Retirement Income
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Poland unveils retirement system overhaul

By Editorial Staff *Thu, Feb 22, 2018*

Poland is preparing to use auto-enrollment to move workers into a new kind of employer-based defined contribution plan, with mandatory employer and employee contributions. The 20-year-old system of diverting part of the payroll tax to so-called OFE funds would vanish.

Poland prime minister Mateusz Morawiecki, elected just last December, has released draft legislation to overhaul the nation's retirement system. Morawiecki first proposed a new kind of employee pension plan ("PPK" or Employee Capital Plan) two years ago when he was Poland's economic development minister.

Under the proposal, employers (except those companies with an existing employer-paid pension with a minimum total contribution of 3.5%) would be obligated to contribute at least 2% of pay to employee accounts, with an option to contribute 2% more.

Employees would contribute at least 1.5% but no more than 2.5%. As planned, the PPKs will be voluntary for employees. Workers ages 55 years and younger will have three months to opt out of the proposed auto-enrollment system. Older workers, of up to 70 years, will have to opt in.

Poland's pension system has three so-called "pillars." The first pillar is the state pension, ZUS, which corresponds to our Social Security. The second pillar consists of mandatory defined contribution plans funded by part of the ZUS tax, with investments in "open pension funds" called OFEs run by private banks, insurers, and asset managers. A third pillar consists of Occupational Pension Funds (PPEs) that employers could set up voluntarily. The new PPKs would replace the second (OFE) pillar plans.

One point of controversy: The proposal excludes private banks, insurers and asset managers that have been running OFEs from managing any of the plan assets. Asset management will be restricted to Polish investment fund companies (TFIs) registered for at least three years, and coordinated by the state-run Polish Development Fund. The Fund, which also runs a TFI, will administer the PPK portal.

The proposal is intended to address a retirement savings crisis in Poland that the OFEs and PPEs couldn't solve. Many Polish workers stopped directing part of their ZUS contributions to the OFEs. Only about 400,000 workers were covered by PPEs (Poland has a population of 38 million). PPE assets were just 0.10% of GDP.

The PPK plan aims to use auto-enrollment bring 11.4 million workers (75% of the working population) into employer-based pension plans over the next two year and to bring pension assets closer to the average among EU countries of 24% of GDP, according to the European Insurance and Occupational Pensions Authority (EIOPA).

The government will add PLN240 (€58) per year to each individual account, along with a one-off welcome bonus of PLN250 after three months of enrolment, until the end of 2020. The program will be implemented in six-month stages, starting in January 2019.

The first stage will involve companies with more than 250 employees, a group that will encompass about 3.3 million people. The final stage, scheduled for July 2020, will cover companies with between one and 19 workers, as well as budget-financed entities such as state schools. This last category includes about 5.1 million of the total projected 11.4 million workers covered.

The draft caps annual management fees at 0.50% of net assets, with a further 0.10% allowed as a performance fee. To prevent market concentration, any investment fund company (including its subsidiaries) with PPK assets exceeding 15% of the market total will not receive any fees on the excess.