AT THE MOMENT?

PILLAR III (2013)	Number of participants	% of employees	Assets (bln EUR)	% GDP
IKE	817 700	5,2	1,04	0,26
IKZE	496 400	3,2	0,02	0,01
PPE	375 000	2,4	2,27	0,57
TOTAL	1 689 100	-	3,33	0,84

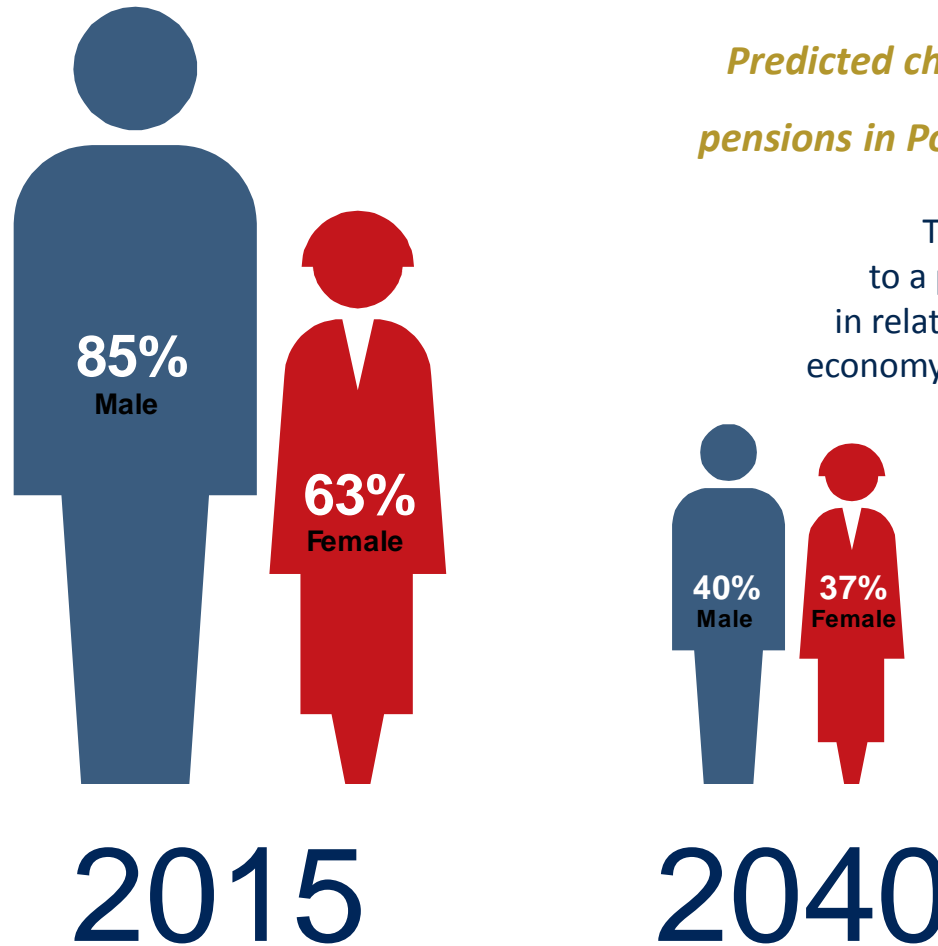
Data: KNF, GUS, (average NBP exchange rate of EUR., December 31, 2013)

WHY DO WE NEED CHANGES IN III PILLAR?



Source: Capital Strategy, „How to mobilize additional retirement savings”, November 2014

WHY DO WE NEED CHANGES IN III PILLAR?



Predicted changes in the adequacy of pensions in Poland between 2015-2040

The amount of pension granted to a person with the average wage, in relation to the average wage in the economy at the time of the retirement.

DIRECTIONS OF THE DISCUSSION:

Development of voluntary pension schemes (III pillar), which may help to mitigate decline in replacement rates, facilitate the financing the economy and increase macroeconomic stability of the country.

- ❑ Finding solutions which are universal
- ❑ Solutions should combine the employee's voluntary contribution complemented with the support from the employers and the state
- ❑ Employees should be automatically enrolled into the program, but must to have a chance to withdraw from the program.
- ❑ Fiscal incentives should not lead to the transfer from the taxpayers to the higher income groups

FUTURE ACTIONS BY THE CHAMBER:

- ❑ **To support motions provided to the Constitutional Tribunal**
 - To engage different organizations in presenting their own analysis regarding the reform and its consequences, e.g. for the long-term public finances

- ❑ **To raise the need for additional savings in III pillar, indicate the need for changes and be prepared for the discussion**
 - IGTE prepared the report by independent experts showing why do we need additional savings and what can be done to increase long-term retirement savings
 - Cooperation with Warsaw Stock Exchange and external experts, who also prepared their own analysis on this issue
 - December 1st Chancellery of the President presented recommendations for the reform in III pillar. The Chamber participates in consultations on the report.
 - The need for additional savings has been already raised by some political parties and we plan specific actions to sustain it among politicians, experts and individuals.

Thank you!

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