Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

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The Real Return of Long-term and Pension Savings

2024 Edition — Poland

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the "fairer deal" that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

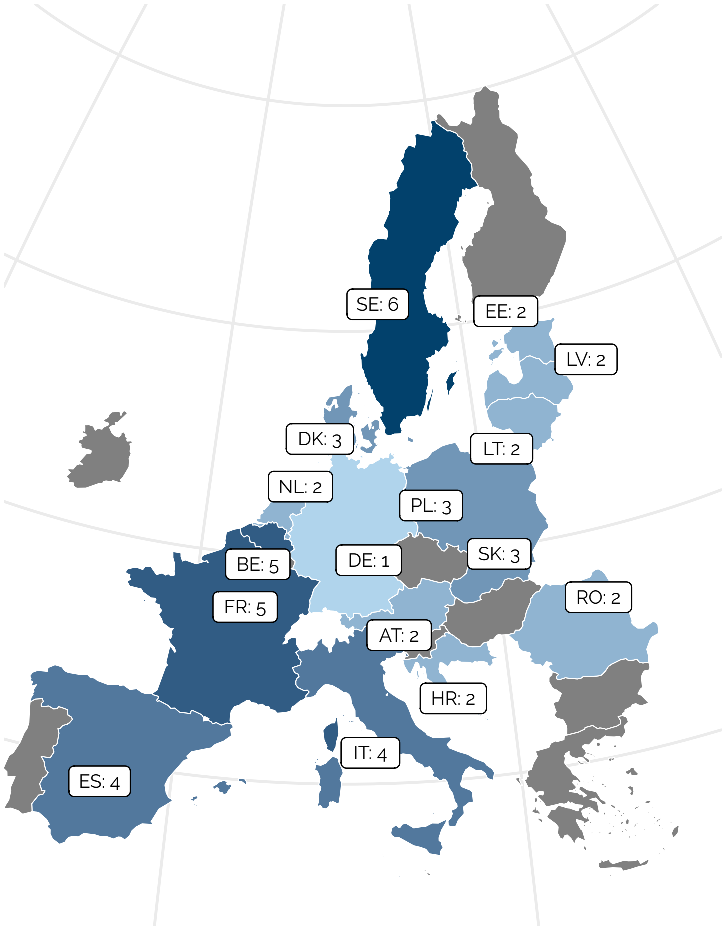
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – **Countries and number of product categories included in the report**

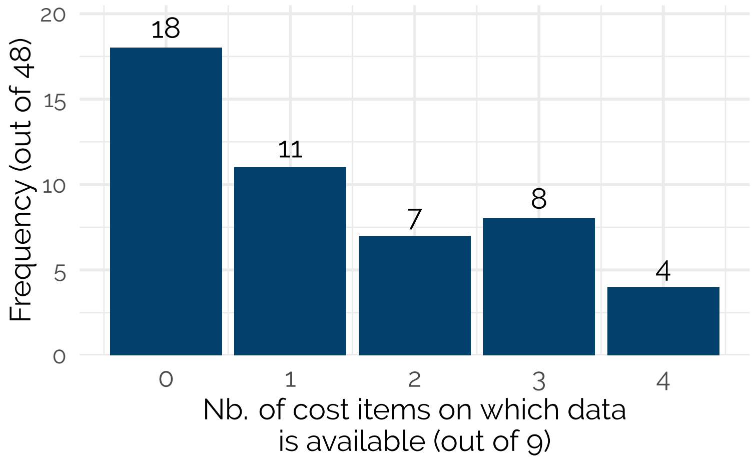


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

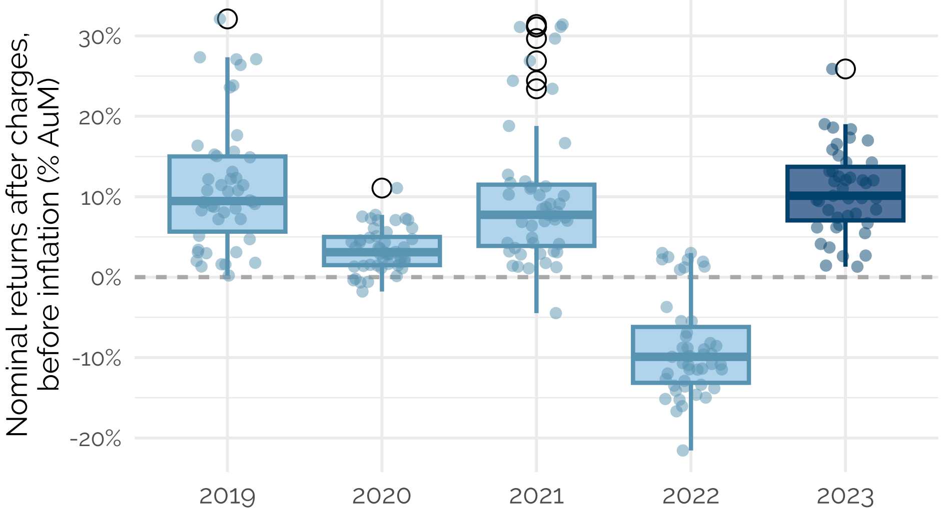
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – **Average 1-year return rates of analysed product categories (2019–2023)**



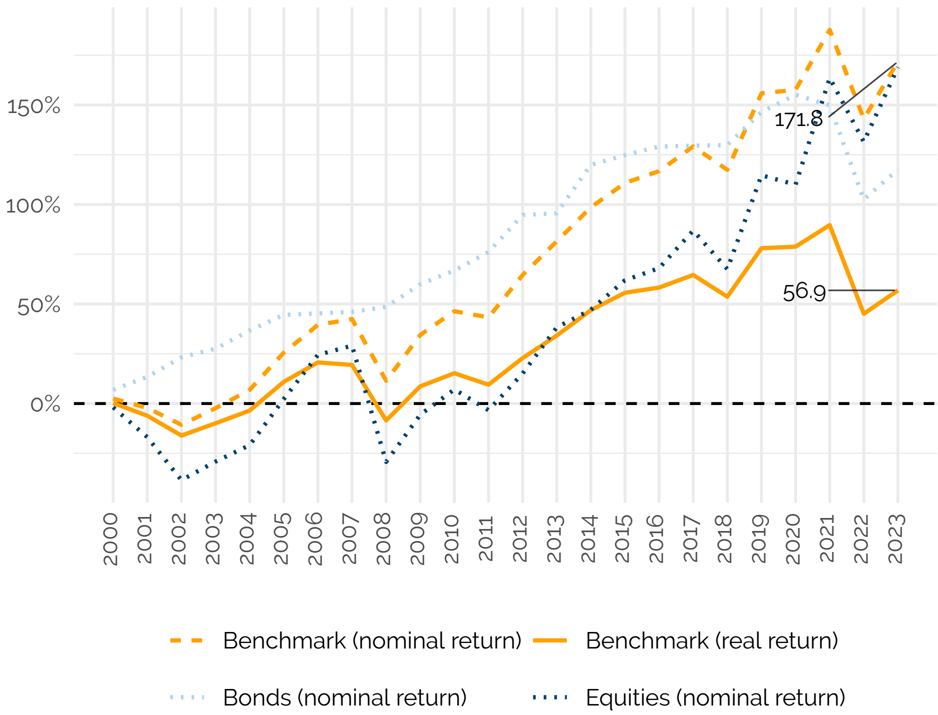
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

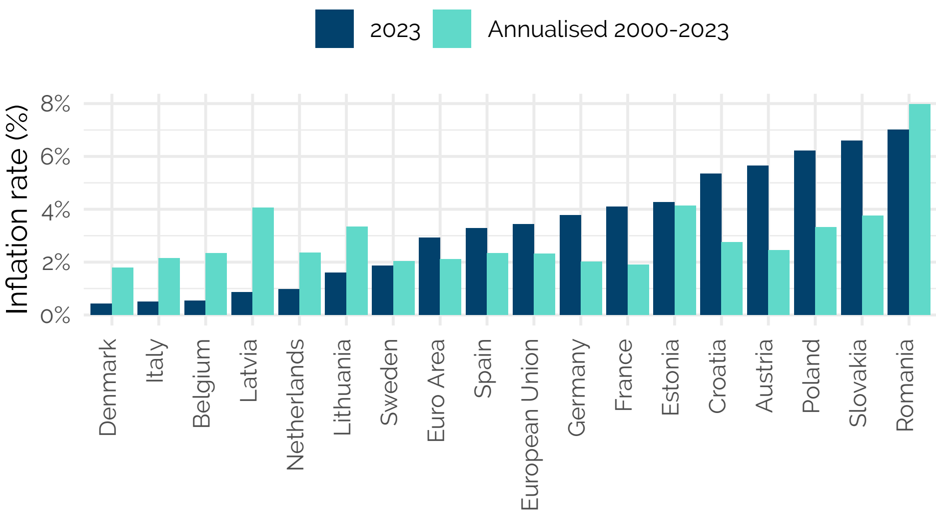
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the "1% fee cap", that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

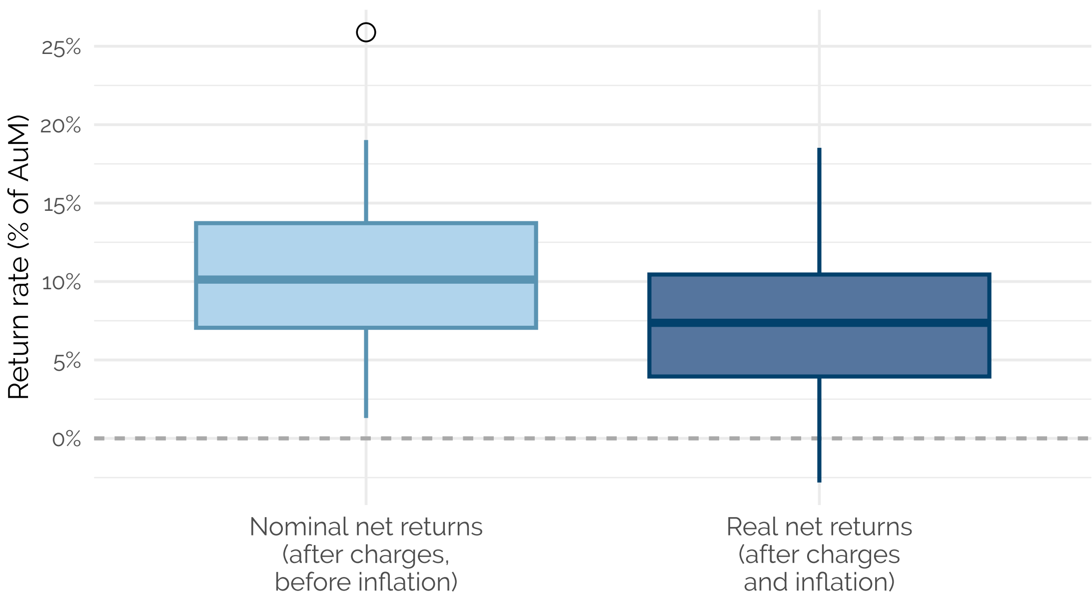
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – **Inflation 2023 vs. 2000–2023 annual average**



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – **Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)**

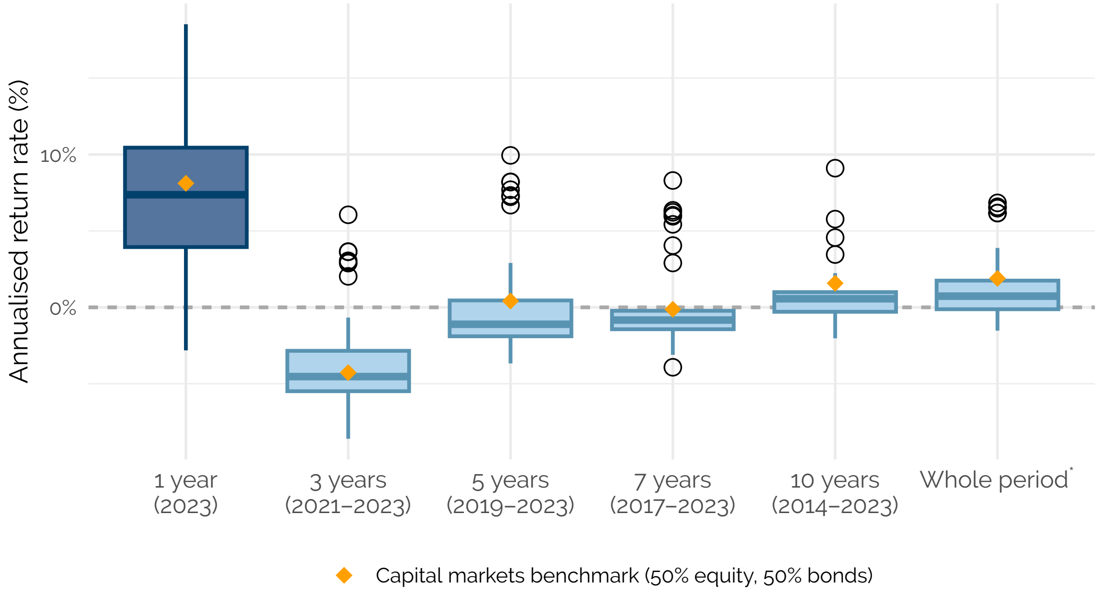


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – Summary statistics of real performance over varying holding periods

Holding period	Nb. of product cat.	Median	Mean	Standard Devia-tion	Best perfor-mance	Worst perfor-mance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

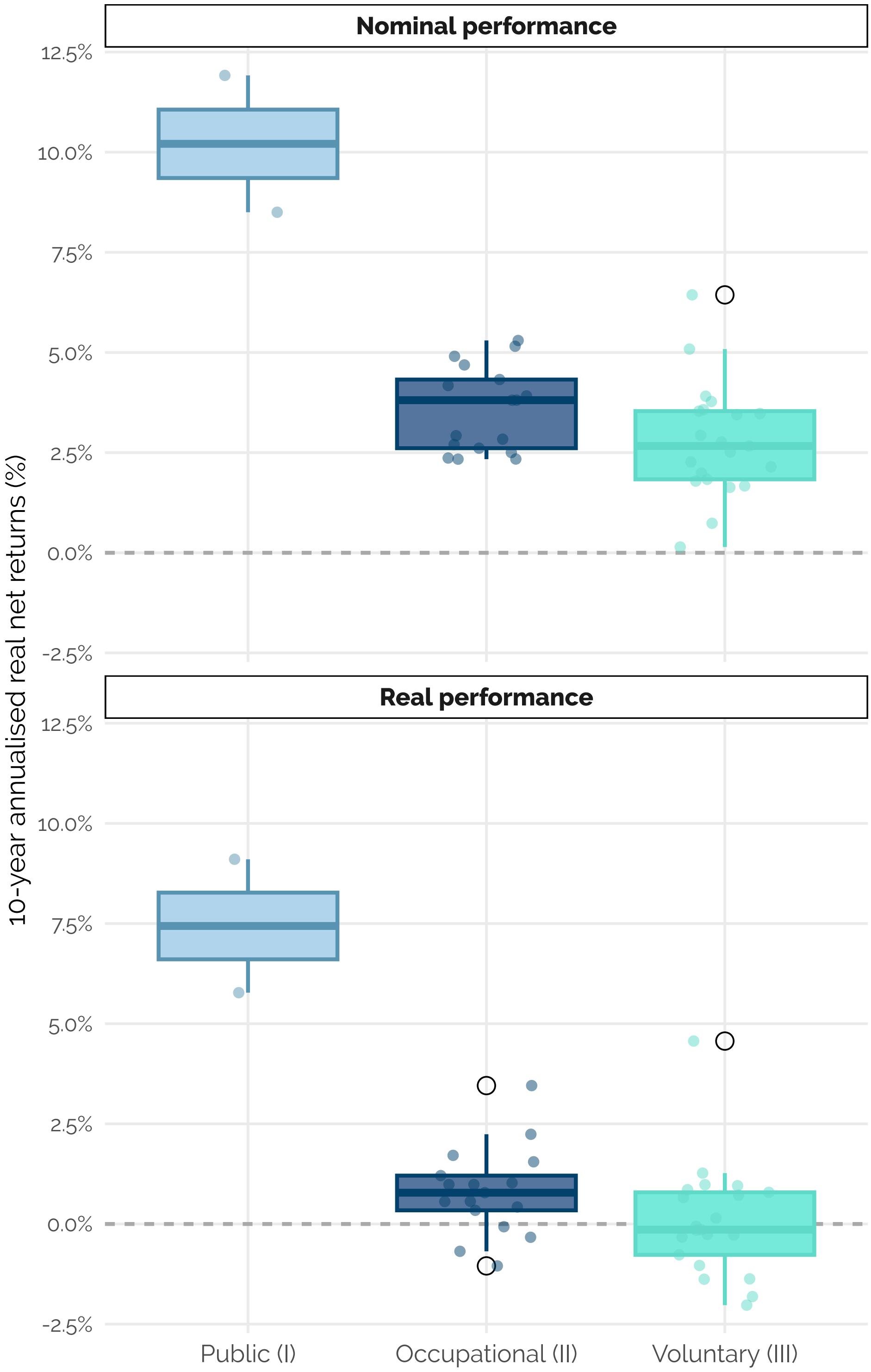
Calculations: BETTER FINANCE
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – Average 10-year annualised performance per Pillar



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.

- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 11

Poland

Streszczenie

Dodatkowy system emerytalny w Polsce składa się aktualnie z pięciu elementów: pracowniczych programów emerytalnych (PPE), indywidualnych kont emerytalnych (IKE), indywidualnych kont zabezpieczenia emerytalnego (IKZE), pracowniczych planów kapitałowych (PPK) oraz ogólnoeuropejskiego indywidualnego produktu emerytalnego (OIPE) wprowadzonego we wrześniu 2023 r. Na koniec 2023 roku zgromadzono w nich odpowiednio 25,6 mld zł (5,9 mld EUR), 18,22 mld zł (4,2 mld EUR), 9,19 mld zł (2,12 mld EUR) oraz 21,78 mld zł (5,02 mld EUR).

W analizowanym okresie (2002-2023) pracownicze fundusze emerytalne (PFE), będące jedną z form PPE, wypracowały nominalne stopy zwrotu równe 5,6% w skali roku. Średnia realna stopa zwrotu za cały analizowany okres wyniosła natomiast 2,44%.

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 2013-2023 wyniosła 4,42%, a realna 0,54%.

Wprowadzone tuż przed pandemią pracownicze plany kapitałowe (PPK) oferowane w formie funduszy zdefiniowanej daty osiągnęły natomiast w okresie 2020-2023 nominalną stopę zwrotu równą 6,61% rocznie i realną na poziomie 0,07%.

Summary

The supplementary pension system in Poland currently consists of five components: employee pension plans (PPEs), individual retirement accounts (IKEs), individual retirement security accounts (IKZEs), and employee capital plans (PPKs) and PEPP , named OIPE in Poland (introduced in September 2023). At the end of 2023, they have accumulated PLN 25.6 billion (EUR 5.9 billion), PLN 18.22 billion (EUR 4.2 billion), PLN 9.19 billion (EUR 2.12 billion) and PLN 21.78 billion (EUR 5.02 billion), respectively.

During the period under review (2002-2023), employee pension funds (PFEs), which are one form of PPEs, generated nominal rates of return of 5.6% per year. In contrast, the average real rate of return for the entire period analysed was 2.44%.

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 2013-2023 was 4.42%, and the real rate was 0.54%.

Introduced just before the pandemic, employee capital plans (PPKs) offered in the form of target-date funds achieved a nominal rate of return of 6.61% and 0.07% in real terms annually for the 2020-2023 period.

Introduction: The Polish pension system

- All forms of supplementary pension savings in Poland are offered in funded defined contribution (DC) formula, which means high investment risk exposure 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 2023, PLN 74.79 bln (EUR 17.23 billion) assets were collected in Poland's supplementary pension system.
- In 2022 due to turbulent times caused by the war in Ukraine all the schemes reported negative returns but they were compensated with good investment results in 2023.

Hence, average rates of return for longer periods both nominal and real stayed positive for all plans.

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

Product	Pillar	Reporting period *Earliest data*	*Latest data*
Employee pension funds	Voluntary (III)	2002	2023
Voluntary pension funds	Voluntary (III)	2013	2023
Employee capital plans	Voluntary (III)	2020	2023

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

	Employee pension funds	Voluntary pension funds	Employee capital plans
1 year (2023)	12.1%	10.5%	18.5%
3 years (2021–2023)	-5.5%	-6.5%	-2.2%
5 years (2019–2023)	-2.3%	-3.7%	—
7 years (2017–2023)	-1.1%	-3.9%	—
10 years (2014–2023)	-0.3%	-2.0%	—
Whole period	2.4%	0.9%	0.1%

Data: UKNF, Eurostat; *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—*otwarte fundusze emerytalnes* (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
pay-as-you-go (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 (OFEs), the total of 7.3 p.p. is recorded on a sub-account administered by the Social Insurance Institution, *Zakład Ubezpieczeń Społecznych* (ZUS), (NDC system). If he/she has opted out for the funded element (*otwarte fundusze emerytalnes* (OFEs)), 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 ZUS, which records quotas of contributions paid for every member on individual insurance accounts. The accounts are indexed every year by the inflation rate and by the real growth of the social insurance contribution base.

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

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 administered by the Social Insurance Institution (NDC) and possible partial opt-out for OFEs (funded system). Polish OFEs are just a mechanism of temporarily investing public pension system resources in financial markets (financial vehicles for the accumulation phase). An insured person who enters the labor market has the right to choose whether to join an OFE or 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 in financial markets. If no such decision is taken, his/her total old-age pension contribution will automatically be transferred to the ZUS. This default option resulted in a huge decrease in OFEs' active participation in 2014.

The pension law establishes the contribution level and guarantees minimum pension benefits 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] Before retirement the member's assets gathered in an 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 following a DC rule and are paid in the form of an annuity by the 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:

- *pracownicze programy emerytalne*s (PPEs): employee (occupational) pension programmes;
- *indywidualne konta emerytalne*s (IKEs): individual retirement accounts;
- *indywidualne konto zabezpieczenia emerytalnego*s (IKZEs): individual retirement security accounts;
- *pracownicze plany kapitałowe*s (PPKs): employee capital plans;
- *ogólnoeuropejskie indywidualne produkty emerytalne*s (OIPEs): the Polish name of PEPP.

Employee pension programmes —PPEs— are plans organised by employers for their

[2] It started to increase in 2013 and was planned to reach 67 for both men and women (in 2020 for men and 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 OFEs is systematically transferred to the ZUS during 10 years prior to retirement (before reaching the statutory retirement age).

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. Participants to the programme can pay in additional contributions deducted from their net (after-tax) salaries. There is a yearly quota limit for additional contributions amounting to 4.5 times the average wage (PLN 31 207.5 — EUR 7 191.5 — in 2023). PPEs' 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 2023 PPEs covered 676 thousand employees representing only 3.8% of the working population in Poland.[4]

Employee capital plans —PPKs— are also organized by employers but use auto-enrolment and matching defined contribution mechanisms. They started to operate in 2019 and their full implementation was staggered in accordance with the given below dates and depending on the company size:

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

The employee contribution amounts to 2-4% of the gross salary. The minimum matching contribution financed by the employer is 1.5% of the gross salary but can be higher voluntarily (up to 4%). People earning 120% or less of the average income can save less, namely a minimum of 0.5% of the gross salary. To encourage individuals to save in PPKs, the state budget offers the PLN 250 kick-start payment (EUR 57.61) and a regular annual state subsidy amounting to PLN 240 (EUR 55.31). The employee and employer contributions are taxed while the state subsidies remain exempt from taxation at the accumulation and decumulation stages. PPKs' 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 3.9 million employees at the end of 2023, which represents ca. 21.78% of the working population (GUS 2024).

Individual retirement accounts —IKEs— were introduced in 2004, allowing people to save individually for retirement. Financial institutions such as asset management companies, life insurers, brokerage houses, banks, and pension societies offer them.

[4]The coverage was calculated according to Statistics Poland (GUS) data on the number of employed Poles at the end of 2023 (GUS 2024).

An individual can only gather money on one retirement account at a time but can 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 20 805 — EUR 4 794.33 — in 2023). Returns are exempt from capital gains tax and the benefits are not subject to taxation. When a saver reaches 60 (or 55 years, if he/she is entitled by law to retire early), money is paid as a lump sum or a programmed withdrawal. At the end of 2023, only 860 thousand Polish citizens had an IKE individual retirement account representing 4.81% of the working population.

Individual retirement security accounts —IKZEs— started to operate in 2012 and are offered in the same forms as IKE individual retirement accounts 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 8 322[5] — EUR 1 917.73 in 2023). Only about 2.88% of the Polish working population (2023) is covered by this type of supplementary old-age provision.

In September 2023, the options for supplementary old-age pension saving were expanded to include the PEPP, named OIPE. This product is based on IKE regulations with the same contribution limit and tax regime. Due to its short period of operation, it is not covered in this report. Its only provider is Slovak Finax.

Long-term and pension savings vehicles in Poland

The most popular forms of supplementary pension plans are the collective ones, namely PPEs and PPKs which represent 63% of assets under management. Regarding the type of financial vehicle used, investment funds attracted the great majority of savers — 86.4% in PPEs, 84.2% in PPKs, 53% in IKEs and 44% in IKZE.

Third pillar

Employee Pension Programmes (PPEs)

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 programs started to operate in 1999. The market development

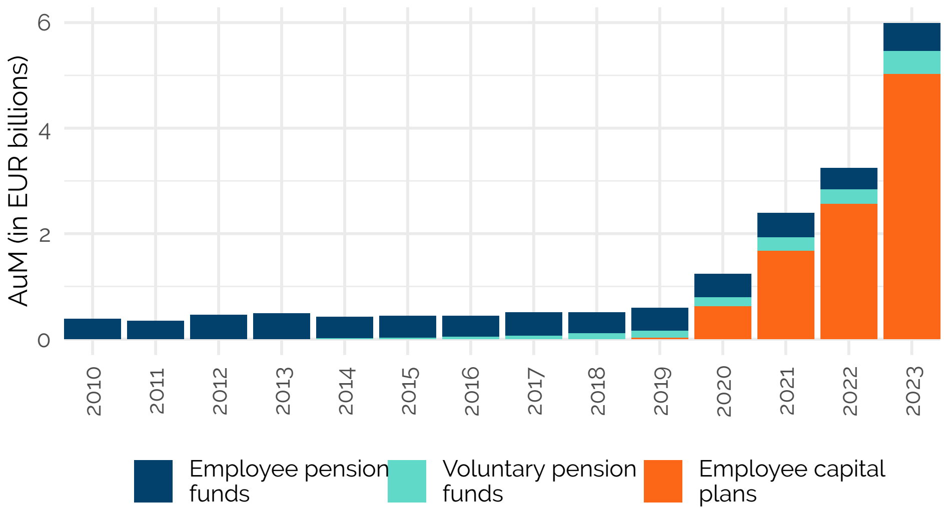
[5] Since 2021 there is also a special limit of contributions for self-employed that amounts to 180% of the average wage (PLN 10 659.60 — EUR 2 876.6 in 2023).

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
EUR 4.16 bln	EUR 2.61 bln	EUR 3.07 bln	EUR 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).

Figure PL.1 – **AuM of Polish long-term and pension savings vehicles**



Data: UKNF; *Calculations:* BETTER FINANCE.

was very weak during the first five years of operation. After that, due to changes in PPE law, many group life insurance contracts were transformed into PPEs at the end of 2004 and in 2005. In 2023, the number of programs reached 2 082, mainly due to a 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 PPKs when they offer PPEs.

The most popular forms of PPE are investment funds that represent 75.6% of PPEs (see Table PL.5) and manage 76% of total PPE assets. Their share is even higher when taking into consideration the number of participants (86.4%).

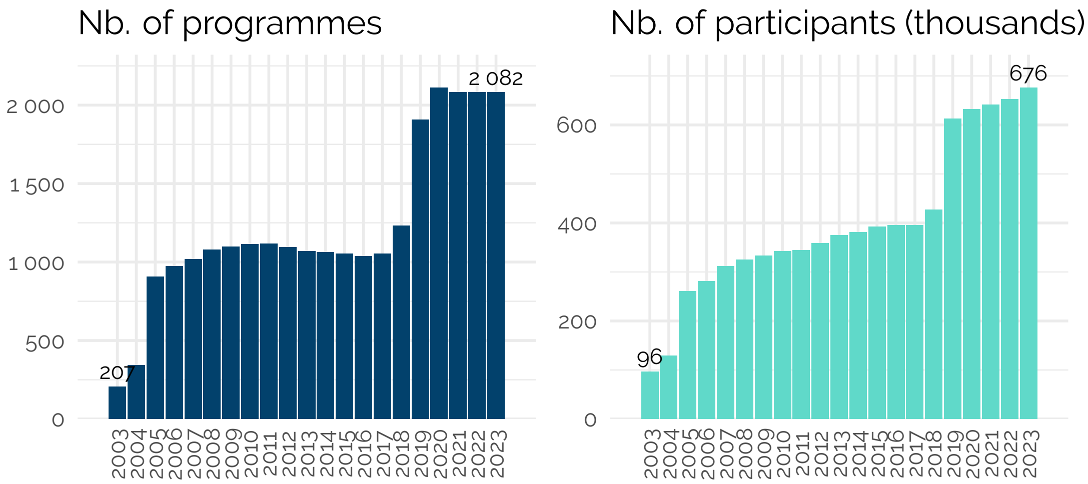
PPE assets amounted to PLN 25.6 bln (EUR 5.9 bln) and the average account balance equalled PLN 37 884 (EUR 8 730.04) at the end of 2023. No data is available on the average percentage level of contributions paid to the programmes. The highest balance was observed in employee pension funds while the lowest in investment funds.

Employee Capital Plans (PPKs)

PPK—employee capital plans—can be offered by life insurance companies, investment companies—*towarzystwo funduszy inwestycyjnychs* (TFIs)—, general pension societies—*powszechne towarzystwo emerytalnes* (PTEs)— and employee pension societies—*pracownicze towarzystwo emerytalnes* (PrTEs)—in a form of target date funds (TDFs), 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

Figure PL.2 – Number of Employee Pension Programmes and number of participants 2003–2023



Data: UKNF, 2024.

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

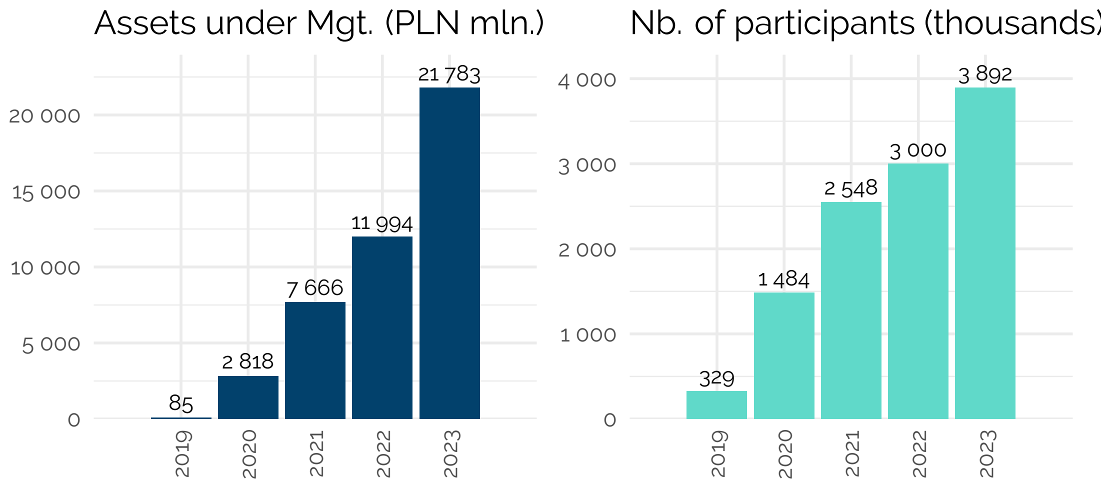
	Unit-linked life insurance	Investment fund	Employee Pension Fund	Total 2023
Nb. of PPE	487	1 573	22	2 082
Market share (% of of PPE nb.)	*23.4%*	*75.6%*	*1.1%*	—
Nb. of participants (thousands)	83.4	563.3	28.9	675.6
Market share (% of participants)	*12.8%*	*86.4%*	*4.4%*	—
Assets (PLN mln.)	3 844.1	19 447.4	2 303.9	25 595.4
Assets (EUR mln.)	885.8	4 481.5	530.9	5 898.2
Market share (% of total assets)	*15.0%*	*76.0%*	*9.0%*	—

Data: UKNF, 2024.

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 target 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,

Figure PL.3 – Number of Employee Capital Plans and number of participants 2019-2023



Data: UKNF.

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 2023
Nb. of participants (thousands)	66.0	3 278.0	549.0	3 893.0
Market share (% of participants)	*1.7%*	*84.2%*	*14.1%*	—
Assets (PLN mln.)	218.8	18 962.8	2 601.9	21 783.5
Assets (EUR mln.)	50.4	4 369.8	599.6	5 019.8
Market share (% of total assets)	*1.0%*	*87.1%*	*11.9%*	—

Data: UKNF, 2024.

- 0-5 years before reaching 60: 10-30% shares, 70-90% bonds,
- since reaching 60: 0-15% shares and 85-100% bonds.

At the end of 2023 3.89 million participants gathered PLN 21.78 billion (EUR 5.02 billion) in PPKs.

Individual Retirement Accounts (IKEs)

According to the Polish pensions law (the Individual Pension Accounts Act of April 20, 2024), individual retirement accounts IKEs 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 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 2024), these two forms of plans represent 73% of all IKE accounts.

IKE holders do not fully use the contribution limit. The average contribution from 2004 to 2023 remains permanently below the statutory limit (3 times the average wage). The total amount of IKE assets amounted to PLN 18.22 bln (EUR 4.2 bln) as of December 31, 2023. There were PLN 21 191 (EUR 4 889) gathered on an IKE account on average.

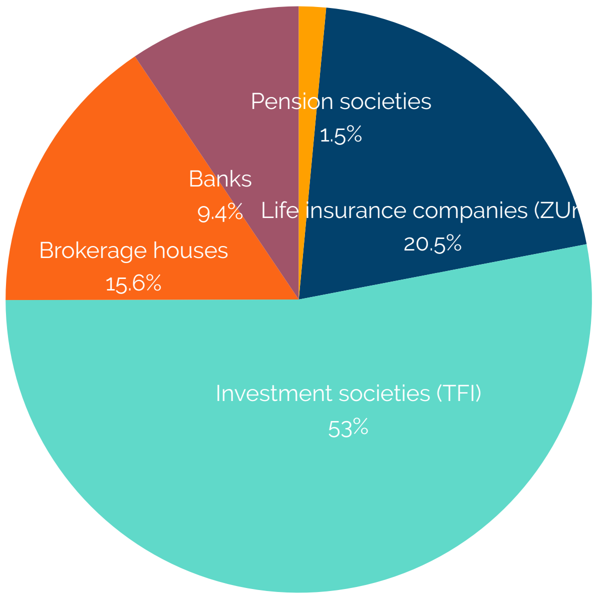
Individual Retirement Security Accounts (IKZEs)

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 2023 around 514.7 thousand Poles had individual retirement security accounts. As shown on Figure PL.5, 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 2023, financial institutions managed funds amounting to PLN 9.19 bln (EUR 2.12 bln). It is worth noting that this capital was raised through contributions in just twelve years. There were PLN 17 854 (EUR 4 114) gathered on an IKZE account on average.

Figure PL.4 – **Structure of IKE market by number of accounts and type of provider as of December 31, 2023**



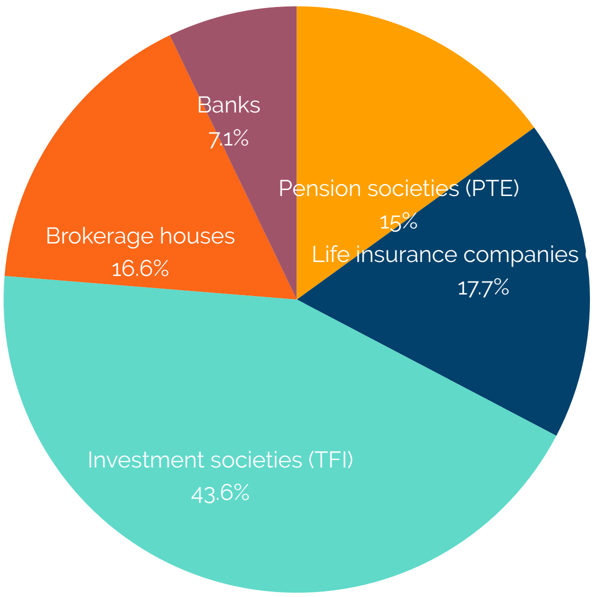
Data: UKNF, 2024

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	—	168 663
2005	267 529	103 624	7 492	4 922	—	383 567
2006	634 577	144 322	8 156	53 208	—	840 263
2007	671 984	192 206	8 782	42 520	—	915 492
2008	633 665	173 776	9 985	36 406	—	853 832
2009	592 973	172 532	11 732	31 982	—	809 219
2010	579 090	168 664	14 564	30 148	—	792 466
2011	568 085	200 244	17 025	29 095	—	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	393 010	55 821	85 678	7 188	741 626
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
2023	176 158	455 695	134 045	81 198	12 835	859 931

Data: UKNF.

Figure PL.5 – **Structure of IKZE market by number of accounts and type of provider as of December 31, 2023**



Data: UKNF, 2024

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% per annuum (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 (PFEs), 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 (PPKs)

Financial institutions offering PPKs 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 0.119% to 0.465% with 0.33% being the average for the whole PPK market (Portal PFR 2023).

Individual Retirement Accounts (IKEs) 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 IKZEs (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 2023. The most recent data is published in the study by Rutecka-Góra et al. (2020) and it reflects fees charged in 2017.

Table PL.8 – 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 (PPEs)

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 (PPKs)

In PPKs 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 (IKEs)

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 (IKZEs)

Contributions to IKZEs 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.9 – Taxation of pension savings in Poland

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

Source: Own elaboration.

Performance of Polish long-term and pension savings

Asset allocation

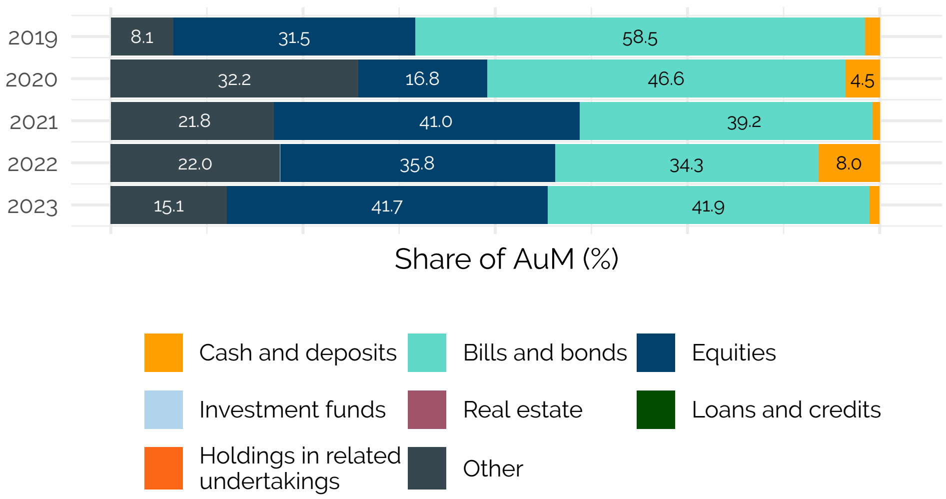
Polish law does not impose any strict investment limits on voluntary pension savings accounts (IKE, IKZE, most forms of PPEs, PPKs) except for occupational pension programmes offered in the form of employees' pension fund (types of asset classes are described by law). Every financial institution that offers IKE or IKZEs 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.6 presents 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.

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 (IKEs) and Individual Retirement Security Accounts (IKZEs) offered as insurance contracts, investment funds and accounts in brokerage

Figure PL.6 – Allocation of Polish Employee Pension Funds' assets



Data: UKNF; *Calculations:* BETTER FINANCE.

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 IKEs 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

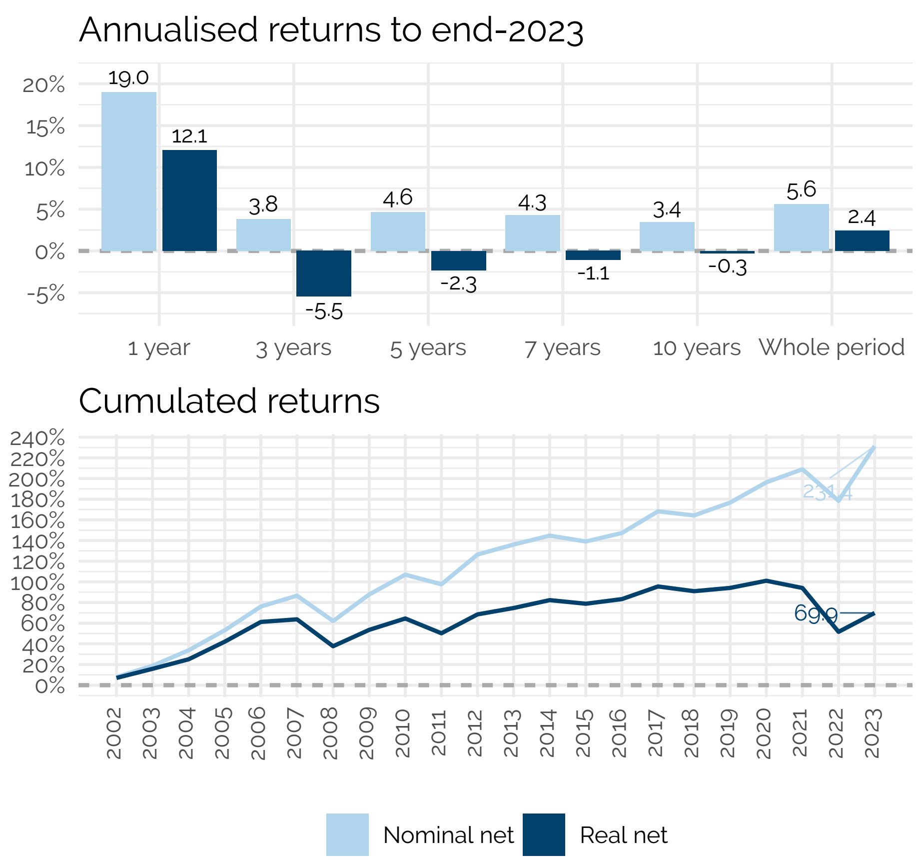
The investment efficiency of supplementary pension products is almost impossible to assess due to the lack of necessary data published by financial institutions. In Poland in many retirement plans there is no obligation to disclose rates of return to pension accounts holders. Generally, owners of savings 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 (PFEs), capital pension plans (PPKs), and voluntary pension funds (DFEs).

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 level of the 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 2002-2023 employee pension funds (PFEs) showed rather positive returns up to 19.95% annually (see Figure PL.7). After-charges real returns observed in 16 of 22 years and the average return in the 22-year period is positive as well. These satisfactory results were obtained due to proper portfolio construction, high quality of management and low costs. Although in 2022 PFEs reported negative returns both in nominal and real terms, mainly due to the war in Ukraine, they were more than compensated with positive returns in 2023.

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

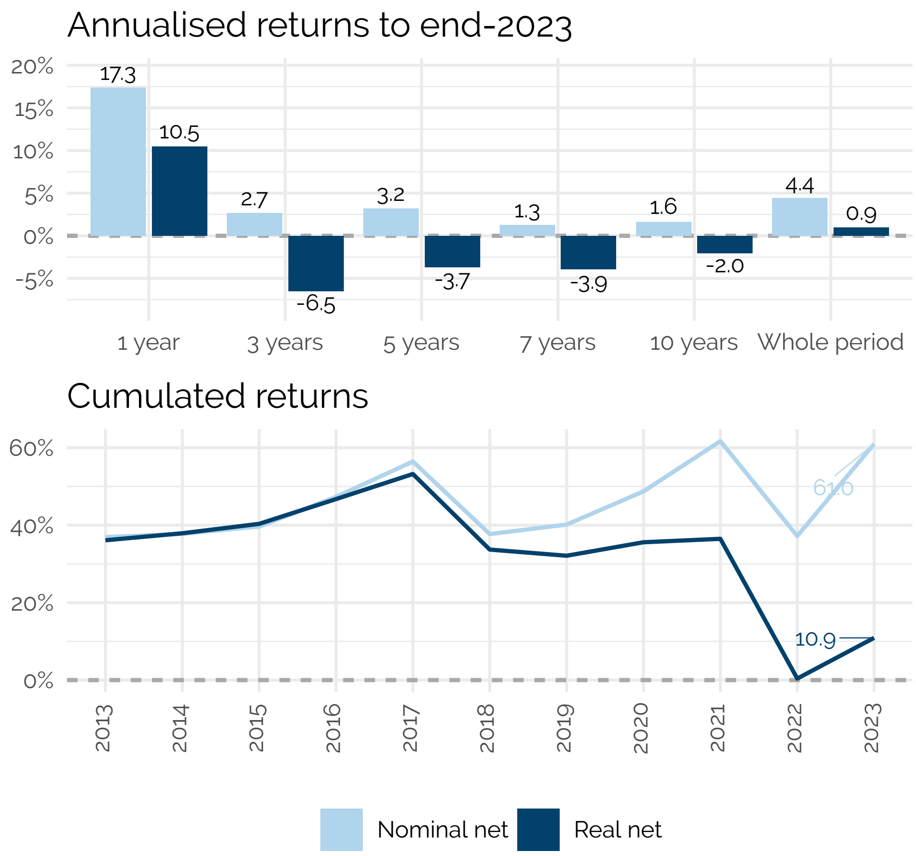


Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Voluntary pensions funds (DFEs) 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 DFEs 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 DFEs made losses. Fortunately, 2023 brought high profits. The average nominal rate of return after charges in years 2013-2023 amounted to 4.42%.

Figure PL.8 – Returns of Polish Voluntary Pension Funds (before tax, % of AuM)

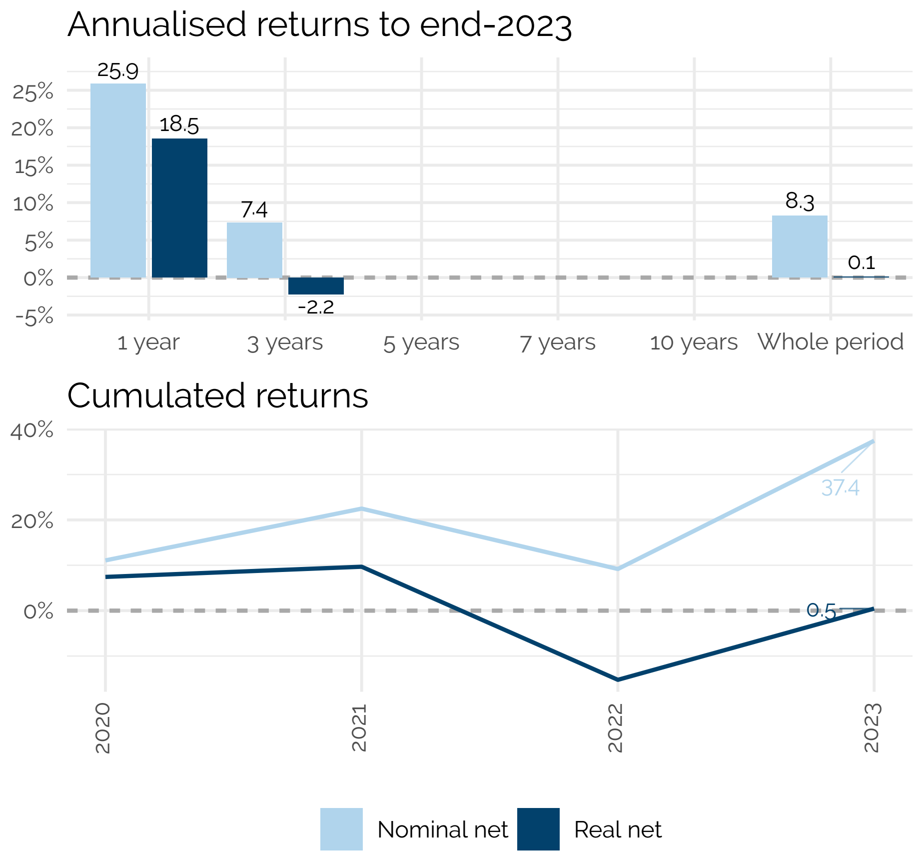


Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

Employee capital plans (PPKs) 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. However the losses did not consumed the profits they generated in the first two years. Moreover, in 2023 they experienced the highest returns in their short history. The investment efficiency of PPKs since 2020 is presented in Figure PL.9.

The inflation in Poland limited the profitability of pension plans significantly (see Figure PL.10). In the majority of years under analysis it was much higher that the EU average and has rocketed to much higher levels since 2019, mostly due to the COVID-19 pandemic and the war in Ukraine.

Figure PL.9 – Returns of Polish Employee Capital Plans (before tax, % of AuM)



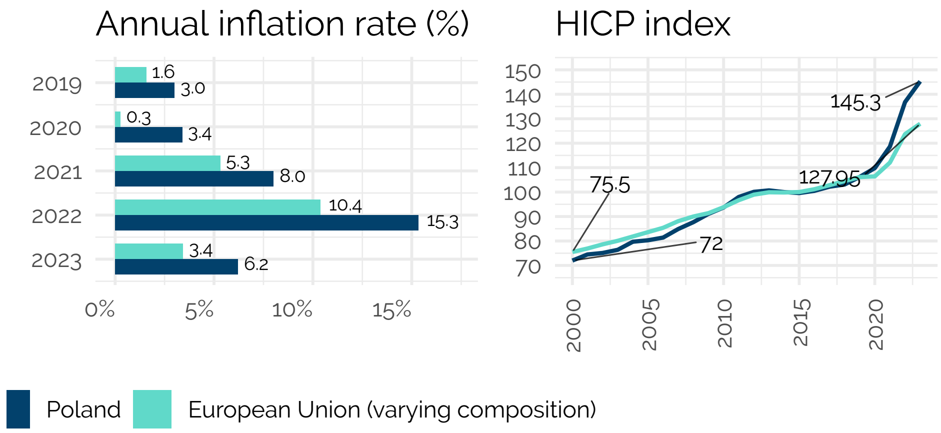
Data: UKNF, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

The annual real net returns of PFEs were reported to be much lower than nominal values, especially due to the inflation in the last three years, and amounted to 2.44% for the period 2002-2023. The real returns of DFEs turned to be even lower, namely 0.54% annually. But the worst results achieved PPKs that showed only 0.07% real profit on annual basis for the period 2020-2023 (see Figures PL.11 and PL.12).

Figure PL.10 – Inflation in Poland

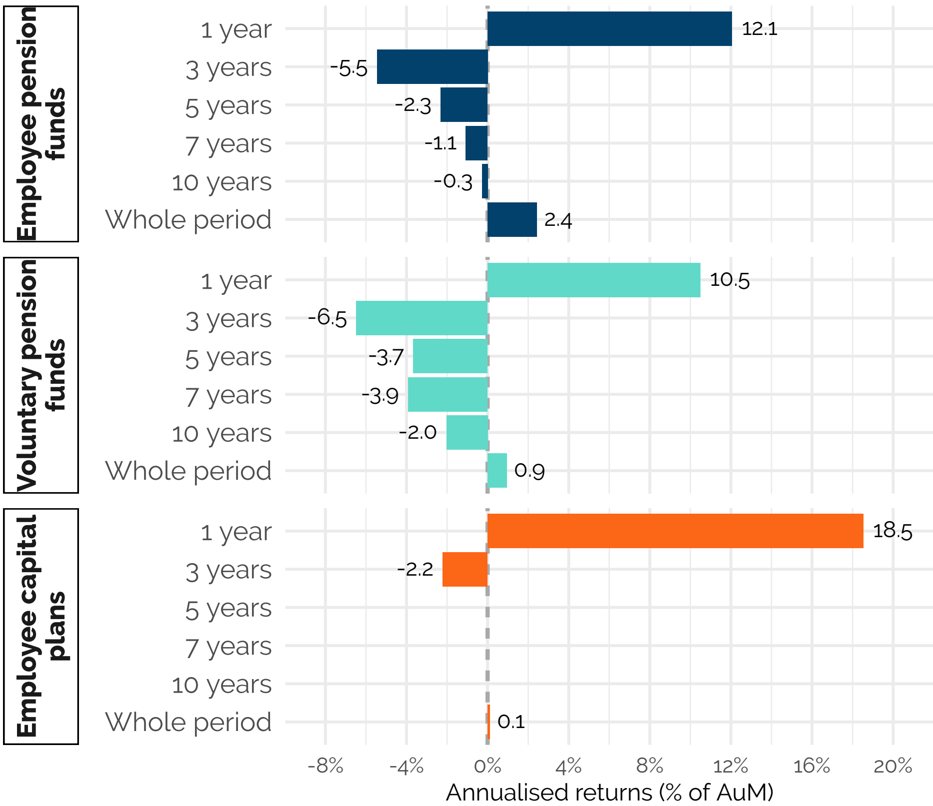
Period 2000–2023

	Annualised	Cumulated
Poland	3.3%	118.8%
European Union (varying composition)	2.3%	73.2%



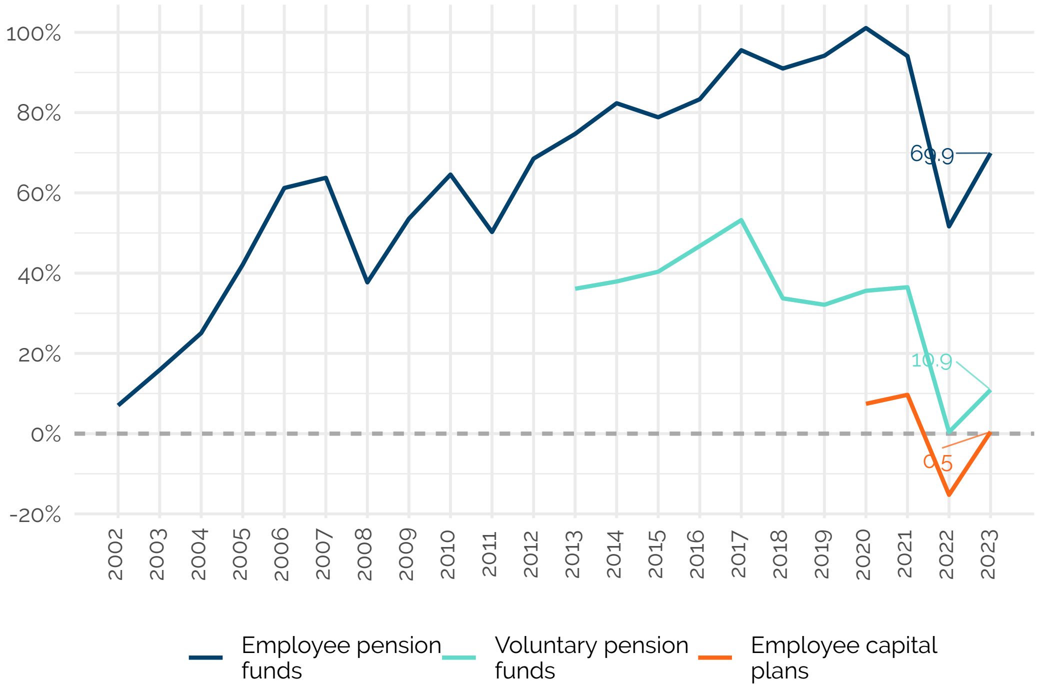
Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Figure PL.11 – **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, holding periods to end-2023.

Figure PL.12 – **Cumulated real net returns of Polish long-term and pension savings vehicles (2002–2023, before tax, % of AuM)**



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

Do Polish savings products beat capital markets?

Conclusions

Starting in 1999, with next supplementary elements introduced in 2004, 2012, 2019, and 2023 the Polish supplementary pension market is still in its early stage of operation. The coverage ratios (3.78%, 21.78%, 4.81% and 2.88% for PPEs, PPKs, IKEs and IKZEs 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 regarding 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 (PFEs) managed by employees' pension societies, voluntary pension funds (DFEs) managed by general pension societies (PTEs) and employee capital plans (PPKs). Other products are more complex because 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 capital plans (PPKs), voluntary pension funds (DFEs), and employee pension funds (PFEs) 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 0.07%, 0.54% and 2.44% 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 that are paid to the accounts.

To sum up, the information policy and the disclosure policy in the supplementary pension system in Poland are not saver-oriented. Individuals are entrusting their money to the institutions, but 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 in 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 account 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 bodies. This would help individuals make well-informed decisions and avoid buying inappropriate retirement products.

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