
Poland's experiment with private pension funds nears end

By Editorial Staff Thu, Jul 7, 2016

Inspired by the late-90s equities boom, the so-called OFE program helped Poland develop a fledgling capital market, centered on the Warsaw Stock Exchange. But then came the financial crisis.

The second-pillar of Poland's pensions system (known as Open Pension Funds or by its Polish acronym, OFE), which consists of individual accounts in privately-run investment funds, is about to topple.

The Polish government intends to transfer 75% of the savings held in the OFEs to the voluntary third pillar tax-advantaged system of individual savings accounts (IKEs), and 25% to a fund (the Demographic Reserve Fund, or FRD) that Poland set up in 2002 to cover shortfalls in the ZUS, the basic, first-pillar government pension.

A government official said that the plan was not a "nationalization" of the OFE system. He described it rather as "a transfer of public funds to the Polish people themselves."

The current OFE system, a once-mandatory private capital markets investment program, was introduced in 1999. Inspired by the exuberance of the late-90s equities boom, it helped Poland develop a capital market, centered on the Warsaw Stock Exchange.

But then came the financial crisis. Starting in 2010, various changes weakened the OFE program. The contribution rate was cut to 2.3% of pay from 7.3%. The program became voluntary, and workers began shifting their contributions to the ZUS.

In 2014 and 2015, much of the OFE assets were shifted, first in a lump sum and then in stages, to the ZUS, to satisfy the first pillar's funding needs. Net outflows from the OFEs to the ZUS eventually exceeded OFE inflows.

Most Poles do not have an IKE, the private third-pillar vehicles that will receive three-quarters of the remaining OFE funds. IKEs are offered by Polish pension fund companies, insurance companies, banks, brokerages and investment fund companies. As of the end of 2015, Poles had set up only about 850,000 IKEs, compared with some 16.5 million OFE accounts at their peak. About 2.5 million OFE accounts are still active.

Future pension reforms call for a new workplace savings system, called Workers' Capital Plans (PPKs). Employers and employees would each contribute 2% of wages into the plans.

If the participants are willing to add a further contribution (1% from employers and 2% from employees), their PPK will receive a bonus of PLN250,000 (\$62,224).

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