Polish president signs new pension laws

By Editor Test *Mon, Apr 11, 2011*

Poland's deteriorating public finances back in late 2010 drove the changes. The budget deficit is estimated at 7.9% of GDP for 2010.

The hotly debated overhaul of the 12-year-old “second pillar” of Poland’s state pensions system was signed into law by president Bronislaw Komorowski April 7, IPE.com reported.

Starting May 1, contributions to open pension funds (OFEs)—mandatory defined contribution accounts—will fall to 2.3% of gross wages from 7.3%. The difference will be transferred to individual accounts managed by the Social Insurance Institution (ZUS), with a return indexed to the average of the previous five years’ nominal GDP growth (not counting falls in GDP). After two years, the OFE portion will rise gradually to 3.5% by 2017.

Over the next two years, growth of pension funds will slow markedly. In the first three months of 2011, contributions alone amounted to PLN6.4bn (€1.6bn), bringing the total net assets of the 15 million-participant plan to some €58bn ($83.8 bn).

The new law also raised the equity limits from 40% to 42.5% in 2011 and 62% by 2020, but it maintained the unpopular 5% cap on foreign investments, which prime minister Donald Tusk described as essential for maintaining the stability and security of the system.

The law introduces a new voluntary savings vehicle, the Individual Pension Insurance Account (IKZE), into which savers can contribute an additional 4% of gross wages tax-free.

Savers can either add these to their existing OFE account or have them managed by banks, insurance companies, brokerages or investment companies.

The new law also bans, as of May, transfer fees levied on savers switching between OFEs and, as of 2012, the use of sales agents by pension companies.

Poland’s deteriorating public finances back in late 2010 drove the changes. The budget deficit is estimated at 7.9% of GDP for 2010. The government – a coalition between the centre-right Civic Platform (PO) and the agrarian Polish Peasants Party (PSL) – wants it down to the 3% level for euro adoption by 2013.

The deficit, in turn, increased the country’s public debt, which in 2010 was approaching the constitutional limit of 55% of GDP, above which the government is legally obliged to institute pension freezes and other public sector cuts.

Since OFE contributions counted as public spending, the second-pillar system was an easy target for deficit reduction, as has been the case in the Baltic states and, at its most extreme, in Hungary, which effectively nationalised its second pillar system last year.

The government estimates that, by 2020, the reforms will have reduced Poland’s debt obligations by PLN190bn (€48bn).