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## Financial tremors shake Poland's retirement pillars

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By Editor Test Thu, Mar 14, 2013

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Poland is struggling to maintain two shaky retirement "pillars" for its citizens: a first pillar similar to our Social Security system and a newer, voluntary pillar whose assets are invested in professionally-managed funds.

To help reduce a general budget deficit, the government has already had to divert contributions away from the second pillar, a defined contribution plan whose Polish acronym is OFE, to the Pay-As-You-Go first pillar, whose Polish acronym is ZUS.

The nation's Labour and Social Policy Ministry is currently consulting the finance, economy and treasury ministries, the Social Security Institution (ZUS), the National Bank of Poland, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange (WSE). Executives at Aviva and ING are also weighing in.

Since the financial crisis, the establishment of a viable second pillar has been hindered by fact that the ZUS fell into deficit. In 2011, the mandatory contribution to the OFE was cut to 2.3% from 7.3%, with the remaining 5% was sent to the ZUS. The OFE contribution rate has since risen to 2.8% in 2013 and is set to increase to 3.5% by 2017. Their accumulations in OFE funds are expected to provide 20-25% of a final pension for Poles.

The transfer helped reduce the government's overall budget deficit, which the European Union has ordered it to reduce. But the diversion of money away from the OFE has negative implications for bank deposits, equity prices and ultimately Poland's economy.

Pawel Pytel, chief executive of Aviva Pension Fund Management Company, said the OFE money should remain invested on the capital markets, and not get swallowed by the ZUS, whose deficit is projected to nearly double by 2020.

"Future taxes and employee contributions will have to rise to secure the first pillar's liabilities," Pytel told IPE.com. "We can generate better returns than the current ZUS indexation, and, from a client's view, it's safer if there are two sources of financing future pensions."

A further shift of funds to the ZUS from the OFE would require the OFE's fund management companies to sell off assets, potentially lowering securities prices. In any case, there will be less money flowing into the OFE, since participants approaching retirement are expected to make progressively smaller contributions.

"There will be huge implications for the capital markets and Poland's GDP," said Grzegorz Chłopek, president of the board and chief executive at ING PTE, if money is drained from the OFE investment funds.

He predicted reduced bank liquidity, less co-financing of infrastructure projects, a smaller market for IPOs and SPOs on the Warsaw Stock Exchange, and problems for the bond market. "After several years, we will see a deep recession due to lack of stable long-term capital enabled for borrowers," he said.

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