

# RETIREMENT PLANNING AS THE ELEMENT OF PERSONAL FINANCE MANAGEMENT IN POLAND<sup>1</sup>

*Marta Musiał*

*Faculty of Management and Economics of Services*

*University of Szczecin*

*marta.musial@wzieu.pl*

## **Abstract**

This article presents the retirement system in Poland after last changes. It focuses on third pillar of Polish retirement system (optional one). The main purpose of the article is to present what Poles think about retirement planning. The presented data concern time perspective from 2004 to 2014. The data come from reports of AEGON, National Central Bank in Poland and Polish Insurance Association. Based on the presented data, it can be said that despite the fact that retirement awareness of Poles has increased in the last few years, Poles still rely on the mandatory pension contribution and they don't save individually for the retirement.

**Keywords:** personal finance, household finance, retirement,

**JEL Classification:** D14, D31, L84

## **1. INTRODUCTION**

In 2013, the world population numbered more than 7 billion people, of which approx. 740 million live in European countries. Most of these countries have the problem of aging population, which is associated with a constant lengthening of the average life expectancy: men - from 70,4 years in 2004 to 77,6 years in 2035 and women - respectively - from 78,8 years to 83,3 years (Proгноза..., 2009:78). The aging population is a major challenge for all economically developed countries. In „WHITE PAPER An Agenda for Adequate, Safe and Sustainable Pensions” published in 2012 by European Union Commission it is said, that “An ageing population presents a major challenge to pension systems in all Member States. Unless women and men, as they live longer, also stay longer in employment and save more for their retirement, the adequacy of pensions cannot be guaranteed as the required increase in expenditure would be unsustainable. By 2060, the life expectancy at birth for males is projected to increase by 7.9 years and by 6.5 years for females, when compared to 2010”. It is an enormous challenge for a retirement system, thus why it is important to increase retirement awareness of Poles and encourage them to save additionally for their retirement.

The article presents the retirement system in Poland after last changes and the retirement planning as one element of personal finance management. The first two parts of this article presents theoretical framework of the topic. Furthermore data from reports of AEGON, National Central Bank in Poland and Polish Insurance Association are presented. The article focuses on third pillar of

---

<sup>1</sup>The article is the result of the research project nr 2013/09/N/HS4/03697 funded by National Science Centre in Poland.

Polish retirement system (optional one). The main purpose of the article is to present what Poles think about retirement planning and if they really save for retirement.

## 2. PERSONAL FINANCE MANAGEMENT

Personal finance is a young research area, therefore in the literature, there are not a lot of definitions about this concept. In the foreign literature, more attention is given to topics such as personal finance management or personal finance planning (Harrison, 2005:4; Kapoor, Dlabay and Hughes, 2007:4; Hallman, Rosenbloom, 2003:3; Gitman, Joehnk, Billingsley, 2010:7). Most scientists identify the concept of personal finance with the concept of household finance. An example of this phenomenon may be the definition of personal finance by Garman and Fogue (2008:4), who think that personal finance is the study of personal and family resources that are considered essential in achieving financial success. It applies to saving, spending, and investment protection of people's financial resources. Some, however, as Świecka (2014:18) believe that personal finance is a narrower concept than household finances and affect private finance. Świecka (2014:18) suggests a broader and narrower approach to personal finance, defining personal finance in the broad sense as a sub-discipline of economic sciences related to the management of financial resources by household members. In this case, the term "personal finance in the broad sense" may be synonymous with the term "household finance". In contrast, in the strict sense of personal finance, it is a sub-discipline of the science of finance dealing with the acquisition of funds, their collection and spending by individuals.

According to Kapoor, Dlabay and Hughes (2007:4), personal finance management is a process of continuous management of money, consisting of activities related to the preparation and implementation of monetary operations. The main areas of personal financial management may include (Kapoor, Dlabay and Hughes, 2007; Waliszewski, 2011; Beal, McKeown, 2003; Callaghan, Fribbance, Higginson, 2012):

- obtaining income – to receive resources from employment;
- spending - the purchase of consumer goods;
- saving - depositing money for "rainy day" or towards specific financial goals;
- investing - buying investment products to make a profit;
- lending - borrowing and lending of various kinds;
- risk management - the use of various financial products, eg. insurance or financial strategies to protect property and members of the household;
- retirement planning - depositing and investing money for the future;
- tax planning - skillful use of tax credits;
- wealth transfer - transfer of assets to heirs.

### 3. RETIREMENT SYSTEM IN POLAND

Since 1999 the Polish retirement system has relied on three pillars (Przybylska-Kapuścińska, 2009: 213-237):

- Pillar I – Social Insurance Institution (*pol. Zakład Ubezpieczeń Społecznych - ZUS*), which collects the premium charged depending on the amount of the insured salary;
- Pillar II – insurance in open pension funds (OFE), to which contributions are transferred by ZUS. To July 2014 paying the contribution to OFE was mandatory. In accordance with Act of 6 December 2013 (*Ustawa z dnia 6 grudnia 2013 r. o zmianie niektórych ustaw w związku z określeniem zasad wypłaty emerytur ze środków zgromadzonych w otwartych funduszach emerytalnych*), each person can decide if he/she wants to transfer the entire pension contributions only to ZUS.
- Pillar III – voluntary forms of pension security, which may take the form of eg. Individual Retirement Accounts (*pol. Indywidualnych Kont Emerytalnych - IKE*), Individual Retirement Accounts Security (*pol. Indywidualnego Konta Zabezpieczenia Emerytalnego - IKZE*) or Employee Retirement Plan (*pol. Pracowniczego Programu Emerytalnego - PPE*).

After several revisions introduced over the past few years, the retirement system in Poland is still a multi-pillar one. A mandatory part of the capital was subject to systematic reduction - from the amount of the contribution equal to 7,3% assessment basis, adjusted then to 2,3%, then to 2.8%, to the present height of 2.92% of the assessment basis. Since April 2014, participants of the pension system in Poland make a choice if they want that part of their pension contributions (2.92% of salary) to go to the open pension funds, rather than to ZUS. The division of mandatory contribution in Polish retirement system is presented in figure 1.

There are also changes in the non-mandatory pension insurance, which have so far not included the large segments of society. The third pillar of the pension system in Poland offers three retirement products: IKE, IKZE i PPE.

IKE is defined as (MPIPS):

- a separate record in the register of investment fund;
- a separate securities account with associated cash account;
- account in insurance capital fund;
- bank account;

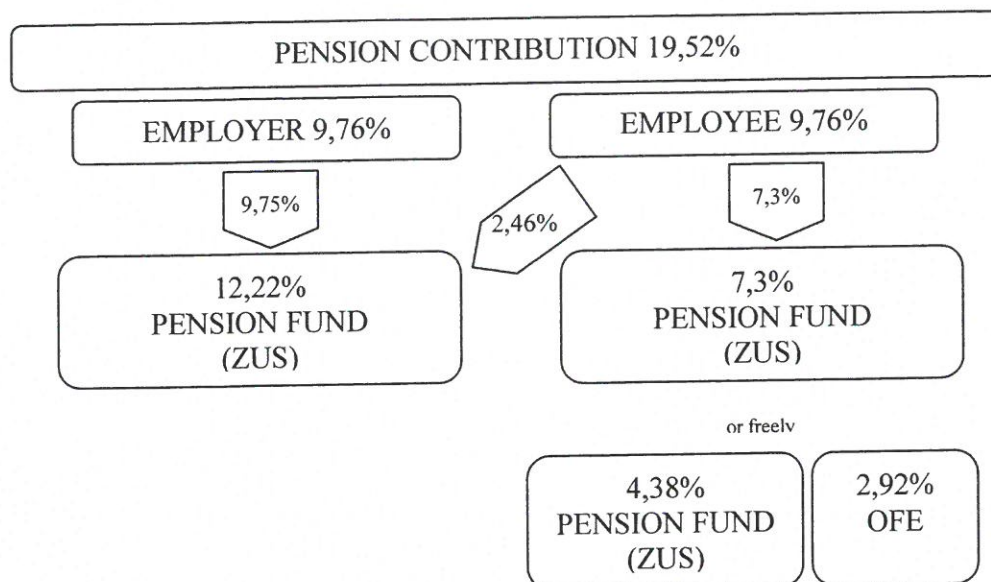


Figure 1: Pension contribution division in Polish retirement system

Source: Rutecka 2014:3

An individual, who is at least 16 years old and pays taxes in Poland can have only one IKE. The funds accumulated on IKE are inherited. In addition, IKE cannot collect unlimited funds, i.e. in each year there is a deposit limit, which is dependent on the average monthly wage in the economy. IKZE is based on the solutions adopted in the IKE. However, there are the differences in tax regulation between IKE and IKZE. In IKZE tax preference is used, which relies on the deduction of taxable income of the individual person by deposits into this account. However, the Act of 6 December 2013 has introduced favorable changes in the taxation of withdrawals from the IKZE for savers and for those entitled to funds from IKZE saving in case of death - such withdrawals will be taxed at the rate of 10%. Taxation reimbursement of IKZE left unchanged - PIT according to the tax scale.

PPE are a form of saving for retirement workers organized by their employer. The employer pays the basic contribution (usually a fixed percentage of salary), and the employee may request additional voluntary contribution. The money so collected shall be managed by the selected financial institution and is repayable in the event of retirement, graduation 60 years of age (at the request of an employee covered by the PPE) or the death of the saver. PPE can be conducted in one of four forms:

- pension fund;
- agreement on contributing employee contributions to an investment fund;
- contract group life insurance with insurance capital fund for workers;
- foreign management.

#### 4. RETIREMENT PLANNING OF POLISH HOUSEHOLDS

The number of people in Poland, who get pension, has decreased from 5000,6 thousand people in 2010 to 4944,2 thousand people in 2014 (figure 2). However, the value of pension has increased, for example in 2010 only 3,4% of pensions were higher than 3500 zł while in 2014 – there were 5,4% (figure 3).

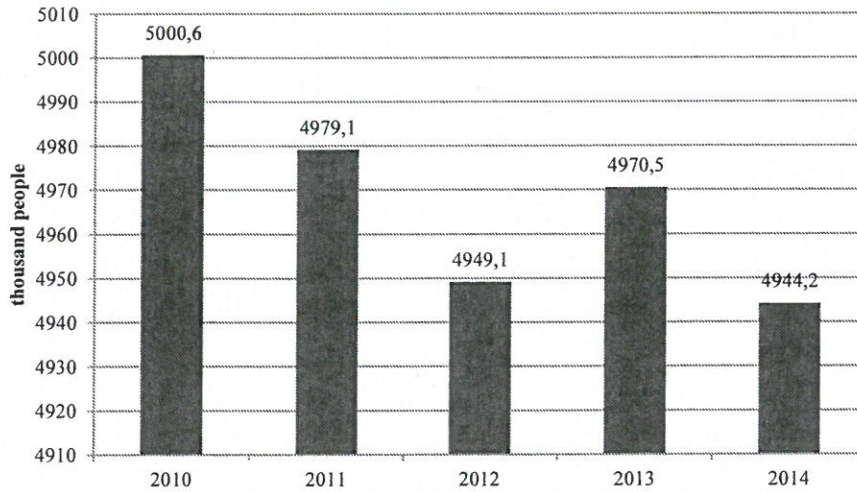


Figure 2: Number of people receiving a pension

Source: ZUS, <http://www.zus.pl/default.asp?p=5&id=3507> (25.04.2015).

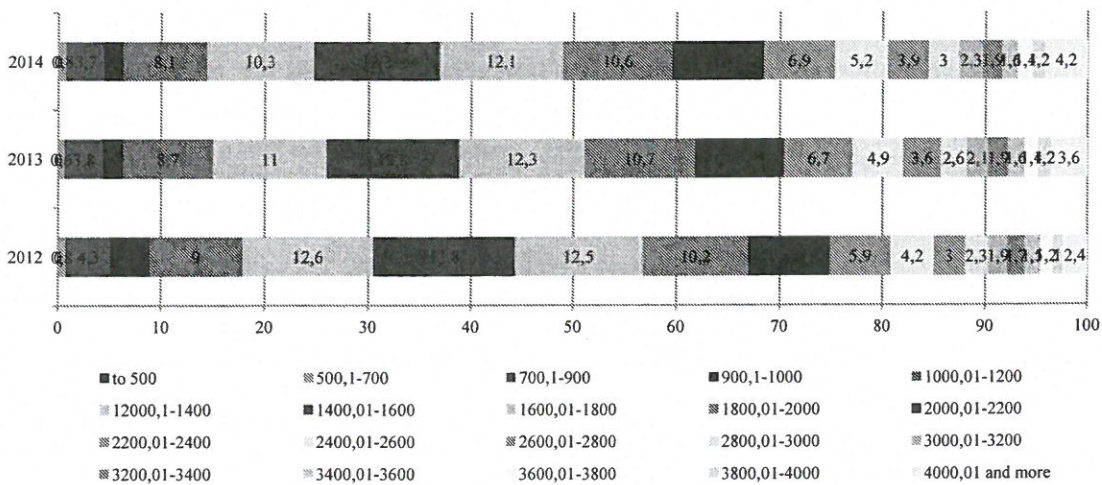


Figure 3: Pension structure according to the amount of provision in Poland in 2012-2014

Source: ZUS, <http://www.zus.pl/default.asp?p=5&id=3507> (25.04.2015).

According to *Aegon Retirement Readiness Report in Poland*, the value of Aegon Retirement Readiness Index (ARRI)<sup>2</sup> for Poland has increased from 4,96 in 2012 to 5,1 in 2014 (figure 4). From the countries, which take part in research, Spain had the lower Index value (5,0) along with Hungary (4,9).

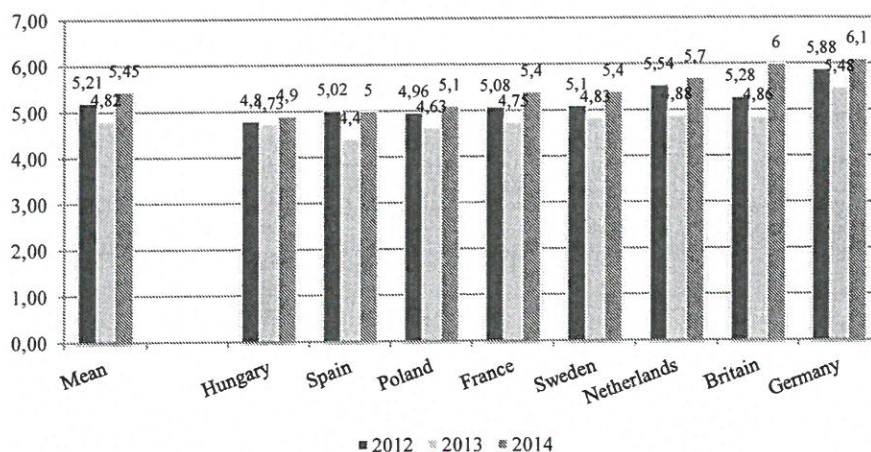


Figure 4: Aegon Retirement Readiness Index (ARRI)

Źródło: AEGON, *Raport o gotowości emerytalnej Polaków 2014*, [http://www.aegon.pl/Documents/aegon-pl/Badanie%20Emerytalne%20PL/2014/Raport\\_emerytalny\\_2014.pdf](http://www.aegon.pl/Documents/aegon-pl/Badanie%20Emerytalne%20PL/2014/Raport_emerytalny_2014.pdf) (25.04.2015).

Among studied European countries, the highest share of people, who are unconvinced about the fact that after retirement they will be able to maintain a satisfactory standard of living, reported in Poland (figure 5) - 84% of Polish.

In Poland, 57% of people claim, that they don't have savings plan for retirement. Moreover, according to AEGON report, 10% of Polish said, that they have never saved for retirement nor they intend to.

According to CBOS research „How are Poles planning to financially secure their future – will they use IKZE?”, Poles are willing to rely only on basic retirement as the only financial security for old age despite the fact that future pensions can be lower than the income from labour. Moreover the research results show, that people, who enter the labor market, who are better educated and leading non-agricultural economic activities have higher awareness of the need for additional saving for retirement (CBOS 2012).

<sup>2</sup> *Aegon Retirement Readiness Index (ARRI)* has been developed to measure how prepared people feel about their own retirement. The purpose of the ARRI is to measure and track whether employees' expectations of retirement are likely to be fulfilled based on current attitudes and behaviors. The survey asked three questions covering attitudes: 1) Whether employees accept personal responsibility for their retirement income; 2) Whether they are aware of the need to plan for retirement; 3) Their understanding of retirement-related financial matters. It also asked three questions covering behaviors: 1) The extent to which they have put personal retirement plans in place; 2) Whether they are adequately saving for retirement; 3) Whether they are on course to achieve their desired replacement income in retirement. The responses to these six questions were weighted in the ARRI based on their importance in determining a respondent's saving profile. (<http://www.aegon.pl/Strona-glowna/BadaniePL/Aegon-Retirement-Readiness-Survey/Retirement-Readiness-Index/> (25.04.2015)).

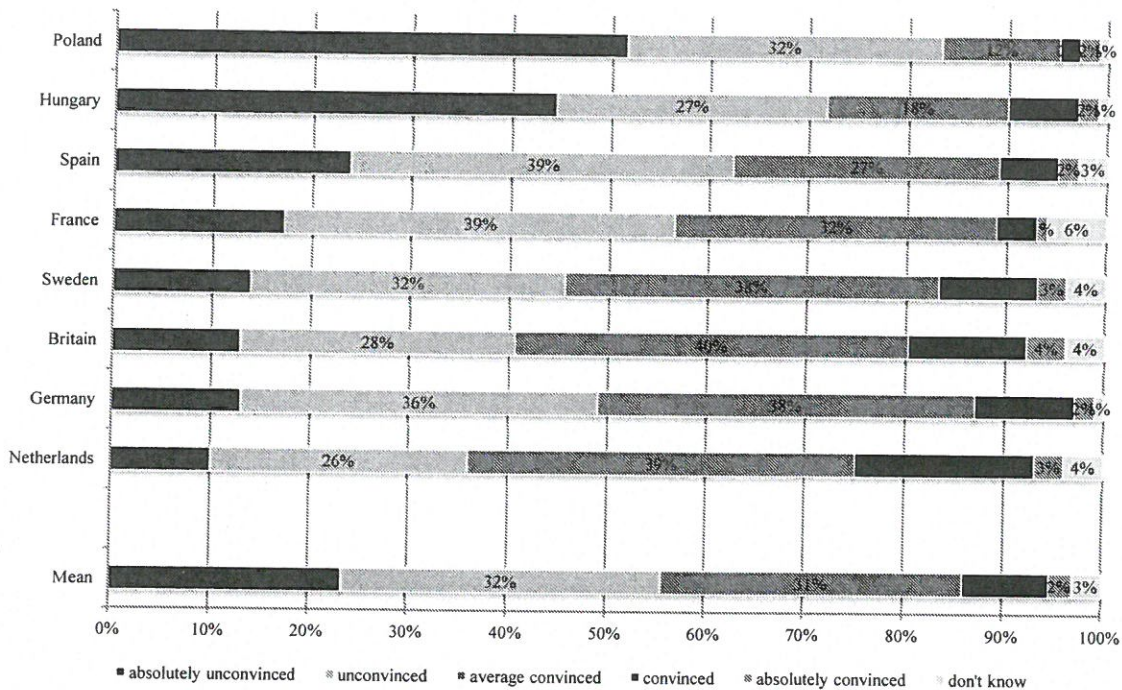


Figure 5: Are you convinced about the fact that after retirement you will be able to maintain a satisfactory standard of living?

Źródło: Aegon retirement readiness survey 2014, <http://www.aegon.com/Documents/aegon-com/research/2014-retirement-survey/aegon-retirement-survey-2014.pdf> (25.04.2015).

Poles rarely use pension products, i.e. IKE IKZE or PPE – they prefer bank products (various types of savings accounts or deposits). According to the Financial Supervision Commission on the end of 2014, IKE had 824,5 thousand people (figure 6). Poles have gathered small amount in IKE - approx. 5 billion zł. In 2014 Poles have paid on 217 264 IKE accounts, which is only one third of all IKE accounts. This means that having individual retirement account is not equivalent to saving for retirement (KNF 2014a:3).

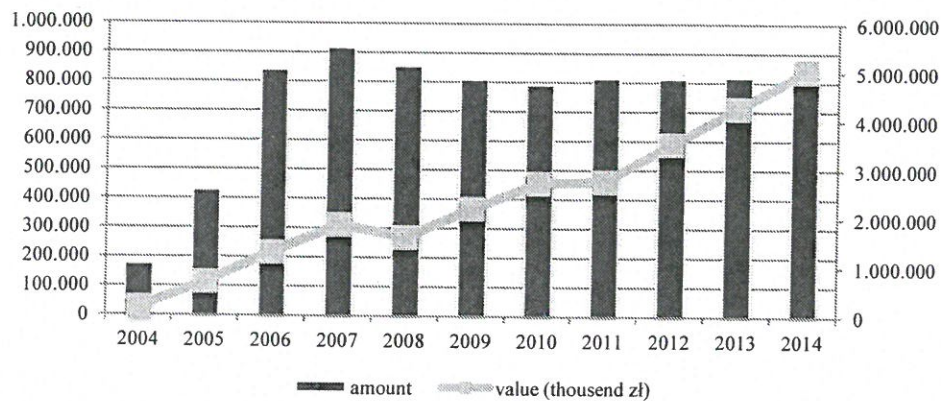


Figure 6: Amount and value of IKE in Poland

Source: opracowanie własne na podstawie danych KNF, [http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_IKE/dane\\_ike.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_IKE/dane_ike.html) (18.08.2014).

Moreover IKZE are also used by not many Poles, the following facts show:

- 528,1 thousand people had IKZE in 2014;
- the value of accumulated assets on IKZE was 295,6 mln zł – the most assets (57%) has insurance companies: 167,8 mln zł;
- 63,5 thousand people have decided to open IKZE;
- the indicator of the number of IKZE, which made contributions to the functioning IKZE amounted 16% and the average payment was 2,3 thousand zł.

In 2014, the number of IKZE has increased by 6% compared to the previous year, while the value of accumulated funds in those accounts has more than doubled (figure 7).

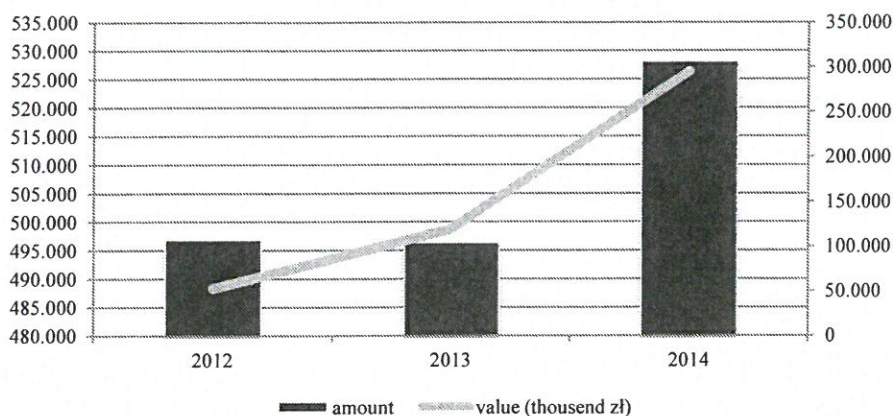


Figure 7: Amount and value of IKZE in Poland

Source: KNF,

[http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_IKZE/dane\\_ikze.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_IKZE/dane_ikze.html) (18.08.2014).

Third retirement products are PPE. The value of assets held in PPE at 31 December 2014 amounted to 10,2 billion zł and increased by almost 8.5% compared to 2013. 381 thousand people were in PPE at the end of 2014. Moreover, the number of participants has risen PPE in the last year by 6 thousand people (figure 8.).

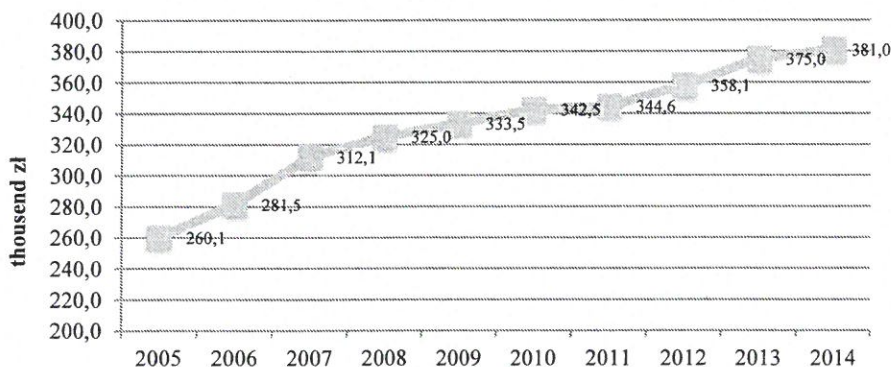


Figure 8: PPE members in Poland

Source: own elaboration based on data from KNF, [http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_roczne/roczne\\_ppe.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_roczne/roczne_ppe.html) (18.08.2014).



At the end of 2013, 1,070 PPE were functioning, including 718 implemented in the form of a contract with the insurance company, 314 realized in the form of a contract with an investment fund, 38 implemented with the employee pension fund. It is worth noting that the average value of assets per participant in PPE in 2013 amounted to 25.7 thousand zł and increased by 1,9 thousand zł (by 8%) compared to 2012. In contrast, the average annual basic contribution per one participant PPE amounted to 3 643 zł (decrease of 64 zł compared to 2012.). In 2013, the participants of PPE made payments of 258,9 million zł, the average value of payments amounted to 26,5 thousand zł. More than 9 thousand participants in 2013 provided the funds accumulated in PPE to other PPE or IKE, and the total value of transfer payments amounted to 243,6 mln zł (KNF 2014b:3).

## 5. CONCLUSION

To sum up, the retirement system in Poland is facing a huge challenge resulting from the aging population situation. Based on the presented data we can say that despite the fact that the retirement awareness of Poles has increased in the last few years, Poles still rely on the mandatory pension contribution and they don't save individually for the retirement. The retirement products such as IKE, IKZE and PPE are not popular. Poles rather save on traditional bank accounts in form of saving accounts or deposits. To remedy this situation there should be actions directed to younger generation (pre-retirement), which promote saving for retirement, because this generation has time to gather money and protect their future.

## References

- Aegon retirement readiness survey 2014*, <http://www.aegon.com/Documents/aegon-com/research/2014-retirement-survey/aegon-retirement-survey-2014.pdf> (25 April 2015).
- AEGON, <http://www.aegon.pl/Strona-glowna/BadaniePL/Aegon-Retirement-Readiness-Survey/Retirement-Readiness-Index/> (25 April 2015).
- AEGON, *Raport o gotowości emerytalnej Polaków 2014*, [http://www.aegon.pl/Documents/aegon-pl/Badanie%20Emerytalne%20PL/2014/Raport\\_emerytalny\\_2014.pdf](http://www.aegon.pl/Documents/aegon-pl/Badanie%20Emerytalne%20PL/2014/Raport_emerytalny_2014.pdf) (25 April 2015).
- Beal D., McKeown W. (2003): *Personal finance*, John Wiley and Sons, Milton.
- Callaghan G., Fribbance I., Higginson M. (2012): *Personal Finance*, Palgrave MacMillan, New York.
- CBOS (2012), *Jak Polacy planują zabezpieczyć finansowo swoją przyszłość – czy zamierzają w tym celu korzystać z IKZE?*, Warszawa, [http://www.izfa.pl/files\\_user/pdf/Raport%20CBOS%20dla%20IZFiA\\_2012.pdf](http://www.izfa.pl/files_user/pdf/Raport%20CBOS%20dla%20IZFiA_2012.pdf) (25 April 2015).
- Garman E.T., Fogue R. (2008): *Personal finance*, Houghton Mifflin Company, USA.
- Gitman L.J., Joehnk M.D., Billingsley R.S. (2010): *Personal financial planning*, Cengage Learning, Mason.
- Hallman G. V., Rosenbloom J. S. (2003): *Personal financial planning*, The McGraw – Hill Companies, New York.
- Harrison D. (2005): *Personal financial planning: theory and practice*, Pearson Education Limited.
- Kapoor J. R., Dlabay L. R., Hughes R. J. (2007): *Personal finance 8<sup>th</sup>*, McGraw-Hill, New York.
- KNF, [http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_IKE/dane\\_ike.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_IKE/dane_ike.html) (25 April 2015).
- KNF, [http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_IKZE/dane\\_ikze.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_IKZE/dane_ikze.html) (25 April 2015).
- KNF, [http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_roczne/roczne\\_ppe.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_roczne/roczne_ppe.html) (25 April 2015).
- KNF, [http://www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_rynku/rynek\\_ppe\\_ike/Dane\\_IKE/dane\\_ike.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_rynku/rynek_ppe_ike/Dane_IKE/dane_ike.html) (25 April 2015).
- KNF (2014a), *Indywidualne konta emerytalne oraz indywidualne konta zabezpieczenia emerytalnego*, Warszawa, [http://www.knf.gov.pl/Images/Oprac\\_IKE\\_IKZE\\_12\\_2013\\_tcm75-37673.pdf](http://www.knf.gov.pl/Images/Oprac_IKE_IKZE_12_2013_tcm75-37673.pdf) (25 April 2015).
- KNF (2014b), *Pracownicze programy emerytalne w 2013 roku*, Warszawa, [http://www.knf.gov.pl/Images/RAPORT\\_PPE\\_w\\_2013\\_tcm75-38451.pdf](http://www.knf.gov.pl/Images/RAPORT_PPE_w_2013_tcm75-38451.pdf) (25 April 2015).
- MPIPS, *Ubezpieczenia społeczne*: <http://www.mpips.gov.pl/ubezpieczenia-spoeczne/ubezpieczenie-emerytalne/> (25 April 2015).
- Prognoza ludności na lata 2008–2035*, Główny Urząd Statystyczny, Warszawa 2009.
- Przybylska-Kapuścińska W.(ed.) (2009): *Pośrednictwo finansowe*, CeDeWu, Warszawa.
- Rutecka J. (2014), *System emerytalny po zmianach od 2014 roku*, „Ubezpieczenia społeczne. Teoria i praktyka”, nr 1 (118), ZUS, Warszawa.
- Świecka B. (2014): *Finanse osobiste jako subdyscyplina finansów*, In: *Współczesne problemy finansów osobistych*, B. Świecka (red.), CeDeWu, Warszawa.
- Waliszewski K. (2011): *Doradztwo finansowe w Polsce*, CeDeWu, Warszawa.
- WHITE PAPER An Agenda for Adequate, Safe and Sustainable Pensions*, EU Commission, Brussels 2012.
- ZUS, <http://www.zus.pl/default.asp?p=5&id=3507> (25 April 2015).