

Long-Term and Pension Savings

The Real Return

2020 Edition



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The European Federation of Investors and Financial Services Users
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Pension Savings: The Real Return

2020 Edition

A Research Report by BETTER FINANCE

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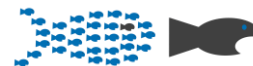
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Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	‘Barclay’s Pan-European High Yield Total Return’ Index
CAC 40	‘Cotation Assistée en Continu 40’ Index
CMU	Capital Markets Union
DAX 30	‘Deutsche Aktieindex 30’ Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom’s Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission’s Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index
FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices
IBEX 35	Índice Bursátil Español 35 Index
IKZE	‘Indywidualne konto zabezpieczenia emerytalnego’ – Polish specific Individual pension savings account
IRA	United States specific Individual Retirement Account



IT	Italy
JPM	J&P Morgan Indices
KIID	Key Investor Information Document
LV	Latvia
NAV	Net Asset Value
Mln	Million
MSCI	Morgan Stanley Capital International Indices
NL	Netherlands
OECD	The Organisation for Economic Co-Operation and Development
OFT	United Kingdom's Office for Fair Trading
PAYG	Pay-As-You-Go Principle
PIP	Italian specific 'Individual Investment Plan'
PL	Poland
PRIIP(s)	Packaged Retail and Insurance-Based Investment Products
RO	Romania
S&P	Standard & Poor Indexes
SE	Sweden
SK	Slovakia
SME	Small and Medium-sized Enterprise
SPIVA	Standard & Poor Dow Jones' Indices Research Report on Active Management
Scorecard	performances
TEE	Tax-Exempt-Exempt Regime
TCR/TER	Total Cost Ratio/ Total Expense Ratio
UCITS	Undertakings for the Collective Investment of Transferable Securities
UK	United Kingdom



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Country Case: Poland

Streszczenie

Dodatkowy system emerytalny w Polsce, który został wprowadzony w 1999 roku, a następnie był kilkakrotnie reformowany (główne zmiany w 2004, 2012 oraz 2018 roku), jest nadal w początkowej fazie rozwoju. Obecnie składa się 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.).

Poziom uczestnictwa w grupowych i indywidualnych planach oszczędzania na starość (odpowiednio 3,7%, 5,8%, 4% i 2%) wskazuje, że bardzo niewielka część Polaków zdecydowała się na oszczędzanie w oferowanych zinstytucjonalizowanych formach gromadzenia kapitału na starość.

PPE mogą być prowadzone w czterech formach: umowy z funduszem inwestycyjnym; umowy z zakładem ubezpieczeń na życie (grupowe ubezpieczenie na życie z ubezpieczeniowym funduszem kapitałowym); pracowniczego funduszu emerytalnego (PFE) lub zarządzania zewnętrznego. Na koniec 2019 roku w PPE zgromadzono 14,5 mld zł (3,42 mld €).

PPK mogą być oferowane w formie funduszu inwestycyjnego, funduszu emerytalnego i ubezpieczeniowego funduszu kapitałowego (UFK). Ta forma dodatkowych planów emerytalnych została dopiero wprowadzona, tj. funkcjonuje od 1 lipca 2019 r.

IKE i IKZE mogą być oferowane w formie: ubezpieczenia na życie z ubezpieczeniowym funduszem kapitałowym; funduszu inwestycyjnego; rachunku papierów wartościowych w domu maklerskim; rachunku bankowego lub dobrowolnego funduszu emerytalnego (DFE). Aktywa zgromadzone na IKE i IKZE na koniec 2019 roku wyniosły odpowiednio 10,17 mld zł (2,39 mld €) oraz 3,29 mld zł (0,77 mld €).

Pracownicze programy emerytalne (PPE), pracownicze plany kapitałowe (PPK) i indywidualne konta emerytalne (IKE) funkcjonują w reżimie podatkowym TEE (podatek pobierany jest na etapie opłacania składki), podczas gdy w IKZE podatek pobierany jest na etapie wypłaty środków (reżim EET).

W analizowanym okresie (2002-2019) pracownicze fundusze emerytalne (PFE) wypracowały dość wysokie stopy zwrotu sięgające 17,41% w skali roku. Straty pojawiły się jednak w latach 2008, 2011, 2015 i 2018 w czasie załamania na rynkach finansowych. Realne stopy zwrotu uwzględniające opłaty osiągnięte w 13 z 17 lat są pozytywne. Średnia realna stopa zwrotu za cały analizowany okres wyniosła 3,75%.



Dobrowolne fundusze emerytalne (DFE) osiągnęły natomiast nadzwyczajne wyniki inwestycyjne w początkowym okresie funkcjonowania, głównie z uwagi na hossę na rynku akcji w pierwszym roku ich działalności. W 2013 roku najlepsze DFE wygenerowały nominalny zysk przekraczający 50%. Wyniki te nie zostały jednak powtórzone w kolejnych latach. W 2014 roku część DFE wykazała straty, które jednak zostały pokryte przez zyski w kolejnych latach. Średnia realna stopa zwrotu z uwzględnieniem opłat za lata 2013-2019 wyniosła 4,33%.

Summary

Starting in 1999, with significant changes introduced in 2004, 2012 and 2018, the Polish supplementary pension market is still in its early stage of operation. Pillar III, which supplements the basic, mandatory pension system, consists of four different elements:

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

The coverage ratios (3.7%, 5.8% 4% and 2% 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.

PPE can be offered in four 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) or external management. PPE assets amounted to PLN 14.54 bln (€3.42 bln) at the end of 2019.

PPK can operate as investment funds, pension funds or a unit-linked life insurance. These plans have just started to collect money (introduced in July 2019). Due to a very short period of operation the PPK assets amounted to only PLN 84.69 mln (€19.9 mln) at the end of 2019.

IKE and IKZE can operate in the form of either: 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 (*dobrowolny fundusz emerytalny*, DFE). The total amount of IKE assets amounted to PLN 10.17 bln (€2.39 bln) and IKZE assets amounted to PLN 3.28 bln (€0.77 bln) at the end of 2019.

PPE, PPK and IKE operate in TEE tax regime while IKZE is run in EET one.

During the period of 2002-2019 employee pension funds (PFE) showed rather positive returns up to 17.41% annually. Negative results appeared only in the years 2008, 2011, 2015 and 2018 when equity markets dropped significantly. Positive after-charges real returns were observed in 13 of 18 years and the average return over the 18-year period is highly positive as well (3.75%).

Voluntary pensions funds (DFE) have obtained extraordinary investment results from their start in 2012. The first years of their operation coincided with the Polish financial market recovery and allowed 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 average real rate of return after charges in years 2013-2019 amounted to 4.33%.

Introduction

The old-age pension system in Poland was introduced in 1999 as a multi-tier structure consisting with three main elements:

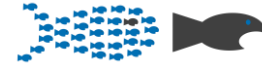
- Pillar I - a mandatory, Pay-as-You-Go (PAYG) system;
- Pillar II - a mandatory PAYG system with a partial opt-out for funded pension funds; and
- Pillar III - voluntary, occupational and individual pension plans.

Table PL1. Multi-pillar pension system in Poland		
<u>Pillar I</u>	<u>Pillar II</u>	<u>Pillar III</u>
Mandatory	Mandatory[1]	Voluntary
PAYG	PAYG/Funded (opt-out)	Funded
NDC	NDC/DC (opt-out)	DC
Basic benefit	Basic benefit	Complementary benefit
Publicly managed:	Publicly/Private managed:	Privately managed:
Social Insurance Institution (ZUS)	Social Insurance Institution (ZUS); in opt-out element: Open Pension Funds	Pension savings managed by different financial institutions, depending on the product form, organised by employer or individual

Source: own elaboration; [1] The II pillar is still mandatory although open pension funds (OFE) have been made voluntary since 2014 (partial opt-out for funded system).

Summary return table - Polish pension funds				
Polish Employee Pension Funds (PFE)				
		Nominal	Net	Real net
1 year	2019	n.a.	4.72%	1.66%
	2018	n.a.	-1.47%	-2.33%
3 years	2017-2019	n.a.	3.83%	1.93%
	2016-2019	n.a.	3.40%	2.22%
7 years	2013-2019	n.a.	2.91%	2.04%
	2012-2018	n.a.	4.24%	3.49%
maximum	2002-2019	n.a.	5.82%	3.75%
Voluntary Pension Funds (DFE)				
		Nominal	Net	Real net
1 year	2019	4.87%	1.77%	-1.21%
	2018	-9.75%	12.28%	-12.72%
3 years	2017-2019	1.02%	-1.77%	-3.44%
	2016-2019	2.06%	-0.58%	-1.01%
7 years	2013-2019	7.69%	4.89%	4.33%
	2012-2018	n.a.	n.a.	n.a.
maximum	2013-2019	7.69%	4.89%	4.33%

Source: Own computations based on Table PL17



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 (Pillar I + Pillar 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 Pillar I (underwritten on individual accounts of the insured), and 7.3 p.p. to Pillar 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.²²⁹

Pillar 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.

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

Polish open pension funds are frequently treated as typical private pension plans (OECD 2012) or even employer-arranged pension funds (Oxera 2013) when presented in global private pension funds statistics. Such an assessment is incorrect in the sense that neither the employer nor the employee can decide on the creation of the pension plan. Moreover, the law establishes the contribution level and guarantees minimum pension benefits that are paid together from the whole basic system by the public institution (ZUS). Thus, Polish OFEs are just a mechanism of temporary investing public pension system resources in financial markets (financial vehicles for the accumulation phase).

The statutory retirement age is 60 for women and 65 for men.²³⁰ Prior to retirement the member's assets gathered in OFE (if one opted out for funded element) are transferred to the sub-account administered by ZUS.²³¹ Pension benefits from the basic system are calculated in accordance with a Defined Contribution (DC) rule and are paid by Social Insurance Institution (ZUS).

²²⁹ 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.

²³⁰ 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. More in: A. Chłóń-Domińczak, P. Strzelecki, 'The minimum pension as an instrument of poverty protection in the defined contribution pension system – an example of Poland' (2013) 12(3) Journal of Pension Economics and Finance.

²³¹ Money gathered on individual accounts in OFE is systematically transferred to the Social Insurance Institution (ZUS) during 10 years before retirement (before reaching the statutory retirement age).



The old-age pension from the basic system (Pillar I+II) depends solely on two components: 1) the insured person's total pension entitlements accumulated during his/her entire career (balance of NDC account and sub-account), and 2) the average life expectancy upon retirement. The gross replacement rate at retirement from the public pension system in Poland is 61.4% (projections for 2016 for an average earner).²³²

Pillar III supplements the basic, mandatory pension system and represents voluntary, 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 savings 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 23,521.50 - €5,525,63²³³ - in 2020). 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. PPEs cover 613 thousand employees which represents only 2.6% of the working population in Poland.

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 operate in 2019 and their full implementation is 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.

²³² European Commission, *The 2018 Ageing Report: Economic and Budgetary Projections for the EU Member States (2016-2070)*, Luxembourg, 2018, https://ec.europa.eu/info/publications/economy-finance/2018-ageing-report-economic-and-budgetary-projections-eu-member-states-2016-2070_en.

²³³ For the conversion of PLN to euros, the report uses the "Euro foreign exchange reference rates" provided by the European Central Bank (the exchange rate used for the data is the one of 31st December 2019: 1 EUR = PLN 4.2568), https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-pln.en.html



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 (€ 58.73) and regular annual state subsidy amounting to PLN 240 (€56.38). 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 323 thousand employees at the end of 2019, which represents ca. 2% 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 15,681 - €3,683.75 - in 2020). 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 2019 only 950,767 Polish citizens had an individual retirement account (IKE) which represents 5.8% of the working population.

Individual retirement savings 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 via a programmed withdrawal after the saver reaches the age of 65. The limit for IKZE contributions is 120% of the average wage (PLN 6,272.40 - €1,473.50 in 2020). Only about 4% of the Polish working population (2019) is covered by this type of supplementary old-age provision.



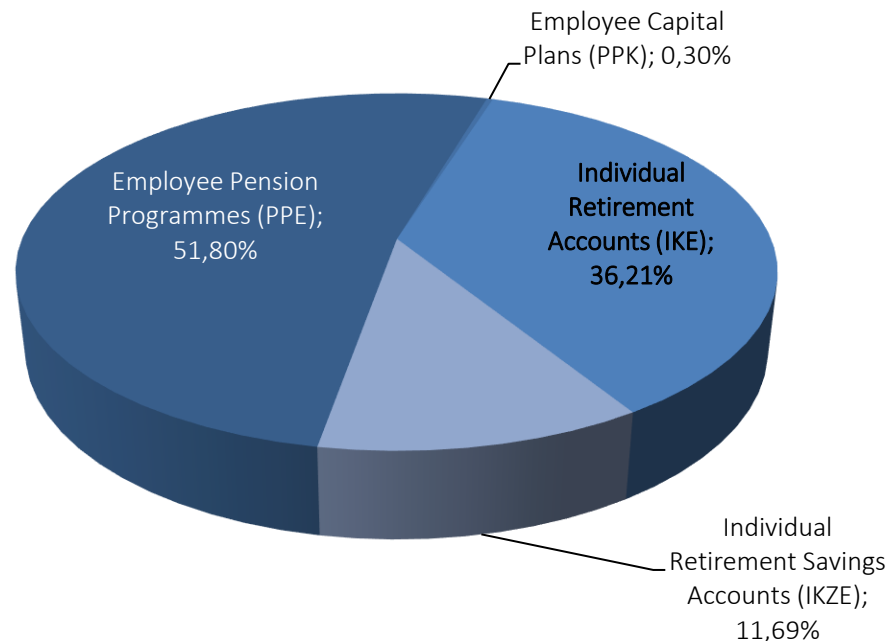
Table PL2. Architecture of voluntary pension system in Poland (pillar III) at the end of 2019

<u>Name of the pension system element</u>	<u>Employee Pension Programmes (PPE)</u>	<u>Employee capital plans (PPK)*</u>	<u>Individual Retirement Accounts (IKE)</u>	<u>Individual Retirement Savings Accounts (IKZE)</u>
Types of pension vehicles	· Unit-linked life insurance	· Unit-linked life insurance	· Unit-linked life insurance	· Unit-linked life insurance
	· Investment fund	· Investment fund	· Investment fund	· Investment fund
Assets under management in PLN bln (€ bln)	· Employee pension fund	· Pension fund	· Account in the brokerage house	· Account in the brokerage house
			· Bank account	· Bank account
			· Voluntary pension fund	· Voluntary pension fund
	14.545	0.085	10.167	3.284
	€3.42	€0.02	€2.39	€0.77

* This vehicle started to operate in 2019.

Source: own collaboration based on: *Sprawozdanie z działalności Urzędu Komisji Nadzoru Finansowego oraz Komisji Nadzoru Finansowego w 2019 roku, UKNF, Warszawa 2020; Zbiornicza informacja statystyczna dotycząca funkcjonowania PPK w IV kwartale 2019 roku, UKNF, Warszawa 2020.*

Chart PL3. Market share of Polish voluntary pension system elements by assets under management as of 31 December 2019



Source: Source: own collaboration based on: *Sprawozdanie z działalności Urzędu Komisji Nadzoru Finansowego oraz Komisji Nadzoru Finansowego w 2019 roku, UKNF, Warszawa 2020.*



The efficiency of the supplementary old-age pension system in Poland is rather satisfactory when considering the operation of voluntary pension funds (DFE) and employee pension funds (PFE, a form of PPE). Since inception they offered a positive nominal annual rate of return amounting to 7.69% and 5.88% respectively.

Pension Vehicles

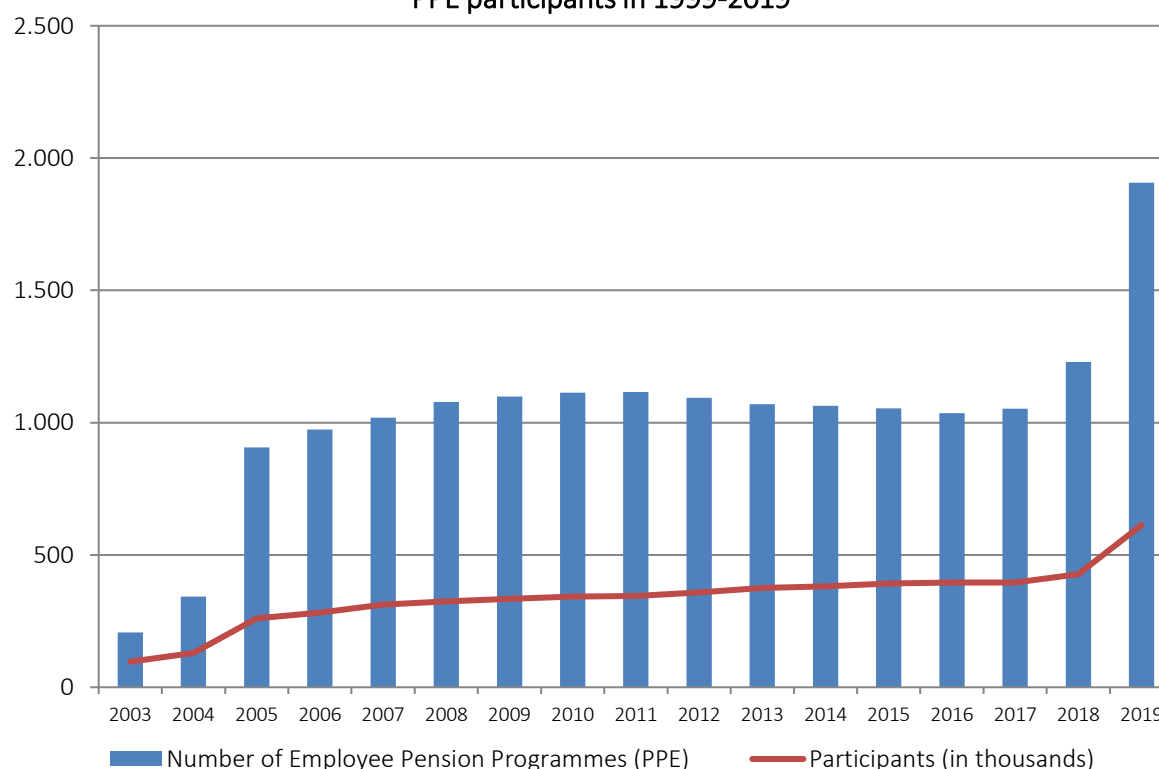
Employee pension programmes

PPEs can be offered in four forms:

- as a contract with an asset management company (investment fund);
- as a contract with a life insurance company (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 2019, the number of programmes reached 1,907 (see Graph PL4 below), mainly due to the regulations that allow employers to be exempt from the obligation to create PPK when they offer PPE.

Graph PL4. Number of Employee Pension Programmes and the number of PPE participants in 1999-2019



Source: own collaboration based on: Sprawozdanie z działalności Urzędu Komisji Nadzoru Finansowego oraz Komisji Nadzoru Finansowego w 2019 roku, UKNF, Warszawa 2020



The most popular forms of PPE are group unit-linked life insurances and investment funds. These two forms represent 98.6% of PPEs (see table below). The proportion is lower when taking into consideration the number of participants (94.7%) and the level of assets (87.1% of total PPEs' assets are invested in insurance funds and investment funds).

Table PL5. Number and assets of Employee Pension Programmes (PPE) by form of the programme in 2019					
	Number of PPE	Market share (as % of PPE number)	Market share (as % of participants)	Assets (PLN million)	Market share (as % of PPE assets)
Unit-linked life insurance	590	30.9%	16.1%	3,333	22.4%
Investment fund	1290	67.6%	78.6%	7,669	64.7%
Employee Pension Fund	27	1.4%	5.3%	1,800	12.9%
Total	1,907			14,545	

Source: own collaboration based on: Sprawozdanie z działalności Urzędu Komisji Nadzoru Finansowego oraz Komisji Nadzoru Finansowego w 2019 roku, UKNF, Warszawa 2020

The average basic contribution for the whole year paid in 2019 amounted to PLN 4,070.4 (€946.30). The average additional contribution financed by the employee amounted to PLN 1,252.60 (€291.21) on average. PPE assets amounted to PLN 14.5 bln (€3.42 bln) and the average account balance equaled PLN 31,156 (€ 7,243.22) at the end of 2018. No data is available on the average percentage level of contributions paid to the programmes.

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*, TFIs), general pension societies (*powszechne towarzystwa emerytalne*, PTEs) and Employee Pension Societies (*pracownicze towarzystwa emerytalne*, PrTEs) in a form of target-date funds (TDF, life cycle funds). All employees ages 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 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,
- 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 August 2019 there were 20 financial institutions (16 asset management companies, 3 general pension societies and 1 insurance company) offering ca. 170 PPK funds on the market.²³⁴ At the end of 2019 328,926 participants gathered PLN 84.69 mln (€19.9 mln) 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 the 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 (OFE under Pillar II) in Poland. Assets of the funds are separated to guarantee the safety of the system, as well as due to stricter OFEs' investment regulations.

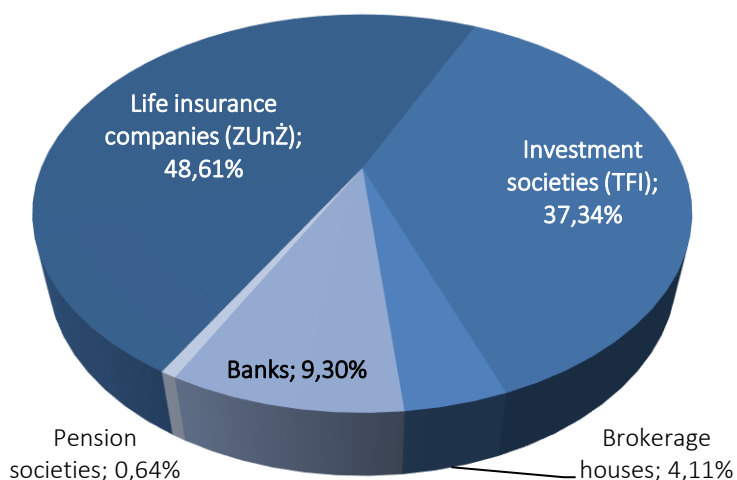
The design of IKE products usually does not vary significantly from the standard offer on financial markets. The difference relates to the tax treatment of capital gains (exclusion from capital gains tax) and contribution limits. Moreover, financial institutions cannot charge any cancellation fee when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

The most popular IKE products take the form of life insurance contracts (unit-linked life insurance) and investment funds. According to official data (KNF 2020), these two forms of plans represent 87% of all IKE accounts.

²³⁴ https://www.knf.gov.pl/knf/pl/komponenty/img/wykaz_institucje_w_PPK_26_08_2019_66864.xlsx



Chart PL6. Structure of IKE market by number of accounts and type of provider as of 31 December 2019



Source: Informacje liczbowe o IKE za 2019 r., UKNF, Warszawa 2020

	Unit-linked life insurance	Investment fund	Account in the brokerage house	Bank account	Voluntary pension fund	Total
2004	110.728	50.899	6.279	7.570		175.476
2005	267.529	103.624	7.492	49.220		427.865
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	579.09	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	25.22	53.371	2.548	852.22
2016	571.111	236.278	27.615	64.031	3.58	902.615
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	39.03	88.460	6.075	950.767

Source: Informacje liczbowe o IKE za 2019 r., UKNF, Warszawa 2020; Indywidualne konta emerytalne oraz indywidualne konta zabezpieczenia emerytalnego w 2018 roku, UKNF, Warszawa 2019, p. 11; Indywidualne konta emerytalne oraz indywidualne konta zabezpieczenia emerytalnego w 2017 roku, UKNF, Warszawa 2018, p.11; Indywidualne konta emerytalne oraz indywidualne konta zabezpieczenia emerytalnego w 2016 roku, UKNF, Warszawa 2017, p. 9; Indywidualne konta emerytalne oraz indywidualne konta zabezpieczenia emerytalnego w 2015 roku, UKNF, Warszawa 2016, p. 9; Indywidualne konta emerytalne oraz indywidualne konta zabezpieczenia emerytalnego w 2013 roku, UKNF, Warszawa 2014, p. 9; Indywidualne konta emerytalne w 2011 roku, UKNF, Warszawa 2012, p. 9; Informacja o indywidualnych kontach emerytalnych sporządzona na podstawie danych liczbowych za 2006 r., UKNF, Warszawa 2007, p. 2; Rocznik Ubezpieczeń i Funduszy Emerytalnych 2004, UKNUIFE, Warszawa 2005.



IKE holders do not fully use the contribution limit. The average contribution paid from 2004 to 2019 remains permanently below the statutory limit (3 times the average wage). The total amount of IKE assets amounted to PLN 10.17 billion (€2.39 billion) as of 31 December 2019. There were PLN 10,694 (€2,512) gathered on an IKE account on average.

Table PL8. Limits on contributions and average contribution paid into IKE in 2006-2019		
	Contribution limit	Average contribution paid
2006	3.521	2.199
2007	3.697	1.719
2008	4.055	1.561
2009	9.579	1.850
2010	9.579	1.971
2011	10.08	1.982
2012	10.58	2.584
2013	11.14	3.130
2014	11.24	3.440
2015	11.79	3.511
2016	12.17	3.738
2017	12.79	3.843
2018	13.33	4.179
2019	14.3	4.557

Source: Informacje liczbowe o IKE za 2019 r., UKNF, Warszawa 2005-2020

Individual Retirement Savings Accounts (IKZE)

Like individual retirement accounts, the group of IKZE products consists of:

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

As this part of the pension system only has a seven-year history (started in 2012), the number of participants is still at an unsatisfactory level.



Table PL9. Number of Individual Retirement Savings Accounts (IKZE) by type of the product (2012-2019)

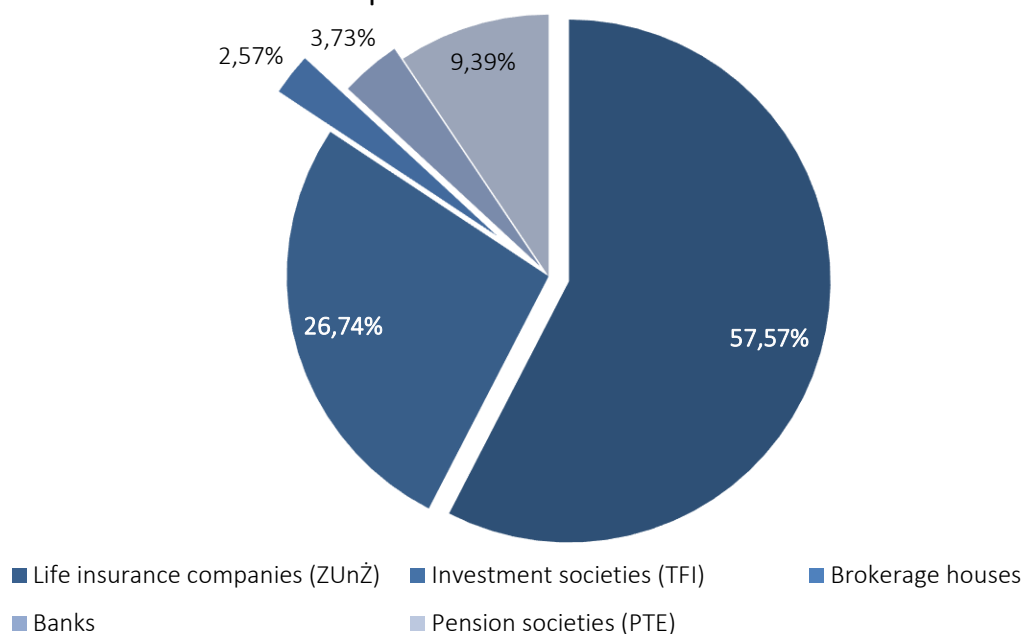
Type of the product	2012	2013	2014	2015	2016	2017	2018	2019
Unit-linked life insurance	363,399	388,699	418,935	442,735	446,054	448,881	447,303	376,839
Investment fund	5,202	9,565	17,510	54,471	87,510	121,269	150,217	175,029
Account in the brokerage house	559	1,012	2,797	4,325	6,201	8,478	11,172	16,838
Bank account	19	33	8,105	13,735	15,585	18,114	20,311	24,429
Voluntary pension fund	127,642	97,117	80,795	82,294	87,762	94,252	101,386	61,448
Total	496,821	496,426	512,383	597,560	564,353	690,994	730,389	654,583

Source: Informacje liczbowe o IKZE za 2019 r., UKNF, Warszawa 2020

By the end of 2019, around 655 thousand Poles opened individual retirement savings accounts. As shown on chart PL3, the IKZE market is dominated by insurance companies that run 58% of the accounts. Brokerage houses and banks do not show a lot of interest in providing this type of old-age pension provision, although some of them put IKZE in their offers.

The savings pot of IKZE is small compared to other elements of the Polish supplementary pension system. At the end of 2019, financial institutions managed funds amounting to PLN 3.28 bln (€0.77 bln). It is worth noting that this capital was raised through contributions in just eight years. The rapid growth of IKZE market in terms of coverage and the asset value is expected in the coming years. This growth could happen as a consequence of recent changes in IKZE taxation: a higher flat-rate contribution limit that can be deducted from the tax base and benefit payments subject to a reduced income tax rate.

Chart PL10. Structure of IKZE market by number of accounts and type of provider as of 31 December 2019



Source: Informacje liczbowe o IKZE za 2019 r., UKNF, Warszawa 2020



Table PL11. Assets of IKZE (2012-2019, in thousands PLN)

Type of the product	2012	2013	2014	2015	2016	2017	2018	2019
Unit-linked life insurance	36,393	75,117	167,737	281,946	398,589	545,374	635,146	783,627
Investment fund	7,973	23,371	63,559	193,099	407,884	719,630	1083,451	1608,717
Account in the brokerage house	1,673	4,815	14,638	30,268	57,045	93,780	119,354	197,171
Bank account	40	98	11,624	35,081	66,600	106,702	156,208	22,433
Voluntary pension fund	6,803	15,805	37,792	79,198	147,972	240,671	320,798	469,984
Total	54,894	121,219	297,364	621,607	1,0801,06	1,708,174	2,316,975	3,083,951

Source: Informacje liczbowe o IKZE za 2019 r., UKNF, Warszawa 2014-2020

Charges

The type and level of charges deducted from pension savings depend on the vehicle used and the type of programme. Lower fees are charged for group (collective) provision of an old-age pension organised by employers (PPE). Significant cost differences exist between various product types. Since no comprehensive data regarding the costs of Polish supplementary products is collected or officially published, the information provided below reflects the costs of selected (exemplary) pension products and plans functioning on the Polish market.

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 varies from 0.5% p.a. to 4% 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.

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 return is both positive and above the benchmark).



Individual Retirement Accounts (IKE) and Individual Retirement Savings 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 insurances. 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 (such as conversion 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.

The tables below show the level of fees charged in individual retirement accounts (IKE) and individual retirement savings accounts (IKZE) offered by life insurance companies, investment societies and pension societies.

Table PL12. Charges in IKE nad IKZE by type of provider			
Type of financial institution	Up-front fee	Management fee (% of AuM)	Transfer fee
life insurance companies	0-8%	0-4.5	10-50% of assets
Asset management companies	0-5.5%	0.8-4.0; success fee 0-30% of the return above the benchmark	0-PLN 500
Pension societies	0-53.4%; quota limit may be applicable	0.6-3.5; success fee 0-20.0 of the return above the benchmark	10-50% of assets; min. PLN 50

Source: Own elaboration based on: (Rutecka-Góra et al. 2020).

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)

The employee and employer contribution is taxed. State kick-off payment and regular annual subsidies as well as investment returns and benefits are exempt. 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 Savings Accounts (IKZE)

Contributions to IKZE are deductible from the income tax base. In 2012 and 2013 there was an upper limit of contribution amounting to 4% of the person's annual salary in the previous year. Due to the most recent changes in the pension system, the given limit was replaced with a flat-rate limit in 2014. Every individual can pay up to 120% of the average salary into an account. 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.

Pension Returns

Asset allocation

Employee Pension Programmes (PPE)

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. PPKs are a target-date funds what means that the general asset allocation (bonds vs shares) depends on the target date of the fund.

The tables below present the investment portfolio of employee pension funds, which are the only types of occupational pension products with official and separate statistics on asset allocation.



Table PL13. Portfolio of employees' pension funds (PFE) in years 2010-2019 (as % of assets)

	Shares	Gov. bonds	Investment funds units	Bank deposits	Other investments	Assets under management (in PLN mln)
2010	14.19	1.48	24.30	58.78	1.25	1542.6
2011	14.90	2.14	33.13	48.90	0.92	1559
2012	19.49	1.53	37.53	40.91	0.54	1873.3
2013	29.86	2.01	49.83	17.91	0.39	2038.5
2014	33.00	1.05	61.64	4.30	0.01	1749.6
2015	34.09	2.27	63.64	0.00	0.00	1797.1
2016	29.62	63.00	0	6.70	0.68	1766.6
2017	32.91	64.31	0	1.86	0.92	1856.9
2018	30.77	67.22	0	1.62	0	1740.4
2019	31.6	58.69	0	33604	28672	1879.8

Source: own collaboration based on: Biuletyn Kwartalny. Rynek PFE 4/2019, KNF, Warszawa 2020

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

There are no available statistics that allow for the identification of the asset allocation within Individual Saving Accounts (IKE) and Individual Retirement Savings 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 either 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. These vehicles started operating in 2012. The table below shows the DFE's investment portfolios in years 2014-2019.

Table PL14. Portfolio of voluntary pension funds (DFE) offered as Individual Retirement Saving Accounts (IKZE) and Individual Retirement Accounts (IKE) in 2014-2019, as % of DFE assets

Provider	Year	Shares	Gov. Bonds	Non-gov. Bonds	Other	Assets under management (in PLN mln)	Market share (as % of total DFEs' assets)
Allianz Polska DFE	2014	33.46%	32.43%	21.81%	12.30%	3.72	6.25%
	2015	35.12%	29.39%	28.60%	6.90%	5.6	5.28%
	2016	31.84%	22.54%	37.07%	8.54%	8.3	4.40%
	2017	53.62%	5.86%	34.17%	6.35%	11.9	3.87%
	2018	42.49%	17.33%	34.65%	5.53%	13.7	3.48%
	2019	32.92%	21.52%	38.90%	6.65%	16.9	2.92%
DFE Pekao*	2014	43.83%	40.45%	2.86%	12.86%	13.18	22.16%
	2015	52.90%	30.95%	1.93%	14.21%	28.5	26.89%
	2016	57.41%	32.73%	4.78%	5.08%	52.2	27.65%
	2017	50.99%	43.12%	0.19%	5.70%	82.7	26.87%



DFE Pocztylion Plus	2014	24.62%	67.55%	0.00%	7.83%	0.55	0.92%
	2015	26.26%	67.64%	6.11%	0.00%	0.8	0.75%
	2016	34.83%	59.31%	0.00%	5.86%	1.1	0.58%
	2017	35.25%	55.08%	1.70%	7.97%	1.5	0.49%
	2018	35.38%	54.83%	1.00%	8.79%	2.5	0.64%
	2019	38.48%	53.66%	1.25%	6.61%	4	0.69%
DFE PZU	2014	66.82%	13.94%	2.40%	16.84%	9.08	15.27%
	2015	73.26%	13.58%	1.45%	11.70%	14.8	13.96%
	2016	74.79%	17.64%	0.77%	6.80%	27	14.30%
	2017	72.84%	16.78%	0.42%	9.96%	47.8	15.53%
	2018	69.28%	9.55%	7.01%	14.16%	175.7	44.64%
	2019	60.80%	14.28%	16.31%	8.60%	262.7	45.39%
Nordea DFE(D)	2014	37.44%	35.32%	10.44%	16.81%	1.63	2.74%
(ING DFE)	2014	63.74%	0.00%	12.35%	23.92%	5.92	9.95%
NN DFE	2015	57.45%	4.49%	10.50%	27.57%	15.2	14.34%
	2016	50.51%	18.75%	6.85%	23.89%	36.7	19.44%
	2017	56.36%	35.58%	0.01%	8.05%	0.3	0.10%
	2018	69.28%	9.55%	7.01%	14.16%	175.7	44.64%
	2019	52.80%	24.09%	14.52%	8.58%	169.2	29.23%
MetLife Amplico DFE	2014	39.46%	40.26%	0.00%	20.27%	19.11	32.13%
	2015	61.24%	32.92%	0.00%	5.84%	24.2	22.83%
	2016	59.60%	32.60%	0.00%	7.80%	28.5	15.10%
	2017	56.99%	22.13%	12.91%	7.97%	73.5	23.88%
	2018	49.69%	43.78%	0.66%	5.87%	30.8	7.83%
PKO DFE	2019	64.96%	29.25%	0.56%	5.23%	36	6.22%
	2014	35.29%	53.04%	0.00%	11.67%	6.29	10.57%
	2015	35.84%	51.51%	0.00%	12.65%	16.8	15.85%
	2016	26.26%	58.34%	0.00%	15.40%	34.8	18.43%
	2017	41.48%	48.64%	0.00%	9.88%	56.3	18.29%
Generali DFE	2018	37.75%	48.14%	1.44%	12.67%	69.8	17.73%
	2019	37.20%	44.07%	6.50%	12.23%	89.3	15.43%
	2015	37.44%	48.61%	0.00%	13.95%	0.1	0.09%
	2016	68.60%	29.87%	0.00%	1.53%	0.2	0.11%
	2017	56.36%	35.58%	0.01%	8.05%	0.3	0.10%
Generali DFE	2018	43.40%	48.54%	0.04%	8.02%	0.5	0.13%
	2019	56.54%	33.98%	0.00%	9.47%	0.7	0.12%

Source: own collaboration based on analizy.pl; *Liquidated in 2018

Pension returns

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 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 is submitted to the Financial Supervisory Commission or 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 vehicles dedicated solely to PPE, IKE or IKZE, namely employee pension funds (PFE) 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 costs. The only fee that must be included when calculating after-charges returns is the upfront-fee deducted from contributions paid into accounts.

During the period of 2002-2019 employee pension funds (PFE) showed rather positive returns up to 17.41% annually. Negative results appeared only in the years 2008, 2011, 2015 and 2018 when equity markets dropped significantly. After-charges real returns observed in 14 of 18 years and the average return in the 18-year period is highly positive as well. These satisfactory results were obtained due to proper portfolio construction, high quality of management and low costs.

Table PL15. Nominal and real after-charges returns of Employee Pension Funds in 2002-2018 (in %)

Employees pension fund	PFE NESTLÉ POLSKA	PFE SŁONECZNA JESIEŃ	PFE ORANGE POLSKA	PFE UNILEVER POLSKA	PFE "NOWY ŚWIAT"	PFE "DIAMENT"	Weighted nominal return after charges, before inflation	Inflation (HICP)	Weighted real return after charges and inflation
2002			11.35%		9.76%	-21.05%	7.88%	0.81%	7.02%
2003			10.28%		10.44%	8.71%	10.14%	1.73%	8.26%
2004	11.25%		12.30%	14.24%	13.64%		12.59%	4.32%	7.93%
2005	12.53%		14.82%	12.93%	13.81%		14.50%	0.75%	13.65%
2006	12.41%	10.60%	15.40%	13.41%	15.25%		14.99%	1.37%	13.43%
2007	5.10%	4.52%	6.10%	5.77%	6.23%		5.94%	4.30%	1.58%
2008	-	-11.33%	-	-6.34%	-		-13.14%	3.30%	-15.91%
2009	10.10%	14.83%	13.54%	12.74%	17.41%		15.85%	3.88%	11.52%
2010	13.33%	9.60%	10.33%	9.75%	10.52%		10.22%	2.85%	7.16%
2011	9.98%	9.60%	10.33%	9.75%	10.52%		10.22%	2.85%	7.16%
2012	-5.05%	-3.10%	-4.75%	-3.59%	-5.20%		-4.51%	4.59%	-8.70%
2013	15.82%	13.60%	14.96%	15.01%	14.15%		14.57%	2.14%	12.17%
2014	5.19%	5.21%	3.45%	4.56%	5.71%		4.28%	0.60%	3.66%
2015	4.42%		3.91%	4.92%	2.56%		3.65%	-0.70%	4.37%
2016	-1.24%		-2.74%	-0.97%	-1.35%		-2.31%	-0.40%	-1.92%
2017			3.18%	4.88%	3.93%		3.44%	0.90%	2.51%
2018			8.24%	6.66%	9.19%		8.47%	1.69%	6.67%
2019			-1.12%		-2.69%		-1.47%	0.88%	-2.33%
2019			5.58%		1.57%		4.72%	3.01%	1.66%
Annual average 2002-2018	5.84%	5.15%	6.01%	6.51%	5.85%	-7.36%	5.88%	1.93%	3.88%

Source: own elaboration based on Eurostat (HICP) and Dane miesięczne PFE - maj 2020 r., UKNF, Warszawa 2020.



Table PL16. Annualized returns of EPF			
Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	n.a.	4.72%	1.66%
3-years	n.a.	3.83%	1.93%
5-years	n.a.	2.49%	1.26%
7-year	n.a.	2.91%	2.04%
10-years	n.a.	3.96%	2.37%
Since inception	n.a.	5.82%	3.75%

Source: Table PL15

Voluntary pensions funds (DFE) have obtained extraordinary investment results from their start in 2012. 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 when all DFE made losses. The average real rate of return after charges in years 2013-2019 amounted to 4.33%.

Table PL17. Nominal and real returns of voluntary pension funds (DFE) in 2013-2019 (in %)								
	2013	2014	2015	2016	2017	2018	2019	Annual average 2013-2019
Allianz Polska DFE	7.80%	2.03%	-0.33%	5.81%	9.33%	-8.32%	3.44%	2.67%
DFE Pekao*	16.30%	1.27%	3.26%	4.85%	6.78%			6.37%
DFE Pocztylion Plus	6.90%	-2.22%	2.56%	3.60%	-0.98%	-4.77%	1.04%	0.81%
DFE PZU	32.80%	3.64%	9.07%	16.19%	14.67%	-9.90%	3.39%	9.30%
NN DFE	59.10%	-0.73%	16.21%	13.26%	9.01%	-8.61%	8.91%	12.32%
MetLife DFE	56.70%	6.09%	-1.89%	3.76%	6.65%	-16.61%	9.65%	7.42%
PKO DFE	16.90%	2.54%	-0.88%	5.74%	8.63%	-8.51%	0.14%	3.24%
Weighted nominal return before charges and inflation	40.57%	3.15%	3.90%	8.14%	8.92%	-9.75%	4.87%	7.69%
Weighted nominal return after charges**, before inflation	36.94%	0.64%	1.36%	5.49%	6.18%	-12.28%	1.77%	4.94%
Inflation (HICP)	0.60%	-0.70%	-0.40%	-0.90%	1.69%	0.88%	3.01%	0.59%
Weighted real return after charges and inflation	36.12%	1.34%	1.77%	6.45%	4.42%	-13.04%	-1.21%	4.33%

Source: Own elaboration based on *analzy.pl*, Eurostat



Table PL18. Annualized returns of VPF

Holding Period	Gross returns	Net Nominal Annualized Performance	Real Net Annualized Performance
1-year	4.87%	1.77%	-1.21%
3-years	1.02%	-1.77%	-3.44%
5-years	2.98%	0.27%	-0.50%
7-year	7.69%	4.89%	4.33%
10-years	-	-	-
Since inception	7.69%	4.89%	4.33%

Source: Table PL17

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 (2.6%, 5.8%, 4% and 2% respectively), show that only a tiny 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 because of 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. Financial institutions do not have any obligation to disclose rates of return, either nominal or real, nor after-charges. Published data includes 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 and voluntary pension funds (DFE) managed by general pension societies (PTE). 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 in the "youngest" pension products offered as a form of voluntary pension fund (DFE) were extremely high in 2013, both in nominal and real terms. The second series of products analysed, namely employee pensions funds (PFE), delivered significant profits as well, with the annual average real return of 3.75%. 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.



To sum up, the disclosure policy in supplementary pension products 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.²³⁵

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²³⁵ Especially, taking into consideration very limited official information concerning supplementary pension products, as well as the extent of mis-selling of e.g. unit-linked insurances that took place in Poland and the subsequent enforcement action (as the sector’s self-regulation failed) https://uokik.gov.pl/news.php?news_id=12776.



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