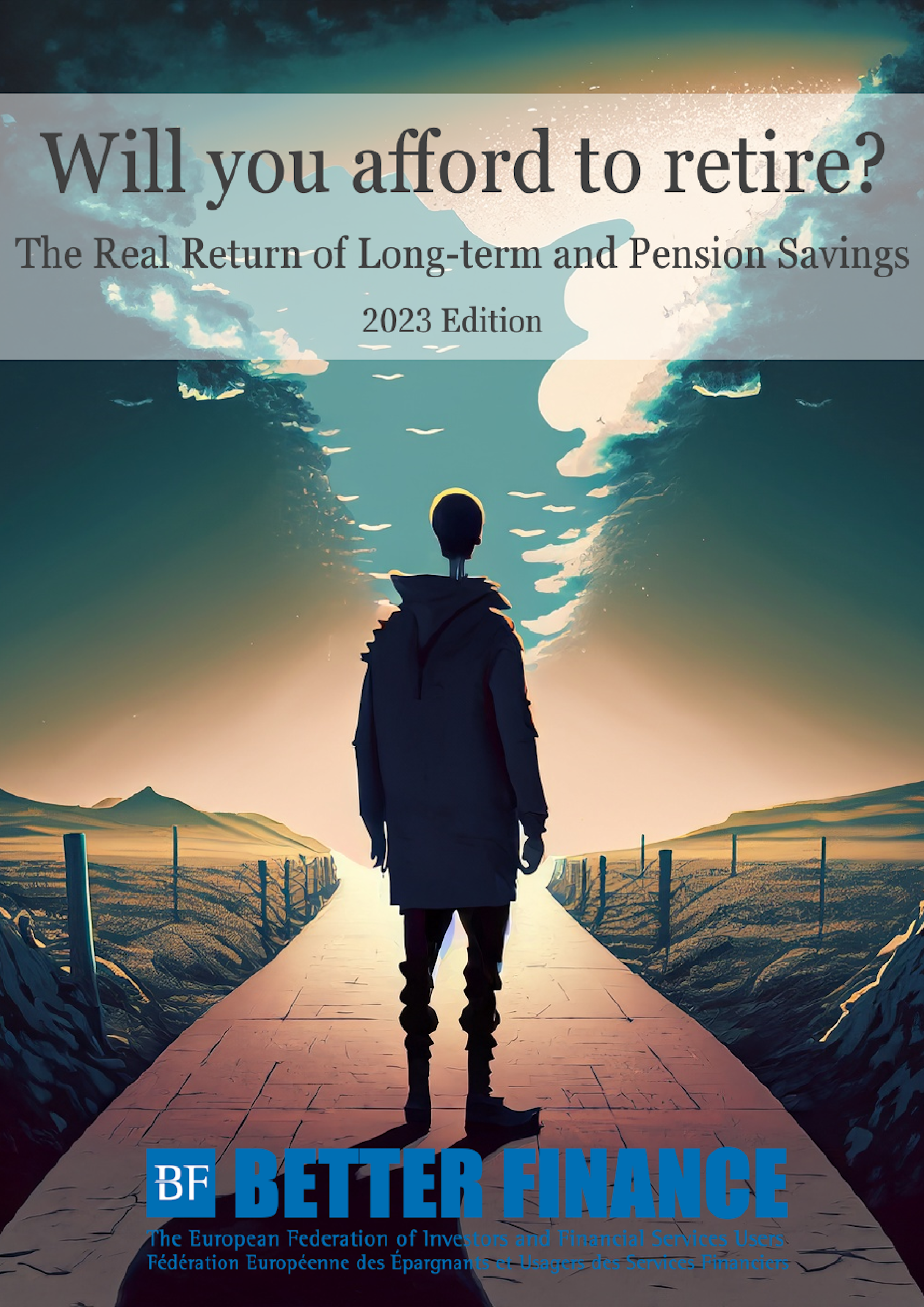

Will you afford to retire?

The Real Return of Long-term and Pension Savings

2023 Edition

BETTER FINANCE
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Country Case 13

Poland

Streszczenie
Dodatkowy system emerytalny w Polsce składa się aktualnie z czterech elementów: pracowniczych programów emerytalnych (PPE), indywidualnych kont emerytalnych (IKE), indywidualnych kont zabezpieczenia emerytalnego (IKZE) oraz pracowniczych planów kapitałowych (PPK funkcjonujących od 1 lipca 2019 r.). Na koniec 2022 roku zgromadzono w nich odpowiednio 19,13 mld zł (4,16 mld €), 14,12 mld zł (3,07 mld €), 6,62 mld zł (1,44 mld €) oraz 11,99 mld zł (2,61 mld €).

W analizowanym okresie (2002-2022) pracownicze fundusze emerytalne (PFE), będące jedną z form PPE, wypracowały nominalne stopy zwrotu sięgające 5% w skali roku. Średnia realna stopa zwrotu za cały analizowany okres wyniosła natomiast 2%.

Dobrowolne fundusze emerytalne (DFE), będące jedną z form IKE i IKZE, osiągnęły nadzwyczajne wyniki inwestycyjne w początkowym okresie funkcjonowania, które nie zostały jednak powtórzone w kolejnych latach. Średnia nominalna stopa zwrotu z uwzględnieniem opłat za lata 2013-2022 wyniosła 3,54%, a realna 0,36%.

Wprowadzone tuż przed pandemią pracownicze plany kapitałowe (PPK) oferowane w formie funduszy zdefiniowanej daty osiągnęły natomiast w okresie 2020-2022 stopę zwrotu równą 2,92% nominalnie i -5,41% realnie.

Real returns 2022

Employee pension funds (PFE): -21.87%

Voluntary pension funds (DFE): -24.05%

Employee capital plans (PPK): -22.72%

Summary
The supplementary pension system in Poland currently consists of four components: employee pension plans (PPE), individual retirement accounts (IKE), individual retirement security accounts (IKZE) and employee capital plans (PPK operating as of July 1, 2019). At the end of 2022, they have accumulated PLN 19.13 billion (€4.16 billion), PLN 14.12 billion (€ 3.07 billion), PLN 6.62 billion (€ 1.44 billion) and PLN 11.99 billion (€ 2.61 billion), respectively.

During the period under review (2002-2022), employee pension funds (PFEs), which are one form of PPEs, generated nominal rates of return of 5% per year. In contrast, the average real rate of return for the entire period analyzed was 2%.

Voluntary pension funds (DFEs), which are a form of IKEs and IKZEs, achieved extraordinary investment results in their initial period of operation, but these were not repeated in subsequent years. The average nominal rate of return including fees for 2013-2022 was 3.54%, and the real rate was 0.36%.

Introduced just before the pandemic, employee capital plans (PPKs) offered in the form of target-date funds achieved a nominal rate of return of 2.92% and -5.41% in real terms for the 2020-2022 period.

Introduction: The Polish pension system

- All forms of supplementary pension savings in Poland are offered in funded DC formula that means high exposure to investment risk for individual participants.
- The schemes are generally offered in few forms: a contract with an asset management company (investment fund); a contract with a life insurance company (group unit-linked life insurance); an employee pension fund run by the employer (*pracowniczy fundusz emerytalny*, PFE), an account in a brokerage house; a bank account (savings account) or a voluntary pension fund (*dobrowolny fundusz emerytalny*, DFE).
- At the end of 2022, there was PLN 51.9 bln (€ 11.3 billion) assets collected in the whole supplementary pension system in Poland.
- In 2022 due to turbulent times caused by the war in Ukraine all the schemes reported negative returns but the average rates of return for longer period both nominal and real stayed positive for almost all plans (except for average real returns of employee capital plans, PPK).

Table PL.1 – Long-term and pension savings vehicles analysed in Poland

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
Employee pension funds (PFE)	Voluntary (III)	2002	2022
Voluntary pension funds (DFE)	Voluntary (III)	2013	2022
Employee capital plans (PPK)	Voluntary (III)	2020	2022

Table PL.2 – Annualised real net returns of Polish long-term and pension savings vehicles (before tax, % of AuM)

	Employee pension funds (PFE)	Voluntary pension funds (DFE)	Employee capital plans (PPK)
Reporting period	2002-2022	2013-2022	2020-2022
1 year (2022)	-21.9%	-24.1%	-22.7%
3 years (2020–2022)	-7.9%	-7.8%	-5.4%
5 years (2018–2022)	-5.0%	-7.5%	n.a.
7 years (2016–2022)	-2.3%	-4.2%	n.a.
10 years (2013–2022)	-1.1%	0.4%	n.a.
Whole period	2.0%	0.4%	-5.4%

Data: ADD SOURCE; *Calculations:* BETTER FINANCE.

Pension system in Poland: An overview

The old-age pension system in Poland is a multi-tier structure consisting of three main elements:

- Tier I — a mandatory, notional defined contribution (NDC) system ;

- Tier II — a mandatory NDC system with a partial opt-out for funded open pension funds (OFEs); and
- Tier III — voluntary or quasi-obligatory, occupational and individual DC pension plans.

Table PL.3 – Overview of the Polish pension system

Pillar I	Pillar II	Pillar III
Mandatory	Mandatory[a]	Voluntary/Quasi-obligatory
PAYG	PAYG/Funded (opt-out)	Funded
NDC	NDC/DC (opt-out)	DC
Basic benefit	Basic benefit	Complementary benefit
Publicly managed	Publicly/Privately managed	Privately managed
Social insurance institution (ZUS)	Social insurance institution (ZUS) / Open Pension Funds in opt-out element	Pension savings managed by different financial institutions, organised by employers or individual

[a] The II tier is still mandatory although open pension funds (OFE) have been made voluntary since 2014 (partial opt-out for funded system).
Source: Own elaboration.

The first part of the system is contributory and is based on a Non-financial Defined Contribution (NDC) formula. The total pension contribution rate amounts to 19.52 % of gross wage (Tier I + Tier II) and the premium is financed equally by employer and employee. Out of the total pension contribution rate, 12.22 p.p. are transferred to Tier I (underwritten on individual accounts of the insured), and 7.3 p.p. to Tier II. If a person has not opted out for open pension funds (OFE), the total of 7.3 p.p. is recorded on a sub-account administered by the Social Insurance Institution (NDC system). If he/she has opted out for the funded element (open pension funds, OFE), 4.38 p.p. are recorded on a sub-account and 2.92 p.p. are allocated to an account in a chosen open pension fund.[1]

Tier I is managed by the Social Insurance Institution (ZUS), which records quotas of contributions paid for every member on individual insurance accounts. The accounts are indexed every year by the rate of inflation and by the real growth of the social insurance contribution base. The balance of the account (pension rights) is switched into pension benefits when an insured person retires.

Tier II of the Polish pension system consists of sub-accounts also administered by the Social Insurance Institution (NDC) and possible partial opt-out for open pension funds (*otwarte fundusze emerytalne*, OFE; funded system). Polish OFEs are just a mechanism of temporary investing public pension system resources in financial markets (financial vehicles for the accumulation phase). An insured person who enters the labour market has the right to choose whether to join an OFE or whether to remain solely in the PAYG system. When the insured chooses to contribute to the OFE, 2.92% of his/her gross salary will be invested on financial markets. If no such decision is taken, his/her total old-age pension contribution will automatically be transferred to Social Insurance

[1] Two years after the change in 2014 that made OFE's voluntary the insured could again decide about opt-out. After 2016 "the transfer window" is open every four years.

Institution (ZUS). This default option resulted in a huge decrease in OFEs´ active participation in the year 2014.

The pension law establishes the contribution level and guarantees minimum pension benefits that are paid together from the whole basic system (tier I + II) by the public institution (ZUS). The statutory retirement age is 60 for women and 65 for men.[2] Prior to retirement the member's assets gathered in OFE (if one opted out for funded element) are transferred to a sub-account administered by ZUS.[3] Pension benefits from the basic system are calculated in accordance with a Defined Contribution (DC) rule and are paid in a form of an annuity by Social Insurance Institution (ZUS).

The old-age pension from the basic system (tier I+II) depends solely on two components: 1) the insured person's total pension entitlements accumulated during his/her entire career (balance of an NDC account and a sub-account), and 2) the average life expectancy upon retirement.

Tier III supplements the basic, mandatory pension system and represents voluntary and quasi-obligatory, additional pension savings. It consists of four different vehicles:

- employee (occupational) pension programmes (*pracownicze programy emerytalne*, PPE);
- individual retirement accounts (*indywidualne konta emerytalne*, IKE);
- individual retirement security accounts (*indywidualne konta zabezpieczenia emerytalnego*, IKZE),
- employee capital plans (*pracownicze plany kapitałowe*, PPK).

Employee pension programmes (*pracownicze programy emerytalne*, PPE) are plans organised by employers for their employees. PPE settlement happens after an employer agrees with the representatives of the employees on the plan's operational conditions, signs the contract on asset management with a financial institution (or decides to manage assets himself) and registers a programme with the Financial Supervisory Commission (*Komisja Nadzoru Finansowego*, KNF). The basic contribution (up to 7 % of an employee's salary) is financed by the employer but an employee must pay personal income tax on this. Participants to the programme can pay in additional contributions deducted from their net (after-tax) salaries. There is a yearly quota limit for additional contribution amounting to 4.5 times the average wage (PLN 26 649 - € 5 693.26 - in 2022). PPE's returns are exempt from capital gains tax. Benefits are not taxable and can be paid as a lump sum or as a programmed withdrawal after the saver reaches 60 years. At the end of 2022 PPEs covered 652 thousand employees which represents only 3.9% of the working population in Poland.[4]

Employee capital plans (*pracownicze plany kapitałowe*, PPK) are also organised by employers but they use auto-enrollment and matching defined contribution mechanisms. They started to

[2] It started to increase in 2013 and was planned to reach 67 for both men and women (in 2020 for men and in 2040 for women) but this reform was cancelled three years later. Hence, since October 2017 the statutory retirement age in Poland is again 60 for women and 65 for men. It may result in a situation where the significant proportion of women will get a minimum pension when retiring at the age of 60.

[3] Money gathered on individual accounts in OFE is systematically transferred to the Social Insurance Institution (ZUS) during 10 years prior to retirement (before reaching the statutory retirement age).

[4] The coverage was calculated according to Statistics Poland (GUS) data on the number of employed Poles at the end of 2022 (GUS 2023).

operate in 2019 and their full implementation was staggered in accordance to the given below dates and depending on the company size:

- since 1 July 2019 – companies employing at least 250 people;
- since 1 January 2020 – companies with at least 50 employees,
- since 1 July 2020 – companies having at least 20 employees,
- since 1 January 2021 – remaining companies, including the entities financed from state budget.

The employee contribution amounts to 2-4% of the gross salary. The minimum matching contribution financed by employer is 1.5% of the gross salary but can be higher on a voluntary basis (up to 4%). People earning 120% or less of the average income can save less, namely minimum 0.5% of the gross salary. In order to encourage individuals to save in PPK, the state budget offers the PLN 250 kick-start payment (€ 56.41) and a regular annual state subsidy amounting to PLN 240 (€51.27). The employee and employer contributions are taxed while the state subsidies remain exempt from taxation both at accumulation and decumulation stage. PPK's returns are exempt from capital gains tax. Benefits can be paid as a lump sum (max. 25% of the accumulated capital) and programmed withdrawal when a saver reaches 60 years. Savings can be partially withdrawn (25% of the capital) in the case of the serious disease of the saver, his/her spouse or a child. The accumulated money can be also borrowed from the account (100% of the capital) to finance an individual commitment when taking a mortgage. PPKs covered 3 mln employees at the end of 2022, which represents ca. 17.91% of the working population.

Individual retirement accounts (*indywidualne konta emerytalne*, IKE) were introduced in 2004, offering people the possibility to save individually for retirement. They are offered by various financial institutions such as asset management companies, life insurers, brokerage houses, banks and pension societies. An individual can only gather money on one retirement account at the time but is free to change the form and the institution during the accumulation phase. Contributions are paid from the net salary with a ceiling of 3 times the average wage (PLN 17 766 - € 3 795.51 - in 2022). Returns are exempt from capital gains tax and the benefits are not subject to taxation. When a saver reaches 60 years of age (or 55 years, if he/she is entitled by law to retire early), money is paid in the form of a lump sum or a programmed withdrawal. At the end of 2022 only 800 thousand Polish citizens had an individual retirement account (IKE) which represents 4.78% of the working population.

Individual retirement security accounts (*indywidualne konta zabezpieczenia emerytalnego*, IKZE) started to operate in 2012 and are offered in the same forms as individual retirement accounts (IKE) but have other contribution ceilings and offer a different form of tax relief. Premiums paid to the account can be deducted from the personal income tax base. Contributions and returns are exempt from taxation, but the benefits are subject to taxation at a reduced rate. Savings accumulated in IKZE are paid to the individual as a lump sum or as a programmed withdrawal after the saver reaches the age of 65. The limit for IKZE contributions is 120% of the average wage (PLN 7 106.40[5] – € 1 518.20 in 2022). Only about 2.84% of the Polish working population (2022) is covered by this type of supplementary old-age provision.

[5]Since 2021 there is also a special limit of contributions for self-employed that amounts to 180% of the average wage (PLN 10 659.60 – € 2 277.30 in 2022).

Table PL.4 – Voluntary pension products in Poland (pillar III) at the end of 2022

Employee Pension Programmes (PPE)	Employee capital plans (PPK)[a]	Individual Retirement Accounts (IKE)	Individual Retirement Security Accounts (IKZE)
Type of pension vehicles			
• Unit-linked life insurance • Investment fund • Employee pension fund	• Unit-linked life insurance • Investment fund • Pension fund	• Unit-linked life insurance • Investment fund • Account in the brokerage house • Voluntary pension fund • Bank account	• Unit-linked life insurance • Investment fund • Account in the brokerage house • Voluntary pension fund • Bank account
Assets under Management			
PLN 19.13 bln	PLN 11.99 bln	PLN 14.12 bln	PLN. 6.62 bln
€ 4.16 bln	€ 2.61 bln	€ 3.07 bln	€ 1.44 bln
36.88% of Pillar III assets	23.13% of Pillar III assets	27.22% of Pillar III assets	12.77% of Pillar III assets

[a] This vehicle started operating in 2019.
Data: UNKF (2023).

Long-term and pension savings vehicles in Poland

The most popular forms of supplementary pension plans are the collective ones, namely PPEs and PPKs that represent 60% of assets under management. Regarding the type of financial vehicle used, investment funds attracted the great majority of savers – 84% both in PPE and PPK, 52.5% in IKE and 44% in IKZE.

Third pillar

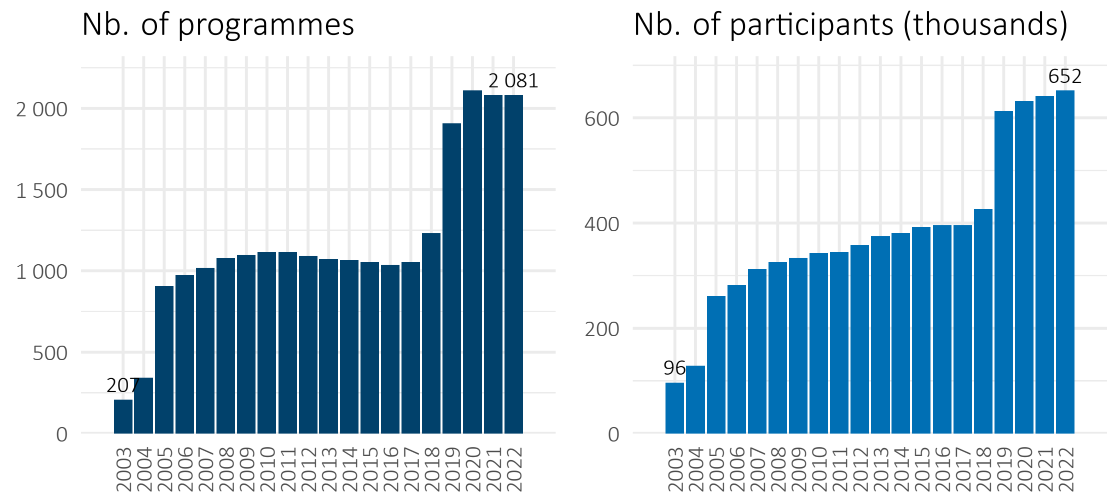
Employee Pension Programmes

PPEs can be offered in four forms:

- as a contract with an asset management company (an investment fund);
- as a contract with a life insurance company (a group unit-linked insurance);
- as an employee pension fund run by the employer; or
- through external management.

Employee pension programmes started to operate in 1999. The development of the market was very weak during the first five years of operation. Thereafter, due to changes in PPE law, many group life insurance contracts were transformed into PPEs at the end of 2004 and in 2005. In 2022, the number of programmes reached 2 081, mainly due to significant increase in 2019 and 2020 being the direct response to the new law that allowed employers to be exempt from the obligation to create PPK when they offer PPE.

Figure PL.1 – Number of Employee Pension Programmes and number of participants 2003-2022



Data: UKNF, 2023.

The most popular forms of PPE are investment funds that represent 74.2% of PPEs (see Table PL.5) and manage 74.1% of total PPEs' assets. Their share is even higher when taking into consideration the number of participants (83.7%).

Table PL.5 – **Number and assets of Employee Pension Programmes (PPE) by form of the programme**

	Unit-linked life insurance	Investment fund	Employee Pension Fund	Total 2022
Nb. of PPE	513	1 544	24	2 081
Market share (% of of PPE nb.)	*24.7%*	*74.2%*	*1.2%*	*n.a.*
Nb. of participants (thousands)	85.8	536.8	29.6	652.2
Market share (% of participants)	*13.4%*	*83.7%*	*4.6%*	*n.a.*
Assets (PLN mln.)	3 121.0	14 073.7	1 935.0	19 129.7
Assets (€ mln.)	678.9	3 061.6	420.9	4 161.4
Market share (% of total assets)	*16.5%*	*74.3%*	*10.2%*	*n.a.*

Data: UKNF, 2023.

PPE assets amounted to PLN 19.13 bln (€4.16 bln) and the average account balance equalled PLN 29 331 (€ 6 257) at the end of 2022. No data is available on the average percentage level of contributions paid to the programmes. The highest balance was observed in employee pension funds while the lowest in investment funds.

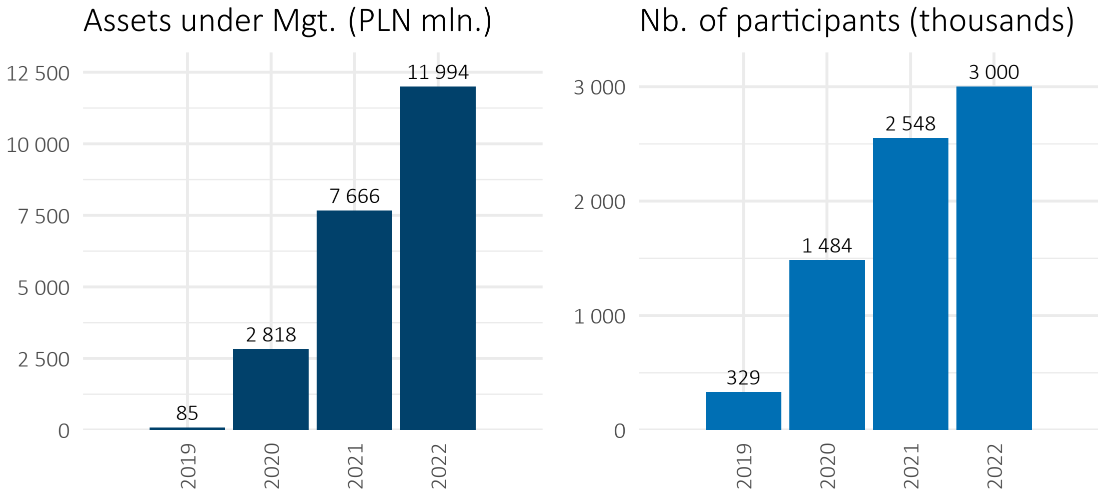
Employee Capital Plans (PPK)

Employee capital plans (*pracownicze plany kapitałowe*, PPK) can be offered by life insurance companies, investment companies (asset management companies, *towarzystwa funduszy inwestycyjnych*, TFI), general pension societies (*powszechne towarzystwa emerytalne*, PTE) and Employee Pension Societies (*pracownicze towarzystwa emerytalne*, PrTE) in a form of target-date funds (TDF, life cycle funds). All employees aged 18-55 are automatically enrolled in a plan but can opt out by signing a declaration.

A plan member should be assigned, and his/her contributions should be allocated to the fund with a date that is the nearest to the date when he/she reaches 60. Every provider has to offer many TDFs with target dates every 5 years. The limits of portfolio structure depend on a target date and are as follows:

- the targed date is since setting up till 20 years prior the age of 60: 60-80% shares and 20-40% bonds,
- 10-20 years prior the age of 60: 40-70% shares and 30-60% bonds,
- 5-10 years before 60: 25-50% shares and 50-75% bonds,
- 0-5 years before reaching 60: 10-30% shares, 70-90% bonds,
- since reaching 60: 0-15% shares and 85-100% bonds.

Figure PL.2 – Number of Employee Capital Plans and number of participants 2019-2022



Data: UKNF, 2021, 2022 & 2023.

Table PL.6 – Number and assets of Employee Capital Plans (PPK) by form of the programme

	Life insurers	Asset management companies	General Pension Societies	Total 2022
Nb. of participants (thousands)	51.3	2 514.8	433.6	2 999.7
Market share (% of participants)	*1.7%*	*83.8%*	*14.5%*	*n.a.*
Assets (PLN mln.)	125.1	10 342.4	1 526.8	11 994.3
Assets (€ mln.)	26.7	2 209.5	326.2	2 562.4
Market share (% of total assets)	*1.0%*	*86.2%*	*12.7%*	*n.a.*

Data: UKNF, 2023.

At the end of 2022 3 million participants gathered PLN 11.99 billion (€ 2.56 billion) in PPK.

Individual Retirement Accounts (IKE)

According to the Polish pensions law (the Individual Pension Accounts Act of 20 April 2004), individual retirement accounts (*indywidualne konta emerytalne*, IKE) can operate in a form of:

- a unit-linked life insurance contract;
- an investment fund;

- an account in a brokerage house;
- a bank account (savings account); or
- a voluntary pension fund.

Pension accounts are offered by life insurance companies, investment companies (asset management companies), brokerage houses, banks and pension societies. The most recent pension vehicles are voluntary pension funds that were introduced in 2012 at a time of significant changes in the statutory old-age pension system.

A voluntary pension fund is an entity established with the sole aim of gathering savings of IKE (or IKZE) holders. Pension assets are managed by a pension society (*powszechne towarzystwo emerytalne*, PTE) that also manages one of the open pension funds (OFEs in Tier II of the public pension system) in Poland. Assets of the funds are separated to guarantee the safety of the system, as well as due to stricter OFEs' investment regulations.

The design of IKE products usually does not vary significantly from the standard offer on financial markets. The difference relates to the tax treatment of capital gains (exclusion from capital gains tax) and contribution limits. Moreover, financial institutions cannot charge any cancellation fee when an individual transfers money or resigns after a year from opening an account.

The most popular IKE products take the form of investment funds and life insurance contracts (unit-linked life insurance). According to official data (UKNF 2023), these two forms of plans represent 75% of all IKE accounts.

IKE holders do not fully use the contribution limit. The average contribution paid from 2004 to 2022 remains permanently below the statutory limit (3 times the average wage). The total amount of IKE assets amounted to PLN 14.12 bln (€3.07 bln) as of 31 December 2022. There were PLN 17 644 (€ 3 769) gathered on an IKE account on average.

Individual Retirement Security Accounts (IKZE)

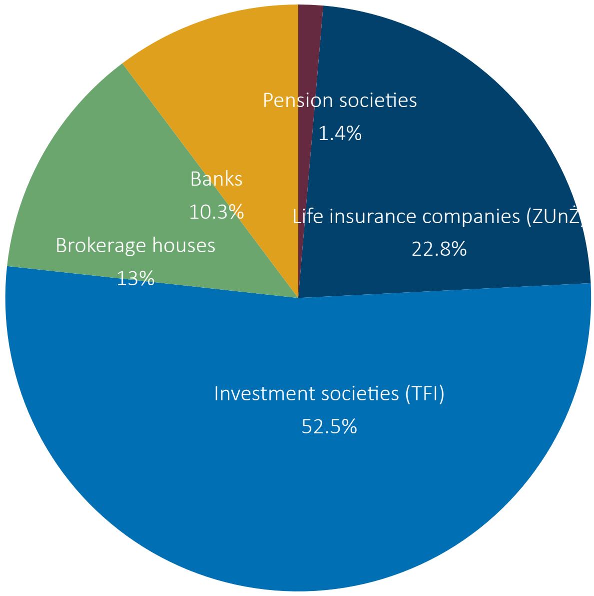
Exactly like IKEs, the group of IKZE products consists of:

- unit-linked life insurance;
- investment funds;
- bank accounts;
- accounts in brokerage houses; and
- voluntary pension funds.

At the end of 2022 around 475.5 thousand Poles had individual retirement security accounts. As shown on Figure PL.4, the biggest share of the IKZE market have asset management companies that manage 44% of IKZE accounts.

The savings pot of IKZE is small compared to other elements of the Polish supplementary pension system. At the end of 2022, financial institutions managed funds amounting to PLN 6.62 bln (€

Figure PL.3 – Structure of IKE market by number of accounts and type of provider as of December 31, 2022



Data: UKNF, 2023

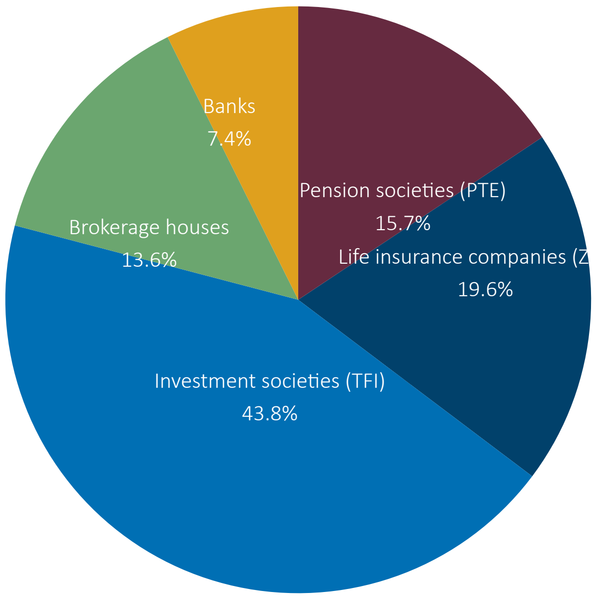
1.44 bln). It is worth noting that this capital was raised through contributions in just eleven years. There were PLN 13 929 (€ 2 976) gathered on an IKZE account on average.

Table PL.7 – Number of Individual Retirement Accounts (IKE) by type of product

Year	Unit-linked life insurance	Investment fund	Account in the brokerage house	Bank account	Voluntary pension fund	Total
2004	110 728	50 899	6 279	757	n.a.	168 663
2005	267 529	103 624	7 492	4 922	n.a.	383 567
2006	634 577	144 322	8 156	53 208	n.a.	840 263
2007	671 984	192 206	8 782	42 520	n.a.	915 492
2008	633 665	173 776	9 985	36 406	n.a.	853 832
2009	592 973	172 532	11 732	31 982	n.a.	809 219
2010	579 090	168 664	14 564	30 148	n.a.	792 466
2011	568 085	200 244	17 025	29 095	n.a.	814 449
2012	557 595	188 102	20 079	47 037	479	813 292
2013	562 289	182 807	21 712	49 370	1 473	817 651
2014	573 515	174 515	22 884	51 625	1 946	824 485
2015	573 092	201 989	25 220	53 371	2 548	856 220
2016	571 111	236 278	27 615	64 031	358	899 393
2017	568 518	275 796	30 418	71 922	4 922	951 576
2018	562 476	316 996	32 584	78 288	5 307	995 651
2019	462 171	355 031	39 030	88 460	6 075	950 767
2020	199 929	39 301	55 821	85 678	7 188	387 917
2021	195 179	432 756	79 906	79 002	9 646	796 489
2022	182 715	420 356	104 136	82 035	10 901	800 143

Data: UKNF.

Figure PL.4 – Structure of IKZE market by number of accounts and type of provider as of 31 December December 31, 2022



Data: UKNF, 2022

Charges

Employee Pension Programmes (PPE)

Data on PPE charges is hardly available. The Financial Supervisory Commission does not provide any official statistics on value or the percentage of deductions on assets of employee pension programmes. Some information can be found in the statutes of PPEs, but they describe rather the types of costs charged than the level of deductions. Employers must cover many administrative costs connected with PPE organisation (disclosure of information, collecting employees' declarations, transfer of contributions, etc.). The savings of participants are usually reduced by a management fee that varied from 0.5% p.a. to 2% p.a. of AuM and depend on the investment profile of funds chosen.

The lowest charges are applied to employee pension funds (Pracownicze Fundusze Emerytalne – PFE), which are set up by employers (in-house management of PPE) and managed by employee pension societies. For this type of pension fund, no up-front fee is deducted and a rather low management fee (0.5% - 1% p.a.) applies to assets gathered.

Since 2019 there is a cap on a management fee charged by asset management companies. It could not exceed 3.5% in 2019, 3% in 2020, 2.5% in 2021 and 2% since 2022.

Employee Capital Plans (PPK)

Financial institutions offering PPK can charge management fee (max. 0.5% AuM) and success fee (max. 0.1% AuM and only if the return is both positive and above the benchmark). The fee level depends on the risk profile of the fund and amounts from 0.15% to 0.40% with 0.35% being the average for the whole PPK market (Portal PFR 2023).

Table PL.8 – Average rates of management fee in PPK 2020–2022

Target date	2020	2021	2022
2020	0.24%	0.19%	0.15%
2025	0.28%	0.27%	0.27%
2030	0.31%	0.31%	0.31%
2035	0.33%	0.33%	0.32%
2040	0.34%	0.34%	0.33%
2045	0.36%	0.35%	0.35%
2050	0.38%	0.37%	0.36%
2055	0.39%	0.38%	0.38%
2060	0.41%	0.40%	0.39%
2065	0.41%	0.40%	0.40%
Average for all funds	0.35%	0.35%	0.35%

Data: PFR Portal.

Individual Retirement Accounts (IKE) and Individual Retirement Security Accounts (IKZE)

The type and level of charges depend on the type of product. There is a management fee for investment funds, voluntary pension funds and unit-linked insurance. In addition, for a unit-linked life insurance, a financial institution can charge an up-front fee, use different "buy and sell" prices for investment units (spread) and deduct other administrative fees from the pension savings accounts, e.g. conversion fees and fees for changes in premium allocation in case changes occur more frequently than stipulated in the terms of the contract. Charges that are not connected with asset management and the administration of savings accounts cannot be deducted from IKZE (i.e. life insurance companies cannot deduct the cost of insurance from the retirement account). The accumulation of pension savings through direct investments (accounts in brokerage houses) is subject to fees which depend on the type of transaction and the level of activity on financial markets (trading fees and charges). Banks do not charge any fees for the IKZEs they offer (apart from a cancellation fee).

All financial institutions offering individual retirement accounts (IKE) can charge a cancellation fee (also called a transfer fee) when a member decides to transfer savings to a programme offered by another financial entity during the first year of the contract. No cancellation fee can be deducted from the account when a saver resigns from the services of a given institution after 12 months and transfers money to another plan provider.

There are no official data on fees in IKEs and IKZEs for 2022. The most recent data is published in the study by Rutecka-Góra et al. (2020) and it reflects fees charged in 2017.

Table PL.9 – Charges in IKE and IKZE by type of provider

Type of financial institution	Up-front fee	Management fee (% of AuM)	Transfer fee
Life insurance companies	0–8%	0–2	10–50 of assets
Asset management companies	0–5.5%	0.8–2.0; success fee 0–30% of the returns above the benchmark	PLN 0–500
Pension societies	0–53.4%	0.6–2.0; success fee 0–20% of the return above the benchmark	10–50% of assets; min. PLN 50

Data: Based on (Rutecka-Góra et al., 2020), taking into account a statutory limit of management fee (max. 2% since 2022).

Taxation

Employee pension programmes (PPE)

Basic contributions financed by employers are subject to personal income tax, which is deducted from the employee's salary. Additional contributions paid by employer from the net salary are treated the same way (contributions paid from after-tax wage). Returns and benefits are not taxed (TEE regime).

Employee Capital Plans (PPK)

In PPK both an employee and an employer contributions are taxed. A state kick-off payment and regular annual subsidies as well as investment returns and benefits are exempt from taxation. Therefore, it is a TEE regime with a state subsidy.

Individual Retirement Accounts (IKE)

Contribution is taxed as it is paid by a saver from his/her net income. An individual can pay up to three times the average wage annually. There is a tax relief for capital gains. Benefits are not taxable (TEE regime).

Individual Retirement Security Accounts (IKZE)

Contributions to IKZE are deductible from the income tax base. Every individual can pay up to 120% of the average salary into an IKZE account. Since 2021 there is a higher limit of contribution for self-employed that amounts to 180% of the average salary in the economy. Returns are not subject to taxation, but benefits are taxed with a reduced flat-rate income tax (10%). This part of the supplementary pension system is the only one that follows the EET tax regime.

Table PL.10 – Taxation of pension savings in Poland

Product	Phase *Contributions*	*Investment returns*	*Payouts*	Regime
Employee pension funds (PFE)	Taxed	Exempted	Exempted	TEE
Voluntary pension funds (DFE) as IKE	Taxed	Exempted	Exempted	TEE
Voluntary pension funds (DFE) as IKZE	Exempted	Exempted	Taxed	EET
Employee capital plans (PPK)	Taxed	Exempted	Exempted	TEE

Data: Own work.

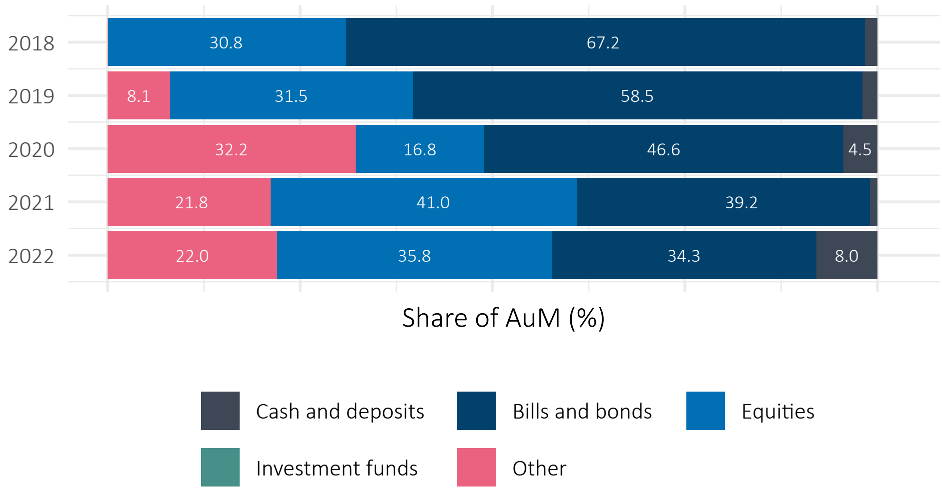
Performance of Polish long-term and pension savings

Asset allocation

Polish law does not impose any strict investment limits on voluntary pension savings accounts (IKE, IKZE, most forms of PPE, PPK) except for occupational pension programmes offered in the form of employees' pension fund (types of asset classes are described by law). Every financial institution that offers IKE or IKZE provides information on investment policy in the statute of the fund. Since many existing plans offer PPE participants the possibility to invest in funds from a broad group of investment funds operating in the market (not only the funds dedicated exclusively to pension savings), it is impossible to indicate how the portfolios of most PPEs look like.

Figure PL.5 present the investment portfolio of employee pension funds (PFEs), which are the only types of occupational pension products with official and separate statistics on asset allocation.

Figure PL.5 – Allocation of Polish Employee Pension Funds' assets



Data: KNF, 2023; *Calculations:* BETTER FINANCE.

PPKs are target-date funds what means that the general asset allocation (bonds vs shares) depends on the target date of the fund as described in "Pension savings vehicles in Poland" section.

There are no available statistics that allow for the identification of the asset allocation within Individual Saving Accounts (IKE) and Individual Retirement Security Accounts (IKZE) offered as insurance contracts, investment funds and accounts in brokerage houses. It is because an individual can buy units of many investment funds (or financial instruments) that are also offered as non-IKE and non-IKZE products. Since no separate statistics for pension and non-pension assets of a given fund are disclosed, it is impossible to indicate neither which funds create the portfolios of IKE and IKZE holders nor what the rates of returns obtained by this group of savers are.

The only form of IKE and IKZE that is strictly separated from other funds and is dedicated solely to pension savings is a voluntary pension fund (DFE). These vehicles started operating in 2012.

Real net returns of Polish long-term and pension savings

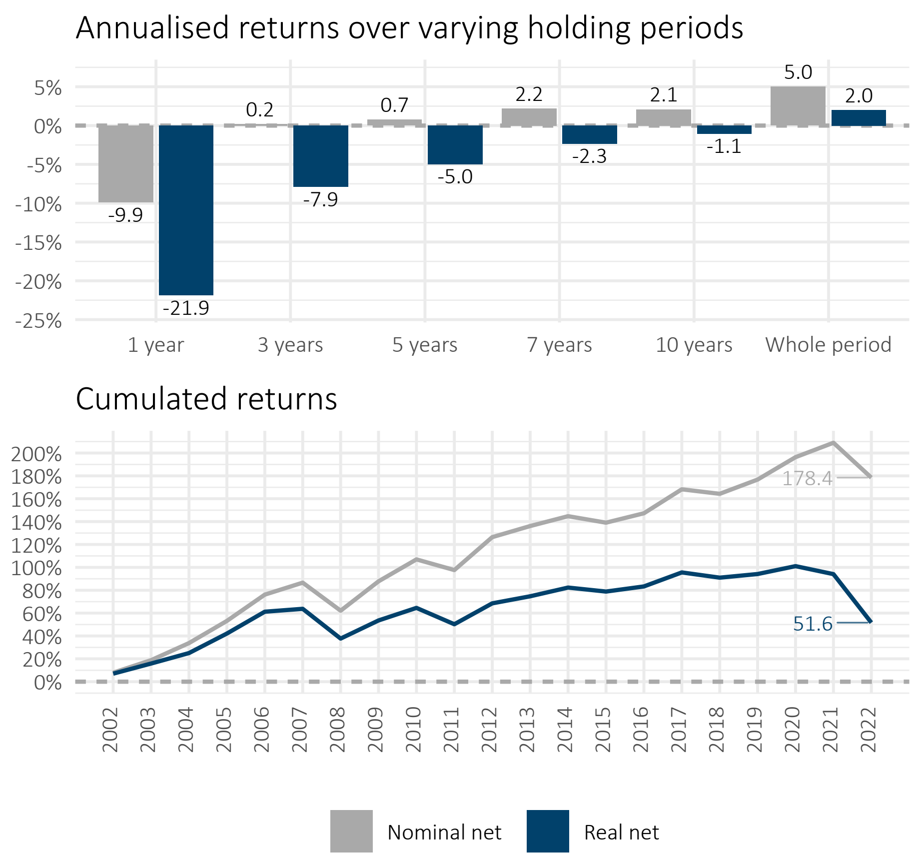
The investment efficiency of supplementary pension products is almost impossible to assess due to the lack of necessary data published by financial institutions. In Poland in many retirement plans there is no obligation to disclose rates of return to pension accounts holders. Generally, owners of savings accounts are informed about contributions paid, the value of investment units and the balance of their accounts at the end of the reporting period. But they are not informed neither about their pension accounts real efficiency nor the total cost ratio deducted from their individual retirement accounts. No comprehensive data concerning the investment efficiency of supplementary pension products, especially individual plans, is published in official statistics.

Due to the shortage of detailed statistics the assessment of the efficiency of pension product investments is possible only for the selected vehicles, namely employee pension funds (PFE), capital pension plans (PPK) and voluntary pension funds (DFE).

As the management fee is deducted from fund assets on a regular basis and the value of a fund unit is calculated based on net assets, the nominal rates of return indicated below take into account the levels of management fee. The only fee that must be included (if applicable) when calculating after-charges returns is the upfront-fee deducted from contributions paid into accounts.

During the period of 2002-2022 employee pension funds (PFEs) showed rather positive returns up to 17.41% annually (see Figure PL.6). After-charges real returns observed in 15 of 21 years and the average return in the 21-year period is positive as well. These satisfactory results were obtained due to proper portfolio construction, high quality of management and low costs. However, in 2022 PFEs reported negative returns both in nominal and real terms, mainly due to the war in Ukraine.

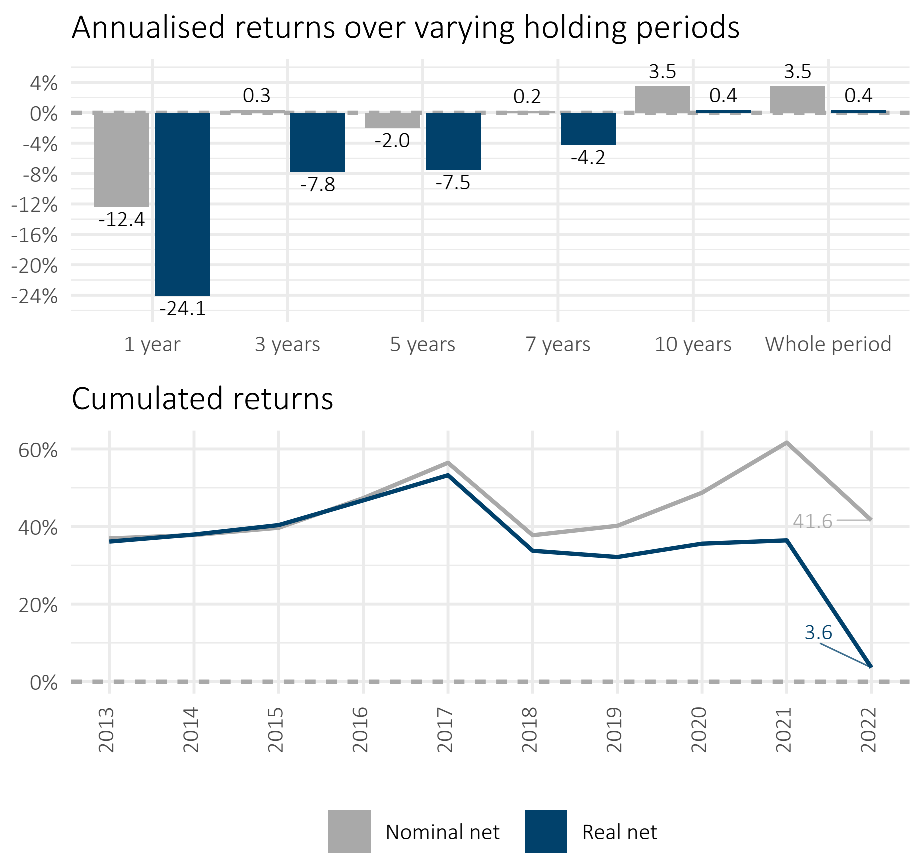
Figure PL.6 – **Returns of Polish Employee Pension Funds (before tax, % of AuM)**



Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE.

Voluntary pensions funds (DFE) have obtained extraordinary investment results from their start in 2012 (see Figure PL.8). The first years of their operation coincided with the time of the Polish financial market recovery and allowed the funds to maximise rates of return from the equity portfolios. The best DFEs reported more than 50% nominal return in 2013. But such returns were impossible to achieve in next years. In 2014, some of DFE even experienced slightly negative returns that were covered by returns in the following years. The worst investment returns were achieved in 2018 and 2022 when all DFE made losses. The average nominal rate of return after charges in years 2013-2022 amounted to 3.54%.

Figure PL.7 – Returns of Polish Voluntary Pension Funds (before tax, % of AuM)



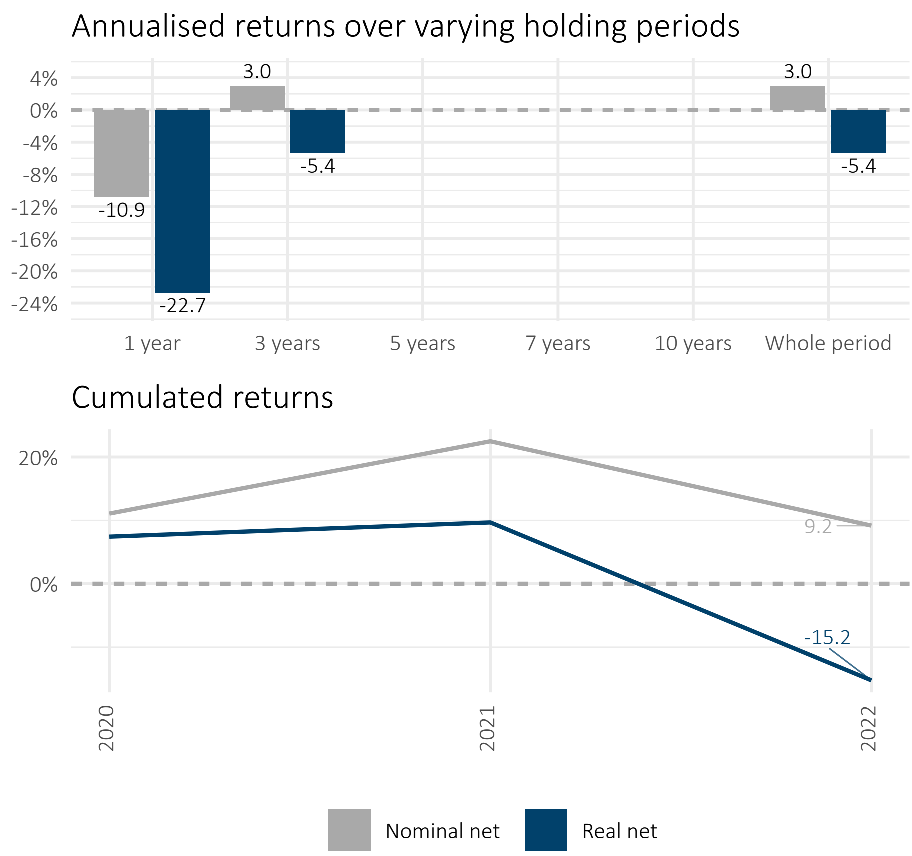
Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE.

Employee capital plans (PPK) that started to operate in the second half of 2019 reported positive nominal returns in the first two years of their operation (see Figure PL.8). Later, in 2022, they reported losses after the outbreak of war in Ukraine. Hower the losses did not consumed the profits they generated in the first two years. The investment efficiency of PPKs since 2020 is presented in ??.

The inflation in Poland limited the profitability of pension plans significantly (see Figure PL.9). In the majority of years under analysis it was much higher that the EU average and has rocketed to much higher levels since 2019, mosty due to the COVID-19 pandemic and the war in Ukraine.

The annual real net returns of PFEs were reported to be much lower, especially due to the inflation in the last three years, and amount to 2% for the period 2002-2022. The real returns of DFEs turned to be even lower, namely 0.36% annually. But the worst results achieved PPKs that showed a 5.41% real loss on annual basis for the period 2020-2022 (see Figures PL.10 and PL.11.

Figure PL.8 – Returns of Polish Employee Capital Plans (before tax, % of AuM)

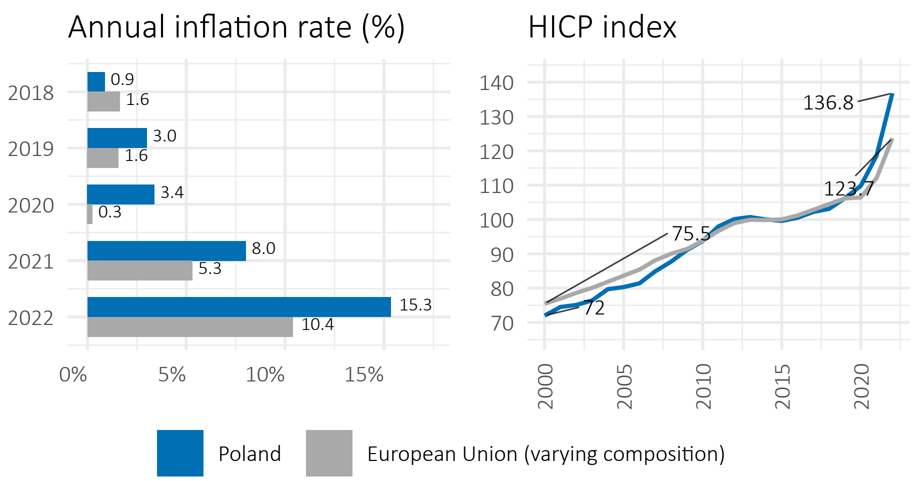


Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE.

Figure PL.9 – Inflation in Poland

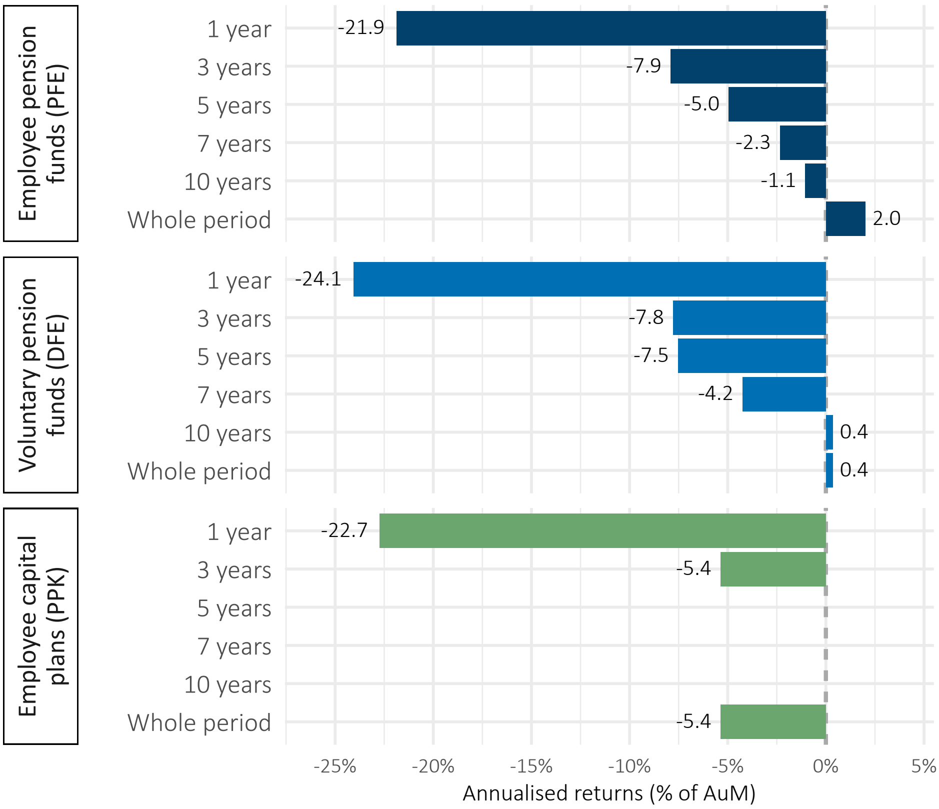
Period 2000–2022

	Annualised	Compounded
Poland	3.2%	106.0%
European Union (varying composition)	2.3%	67.5%



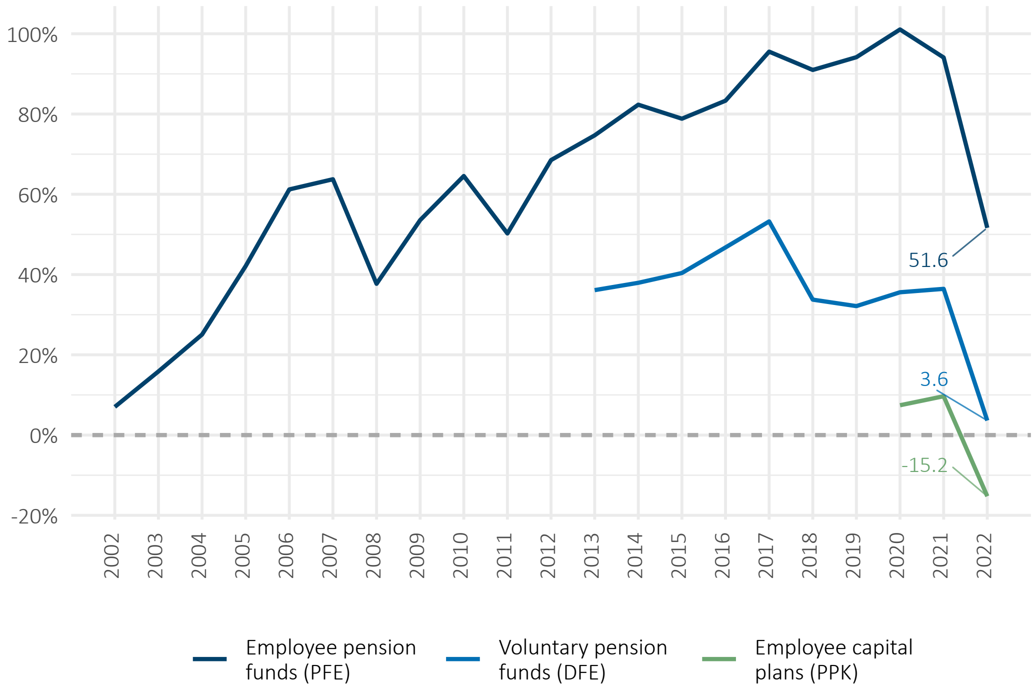
Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Figure PL.10 – Annualised real net returns of Polish long-term and pension vehicles over varying holding periods (before tax, % of AuM)



Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE.

Figure PL.11 – Cumulated real net returns of Polish long-term and pension savings vehicles (2002–2022, before tax, % of AuM)



Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE.

Conclusions

Starting in 1999, with individual supplementary elements introduced in 2004, 2012 and 2019, the Polish supplementary pension market is still in its early stage of operation. The coverage ratios (3.9%, 17.91%, 4.78% and 2.84% for PPE, PPK, IKE and IKZE respectively), show that only a small part of Poles decided to secure their future in old age by joining the occupational pension plan or purchasing individual pension products. This could be due to low financial awareness, insufficient level of wealth or just the lack of information and low transparency of pension products.

The official information concerning supplementary pension products in Poland is limited. In the majority of pension plans financial institutions do not have any obligation to disclose rates of return, either nominal or real, nor after-charges. Published data includes generally the total number of programmes or accounts by types of financial institution and total assets invested in pension products. The Financial Supervisory Commission (KNF) collects additional detailed data about the market (the number of accounts and pension assets managed by every financial institution) but does not disclose the data even for research purposes.

Moreover, no comparable tables on charges, investment portfolios and rates of return are prepared or made accessible to the public on a regular basis. Certain product details must be put in the fund statutes or in the terms of a contract, but they are hardly comparable between providers. The Polish supplementary pension market is highly opaque, especially in terms of costs and returns.

Among a wide variety of pension vehicles, there are only a few products with sufficient official statistics to assess their investment efficiency: employee pension funds (PFE) managed by employees' pension societies, voluntary pension funds (DFE) managed by general pension societies (PTE) and employee capital plans (PPK). Other products are more complex due to the fact that supplementary pension savings are reported together with non-pension pots. That makes it impossible to analyse the portfolio allocations and rates of return for individual pension products separately.

After-charges returns of employee pension funds (PFE) and voluntary pension funds (DFE) were positive for the whole period of their operation, both in nominal and real terms, and offered the average annual real rate of return amounting to 2% and 0.36% respectively. But other pension vehicles may turn out not to be so beneficial, especially when a wide variety of fees and charges are deducted from contributions which are paid to the accounts. The only vehicles that reported negative real returns were employee capital plans (PPK), that that have just started their operation in the turbulent times of COVID-19 pandemic and the war in Ukraine.

To sum up, the information policy and the disclosure policy in supplementary pension system in Poland is not saver oriented. Individuals are entrusting their money to the institutions, but they are not getting clear information on charges and investment returns. Keeping in mind the pure DC character of pension vehicles and the lack of any guarantees, this is a huge risk for savers. All this may lead to significant failures on the pension market in its very early stages of development. In the future, some changes in the law should be introduced, such as **imposing an obligation** on financial institutions to **disclose rates of return** to pension accounts holders. Moreover, there is an **urgent need for a full list or even ranking of supplementary pension products**, both occupational and individual ones, published by independent body. This would help individuals make well-informed decisions and avoid buying inappropriate retirement products.

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