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## Flight from DC plans could roil Polish markets

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By Editorial Staff    *Wed, Aug 6, 2014*

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*Poland created a national mandatory defined contribution plan in 1999. Now the DC plan is optional, and many of the participants of the twelve DC funds are transferring their money to the basic guaranteed pension.*

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About seven out of eight workers in Poland with 10 or more years until retirement would rather direct their payroll deferrals to the Polish Social Insurance Institution (ZUS), which is like our Social Security program, than to the twelve “second pillar” national defined contribution plans (OFE), IPE.com reported.

Of the 14 million workers with 10+ years until retirement who were allowed to opt out or stay in the DC plans, only 12% (1.75 million) chose to stay in—well below the 20% predicted by the Polish government.

Some 16.7 million participants had been contributing 2.92% of their gross wages to the plans, so inflows are expected to drop substantially. In the first six months of 2014 alone, according to the Polish Financial Supervision Authority (KNF), contributions totaled PLN6bn (€1.5bn or about \$2 billion), boosting OFE net assets to PLN153bn.

Polish pension reforms, signed into law in January 2014, made the formerly mandatory second pillar DC plan voluntary. Because higher-paid workers have been more likely to choose the second pillar than low-wage workers, the share of contributions could reach 15-17%, said Paweł Cymcyk, investment communication manager at ING IM Poland.

All Polish state and state-guaranteed bonds were moved from the DC plans to the first pillar pension last February, lowering net assets by 48% in a single month. The next asset shrinkage starts in October. Under the so-called ‘slider’, the funds have to transfer the relevant proportion of all the assets of members with 10 or fewer years left until retirement to ZUS, which under the new law takes responsibility for second-pillar, as well as first-pillar, payouts.

A total of about PLN4.2bn is expected to flow into the first pillar fund this year. The second pillar funds are expected to liquidate equity holdings to fund the transfers. This could hurt the Warsaw Stock Exchange, where pension funds account for a big share of trading and capitalization. Small-cap stocks are particularly at risk because of their low turnover, said Cymcyk.

“If there is a significant small-cap sell-off, their prices will go down,” he warned. The next decision window is in 2016, and every four years thereafter, by which time it is unlikely many of the 12 OFEs will be around.

“We predict around half that number through mergers and acquisitions,” Cymcyk told IPE. With no way to increase assets, only the bigger ones, with economies of scale, are likely to be able to generate the profits and the results to keep their clients.