# IOPS COUNTRY PROFILE: POLAND


## DEMOGRAPHICS AND MACROECONOMICS

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|---|---|
| Nominal GDP (USD bn) | **548** |
| GDP per capita (USD, Purchasing Power) | **29 291** |
| Population (000s) | **38 434** |
| Labour force (000s) | **16 793** |
| Employment rate % (BAEL Methodology) | **66.1** |
| Population over 65 (%) | **17.0** |
| Dependency ratio[1] | **38.9** |

Data from 2017 or latest available year.
1. Ratio of over 65-year-olds the labour force.
Source: Polish Statistical Office, World Bank.

## POLAND: COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

**Public pensions (mandatory)**

- New system based on notional DC accounts
- Some pensioners in the old PAYG DB system (to be phased-out)

**Private pensions: occupational (voluntary)**

- Occupational pension plans (PPE), including: occupational pension funds (under the IORP Directive), occupational plans run by insurance companies, occupational plans by collective investment scheme

**Private pensions: personal, linked to employment (voluntary)**

- Open pension funds (OFE) – pure DC, since 2014 voluntary (previous mandatory 2nd pillar)

**Private pensions: personal individual (voluntary)**

- Individual Pension Accounts (IKE)
- Individual Pension Insurance Accounts (IKZE)

Source: OECD Global Pension Statistic

## POLAND: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### PUBLIC PENSION

There is a compulsory PAYG scheme with notional defined contributions[1] to the Social Insurance Fund (FUS) run by the state-owned Social Insurance Institution (ZUS). The mandatory public pension from ZUS will constitute sole (for some) or main source of pension benefit for Polish pensioners. 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. A deferred retirement with corresponding higher benefits is also possible. The total mandatory pension contribution is equal to 19.92% of gross salary (it is also capped – the income exceeding 250% of average annual salary is exempt from pension contributions). Between 1999 and 2014, for most workers, mandatory pension contributions were divided between FUS and open pension funds (former mandatory II pillar). Since 2014 pension reform, which introduced default opt-out from open pension funds, more than 80% of employees contribute only to ZUS.

The retirement age was increased to 67 both for male in female (with transitional period) by 2012 legislation, but the reform was reversed the previous regulations (65 for man, and 60 for woman) restored in 2017.

### OCCUPATIONAL VOLUNTARY

#### *Coverage*

In 2017, the occupational pensions' coverage was below 2% of the workforce.

#### *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.

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

### *Fees*

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

### *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 VOLUNTARY – LINKED TO EMPLOYMENT (PREVIOUS PERSONAL MANDATORY)

### *Coverage*

The 1999 pension reform introduced the following transformation from the previous PAYG defined benefit system: any person covered by the national social security system and born after 31 December 1968 was 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 also had to participate in the new system, but were allowed to pay lower contribution rates. People who did not select an OPF were randomly allocated to a qualifying pension fund by the regulator.

The regulations of open pension funds were then amended several times, both as a result of fine-tuning and in aftermath of the 2008 financial crisis. The 2003 amendment mostly changed the fee structure and the calculation of return guarantee. The 2011 amendment more than halved the contribution rate to open pension funds to 3.5%, changed some investment limits and introduced the total ban on canvassing.

The major changes to mandatory personal pensions, in the form of partial reform reversal, came in 2013 amendments: half of Open Pension Funds' pension assets – the State bills and bonds – were redeemed, and the OPFs were forbidden from investing in government bonds (both domestic and foreign). **The contributions to OPFs became voluntary, with default opt-out** (this immediately reduced the volume of contributions by about three-quarter). The advertisement of OPFs was banned (with minor exceptions). Both the minimum rate guarantee and investment limit in equities were removed. The fees were reduced further. Since 2014, the OPFs investment portfolio has very high (about 70%) exposure to equities.

Additionally, in 2014 the so-called safety slider was introduced – starting 10 years prior to legal retirement age, the member's savings in OPFs are being gradually transferred to notional account in ZUS (thus, the whole pension benefit from mandatory contributions will be paid by ZUS). After the re-adjustment of retirement age in November 2017, OPF's cash-outflows to safety slider are twice as big as cash inflows from voluntary contributions to OPFs.

### *Contributions*

In total, the mandatory public pension contributions is equal to 19.52% of employees' taxable income, with employers and employees each paying half. The annual salary for calculating mandatary pension contributions is capped at 30 times the average Polish monthly wage. Initially, after 1999 reform, that amount was split as follows: 12.22% went to the public notional direct contribution plan, and the remaining 7.3% to a private individual account in Open Pension Fund.

The contribution rate was lowered to 3.5%, when pension law was amended in 2011. **Since 2014, the now voluntary contribution to Open Pension Funds is equal to 2.92% of the taxable income**.

### *Benefits*

As a result of 2014 partial reform-reversal, when a member reaches the legal retirement age, all his/her savings in OPFs are already transferred to notional account in ZUS. Thus, the OPFs serve only as accumulation vehicle, and the benefit (life annuity) is paid by state social security (ZUS).

### *Fees*

OPFs can charge three types of fees:

- Distribution fees on contributions, calculated as the percentage of contributions paid. Since 2014, it is capped at 1.75%.

- Management fees which cover a fund's administration costs. If follows the regressive formula starting from 0.045% of net assets per month for the assets under PLN 8 billon, and falling to 0 (no fee) for the portion of assets exceeding PLN 45 billon (the formula also translates to nominal cap on management fee of PLN 186 million annually).
- The performance fee (premium fee) depends on investment returns generated by the fund, but may not exceed 0.005% of net assets per month. A premium 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 lowest rate of return may not charge the fee.

### *Taxation*

EET taxation treatment applies, as for general public pension.

## PERSONAL VOLUNTARY (NOT LINKED TO EMPLOYMENT)

### *Contributions*

Contributions to individual pension accounts (IKE) and individual pension insurance accounts (IKZE) 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. The main benefits of voluntary personal pension savings are the exemption from the tax on capital income. The IKZE also offers the possibility for personal income tax deductions (EET scheme) which may be attractive for people with earnings in higher tax brackets (of progressive personal income tax).

### *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 and IKZE providers' contracts. There are no regulations or caps, so fees can vary widely.

### *Taxation*

The contributions to voluntary personal pension are made from after-tax (net) income. Investment income and tax-exempt. Benefits are either tax-exempt or optionally EET scheme (initial tax deduction for contributions then taxed).

## MARKET INFORMATION

### *Occupational voluntary*

Voluntary occupational pension plans (PPE) 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. There can be two or more PPEs in one company.

The PPE investment regime is similar to that of the OPFs, although more liberal in some respects (unlike OPFs since 2014, the PPE may still invest in government bonds). 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 2017, there were 1053 occupational pension schemes in Poland managed by 28 companies. These schemes had 396 thousand registered members in total for all occupation pension plans, of which 330 thousand counted as active members. The occupational pension assets totalled at PLN 13.6 billion (USD 3.9 billion). The dominant form of occupation pensions was the agreement on contributing employee contributions to an investment fund by the employer.

### *Personal voluntary linked to employment (former 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. Starting an asset management company requires securing a license from the regulatory authority, the KNF. Individuals may switch between pension providers. A PTE is legally separated from the assets it manages, which are owned by the OPF's members (total ring fencing, the OPF could not legally go bankrupt).

Initially, 21 OPFs were operating, but the number dropped to 11 in 2017, due to mergers and takeovers.

As of December 2017, there were 11 OPFs operating in Poland. The OPFs had 16.103 million of registered members, most of which, however, no longer contributed (as a result of 2014 pension reform that made the contributions voluntary). OPFs managed the pension assets totalling PLN 179.5 billion (USD 51.6 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.

As of December 2017, there were 952 thousand IKE accounts with the assets totalling PLN 7.96 billion (USD 2.29 billion) and 691 thousand IKZEs with the assets totalling PLN 1.71 billion (USD 490 million). However, only 33% of KIE accounts and 29% of IKZE accounts were considered "active" (receiving at least one contribution in 2017).

## POTENTIAL REFORM

As a result of very low coverage of occupational pensions and the partial dismantling of mandatory funded pensions in 2014, the need to stimulate supplementary pensions savings was widely recognized. In 2018, the new pension reform was passed in parliament, introducing Employee Capital Plans (so-called PPK) – a new auto-enrolment occupational savings scheme. The first PPK will be launched in the middle of 2019, initially targeting the largest private employers (companies with 250+ employees) and within the next two years they will gradually cover smaller private companies and finally public sector as well.

All employees aged up to 55 will be auto-enrolled (with the option of opting-opt). The minimum employer's contribution will be 1.5% and employee's 2.0% of the net salary. There will also be a state 'welcome package" (PLN 250) and annual contribution (PLN 240) as additional incentive to continue saving. The employer will choose the PPK managing company (among investment companies, insurance companies or pension fund management companies). The fees in PPK will be limited (management fee of 0.5% of assets annually, performance fee of up to 0.1% of asset annually) and the PPK investments will follow the life-cycle principle (different sub-funds for different age cohorts).

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## REFERENCE INFORMATION

### KEY LEGISLATION

1997: the Organisation and Operation of Pension Funds Act of 28 August 1997 (with subsequent major amendments in 2003, 2011 and 2013);
2004: the Individual Pension Accounts and Individual Pension Insurance Accounts Act of 20 April 2004 (amended in 2011 – the addition of Individual Pension Insurance Accounts);
2004: the Employee Pension Programmes Act of 20 April 2004;
2018: the Employee Capital Plans Act of 4 October 2018 (to come into force in 2019),

### 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

Polish Statistical Office, http://stat.gov.pl/en/

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