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Poland’s clawback of privately-managed DC funds criticized

By Kerry Pechter *Thu, Mar 13, 2014*

In a new report, the OECD (Organization for Economic Co-operation and Development) said the forced transfer—tantamount to state confiscation of private money—of OFE funds to the ZUS has damaged public trust in Poland's pension system.

Back in 1999, the Poland thought it would be a good idea to do what the U.S. considered in 2005: That is, to invest some of its Social Security payroll contributions to a defined contribution plan where Poles could own a mix of stocks and Polish treasuries.

But last summer, with the pay-as-you-go Social Security plan (the “ZUS”) in the red, Polish president Bronislaw Komorowski signed a bill diverting the entire accumulated bond portion of the DC plan (OFE) back into the ZUS. Both plans are mandatory.

In a new report, the OECD (Organization for Economic Co-operation and Development) said the forced transfer—tantamount to state confiscation of private money—of OFE funds to the ZUS has damaged public trust in its pension system “and could harm the credibility of future reforms,” according to an *IPE.com* article.

The OECD report warned that the changes could hurt the future income that would be paid out to DC plan participants and reduce liquidity in the domestic Treasury market. It noted only two advantages of the transfer: a reduction in Poland’s debt-service payments and a fall in the OFE’s operating costs. Its overall view of the pension changes was negative.

Plans to overhaul the structure of the pension system first became public last summer, as the government considered how best to design the 15-year old system’s payout phase. At the time, the Polish Chamber of Pension Funds (IGTE) alleged that the information used by the government to make its case was “false and dishonestly presented.” President Komorowski nevertheless signed the controversial bill into law at the beginning of January.