

POLAND



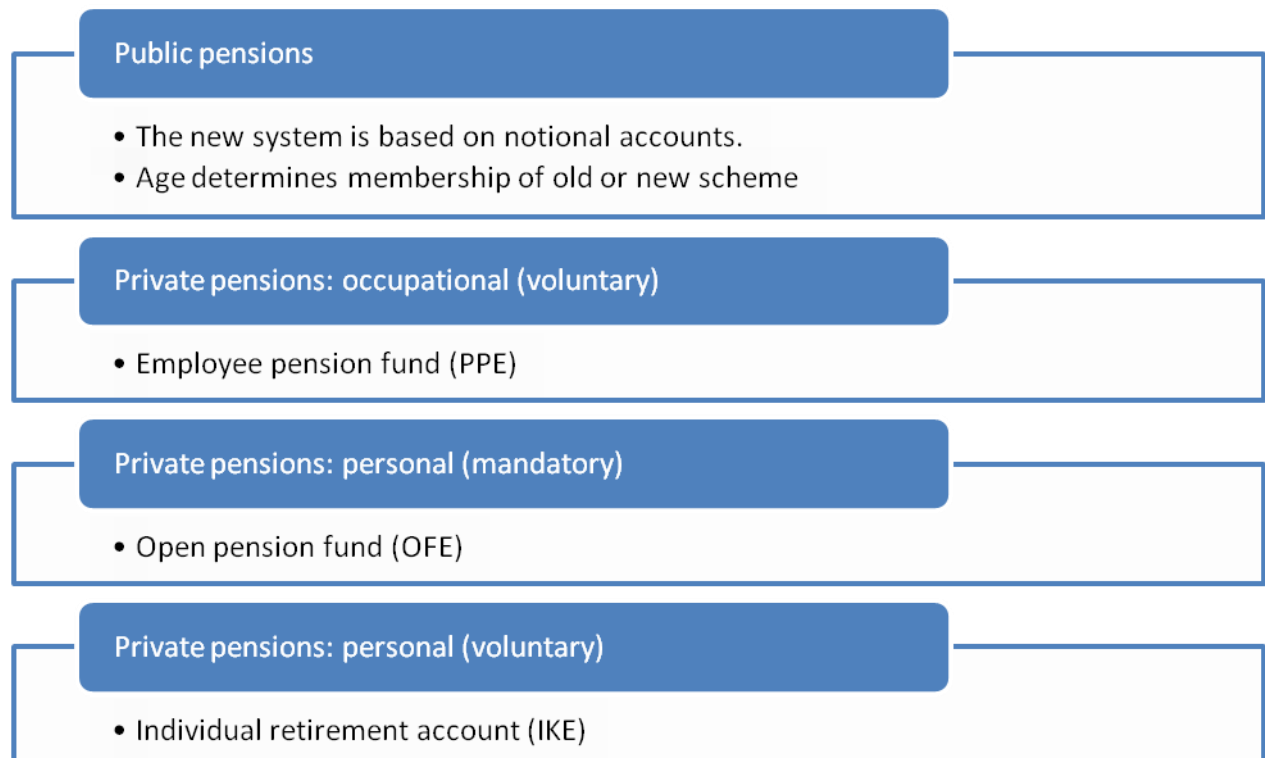
DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	1 272
GDP per capita (USD)	13 861
Population (000s)	38 116
Labour force (000s)	17 058
Employment rate	92.9
Population over 65 (%)	13.5
Dependency ratio ¹	30.0

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM



PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	18,951	31,134	44,994	62,654	86,216	118,609	142,334	140,664
Total investments, as a % of GDP	2.43	3.85	5.34	6.78	8.77	11.19	12.10	11.05
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	ND	1.27	ND	ND
• Issued in foreign currencies	ND	ND	ND	ND	ND	1.27	ND	ND
By financing vehicle (as a % of Total investments)								
• Pension funds	99.97	99.94	99.91	99.88	99.45	99.32	99.31	99.25
• Book reserves	NA	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	0.03	0.06	0.09	0.12	0.55	0.68	0.69	0.75
• Other financing vehicle	ND	ND	ND	ND	ND	ND	ND	ND
By pension plan type								
• Occupational assets	16	161	329	509	1,081	1,671	2,043	2,091
• % of DB assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
• % of DC (protected and unprotected) assets	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
• Personal assets	18,936	30,973	44,665	62,144	85,135	116,938	140,291	138,573
Structure of Assets (as a % of Total investments)								
Cash and Deposits	3.54	4.18	4.83	5.82	4.13	2.84	3.37	2.48
Fixed Income	68.04	67.75	62.35	59.93	63.12	62.13	61.04	74.77
Of which:								
• Bills and Bonds issued by the public and private sector	68.04	67.75	62.35	59.93	63.12	62.13	61.04	74.77
• Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares	28.42	27.69	31.91	33.22	31.76	33.92	34.54	21.48
Land and Buildings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments	0.00	0.38	0.91	1.04	0.99	1.10	1.04	1.26
Contributions and Benefits								
Total Contributions, as a % of GDP	1.13	1.21	1.24	1.26	1.47	1.54	1.52	1.71
• Employer Contributions, as a % of Total contributions	0.78	2.01	2.01	2.19	2.76	4.11	4.04	3.71
• Employee Contributions, as a % of Total contributions	99.22	97.99	97.99	97.81	97.24	95.89	95.96	96.29
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹								
Total membership	11,062	11,552	12,068	12,663	12,400	12,672	13,446	14,165
• % of Active membership	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Of which: % of Deferred membership	ND	ND	ND	ND	ND	ND	ND	ND
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans								
Total number of funds	ND	ND	ND	ND	ND	ND	ND	ND
Total number of plans	ND	ND	ND	ND	ND	ND	ND	ND

Note: Assets data and structure of assets refer only to open pension funds and employee pension funds. Contributions and membership data also include individual retirement accounts.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

POLAND: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

There is a compulsory PAYG scheme with notional defined contributions¹ to the Social Insurance Fund (FUS) run by the state-owned Social Insurance Institution (ZUS). It acts mainly as a redistributive and insurance mechanism in order to provide a safety net for all citizens. The retirement age for persons born after 1949 is 65 for men with 25 years of employment and 60 for women with 20 years of employment. Early retirement is possible with no reduction in benefits if the retiree contributed for a higher than required number of contribution years. A deferred retirement with corresponding higher benefits is also possible. The average gross monthly salary is PLZ 2869.69 (June 2007), with the net salary equaling around 70% of that figure.

OCCUPATIONAL VOLUNTARY

Coverage

In 2006, less than 1% of the active population was covered.

Typical Plan Design

PPE membership is established by a mutually agreed contract between employer and employees. Employers are restricted in plan design, with minimum requirements including a legally defined "basic employer contribution". Employees pay a supplementary contribution, which is also limited by law. The plan must be offered to more than 50% of employees in the company and registered with the Polish Financial Supervision Authority (KNF).

The relative unpopularity of this voluntary form of pension capital saving, coupled with problems in transferring capital between PPEs or withdrawing it when a new employer had not established a PPE, prompted the government to propose a new form of voluntary personal pension plan, known by its acronym IKE (see below).

Employer contributions are tax-exempt up to a ceiling of 7% of an employee's salary. Employees may make additional contributions that supplement those of their employer. Employee contributions are capped at three times the maximum amount that can be paid into an IKE: *e.g.* 3 x 150% = 450% of the average monthly salary.

Voluntary funds provide no guarantees or rules on how pension benefits should be paid out. A member may not, however, withdraw benefits before reaching retirement age.

Fees

Fees are laid down in funds' terms of membership, and because there are no regulations or caps, they can vary widely.

¹ This means that each individual account is credited with some theoretical points to represent contributions paid by the insured. The points are subject to growth at the rate decided by the government regulations. However, the notional accounts do not actually contain cash, stock, bonds or other securities.

Taxation

Employer contributions are taxed when they exceed 7% of an employee's gross salary. Employee contributions are liable to taxation, while investment income and benefits are exempt.

PERSONAL MANDATORY

Coverage

Any person covered by the national social security system and born after 31 December 1968 is required to join a mandatory personal pension plan, *i.e.* an OPF. People born between 1 January 1949 and 31 December 1968 were allowed to choose whether or not to opt into the new mandatory system introduced in 1999. Their decision was, however, irreversible. Those who made the transition to the new system were credited with "start-up capital" based on an actuarial valuation of their social insurance contributions on the transition date. Employees born before 1 January 1949 were not eligible for the new pension system and therefore remain in the old system. The self-employed must also participate in the new system, but may pay lower contribution rates.

People who did not select an OPF were randomly allocated to a qualifying pension fund by the regulator. (In order to qualify funds had to have less than a 10% share of the asset-weighted market and a higher-than-average rate of return over the previous 36 months.) In 2006, the OECD and the Polish regulatory authority, known by its acronym KNF, estimated that some 12.4 million people – or 7.71% of the labour force – were members of OPFs. Individuals may belong to only one fund.

Contributions

In total, contributions to an OPF account for 19.52% of employees' taxable income, with employers and employees each paying half. Of that amount 12.22% goes into the public notional direct contribution plan, with 9.76% paid by employers and 2.46% by workers. The remaining 7.3% is credited to a private individual account, which is paid entirely by the employee. Contributions can be up to 2.5 times the average Polish salary².

Benefits

An institutional structure for the payment of benefits is due to be established in 2008. Benefits will be paid out as annuities and a minimum pension – in the form of a percentage of the average gross wage in the quarter preceding retirement – will be guaranteed.

The effective retirement age in 2007 was 59.4 years for men and 56.1 for women, making the average age 57.2. Pension benefits will be paid from 2009 onwards.

Fees

OPFs can charge three types of fees:

- Distribution fees, calculated as a predetermined percentage of contributions paid. It is capped at 7% and will fall to 3.5% by 2014.

² The average monthly wage in Poland is PLN 2 869.69 (USD 1 025) before tax and social security contributions. The net wage is around 70% of the gross.

- Management fees which cover a fund's administration costs. They comprise a fixed and a variable component. The fixed portion does not exceed 0.045% of monthly contributions (an annual cap of 0.54%) and is charged on fund assets of up to PLN 8 billion. The variable component depends on investment returns generated by the fund, but may not exceed 0.005% of net assets per month. A management fee is charged proportionately to investment returns. A pension fund management company with a high rate of return may charge the full variable portion of the fee, while a company whose fund generated a low rate of return may not even charge the variable component.
- Transfer fees, which are charged if an OPF member changes fund within 24 months. The fee ranges from PLN 160 to PLN 80, depending on the length of the membership period.

Taxation

EET taxation treatment applies.

PERSONAL VOLUNTARY

Contributions

Contributions to IKE are based on an after-tax earnings basis, and may not exceed 150% of the average monthly wage in order to qualify for tax exemption.

Benefits

No rules govern the form in which benefits should be paid out. Pre-retirement withdrawals are allowed, but are liable to penalties. Loans to members are prohibited.

Fees

Fee levels are stated in IKE providers' contracts. There are no regulations or caps, so fees can vary widely.

Taxation

Employer contributions (basic contributions) are tax-deductible for employers, but are treated as taxable income for employees. Investment income and benefits are tax-exempt.

MARKET INFORMATION

Occupational voluntary

Voluntary occupational pension plans are managed by investment funds, life insurance companies, specially established company pension funds, or foreign management companies. All managed plans must be based in Poland. Switching from a PPE to an open pension fund (OPF) is not allowed, although it is possible to move to an IKE. There can be two or more PPEs in one company.

Employees may freely divide or transfer capital between each other, depending on the terms of the contract concluded between employer and employees. The PPE investment regime is similar to that of the OPFs, although more liberal in some respects. The default product and default portfolio are provided for in a

PPE's statutes. Disclosure and information requirements between a PPE and its members are specified in the fund contract.

In December 2007 participants numbered 312 133 in total. There were 5 registered pension funds managing assets worth PLN 2.0 billion (USD 0.7 billion).

Personal mandatory

Individual accounts are privately administered by specialised pension fund management companies – private joint-stock companies, called general pension companies and known by their acronym PTE. Individuals may switch between pension providers in search of the portfolio of their choice. A PTE is separate from the assets it administers, which are owned by the OPF's members. Starting an asset management company requires securing a license from the regulatory authority, the KNF. OPFs must achieve a minimum return on investment.

In 2007, the 15 registered PTE counted 13.1 million participants in total. They managed PLN 140.3 billion (USD 50.7 billion).

Personal voluntary

Personal pension plans are administered by investment funds, brokers, insurance companies, and banks. IKEs can offer a choice of portfolios and pension products. An IKE's statutes set out quantitative limits on investments and state its default product and portfolio. They do not provide any guarantees. Members can switch from one IKE to another, or to a PPE. Providers may charge a switch fee for transfers within the first 12 months of a contract. Disclosure and information requirements between an IKE and its members are established by contract.

POTENTIAL REFORM

Given the slow growth in the market, there have been several legislative initiatives to make PPEs more tax beneficial and flexible. Given the small size of the domestic equity market, private pensions are said to be looking for more opportunities to invest abroad.

The first pension payments will be made starting 2009 and regulations on the pay-out phase are being developed.

A significant amount of money might flow out of the mandatory pension system early in 2007 as thousands of workers have the opportunity to opt out of it again and rejoin the old system, under which they enjoy early retirement opportunities.

REFERENCE INFORMATION

KEY LEGISLATION

2004: the Individual Pension Accounts Act of 20 April 2004;

2004: the Employee Pension Programmes Act of 20 April 2004;

1997: the Organisation and Operation of Pension Funds Act of 28 August 1997 (as subsequently amended).

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Polish Financial Supervision Authority (KNF): supervises the private pension system;

www.knf.gov.pl.

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Insurance and Pension Funds Supervisory Commission (KNUiFE);

<http://www.knuife.gov.pl/english/>.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.

OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2009

