



**INSTITUTE OF AGRICULTURAL
AND FOOD ECONOMICS
NATIONAL RESEARCH INSTITUTE**

**The social insurance
system for farmers
and its impact
on public finances**

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ECONOMY UNDER THE CONDITIONS OF
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This publication was prepared as a contribution to the research on the following subject **Budget grounds for improvement of the competitiveness of the Polish agriculture**, within the framework of the research task: *Social insurance and taxation in agriculture – conditions and proposals of reform*.

The main objective of the study was to assess the current regulations in the social insurance in agriculture in terms of their impact on the finances of the state, with particular emphasis on France and Poland.

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Introduction

The social insurance for farmers in Poland has functioned as an autonomous system. Its autonomy results from the fact that, apart from serving purely insurance purposes, it is intended to perform certain national policy functions. Separate insurance principles, which differ from the employee system, have been established in consideration of the nature of working in agriculture and its forms of employment. The purpose of social insurance in agriculture is to fulfil the livelihood needs of post-working age farmers, thereby ensuring the stabilisation of the agricultural holdings and agricultural economy as a whole. On the one hand, providing benefits to agricultural producers is perceived as both an economic and moral need, arising from the principles of social solidarity as regards social protection. On the other hand, society seems to disagree with the ideas of the currently operating agricultural social insurance system. This disagreement stems from the close dependency of agriculture on the state budget, which makes the entire system very rigid, limiting the decision-making leeway in the public finance sector.

The current pension systems in agriculture, not only in Poland, will need to face the challenge of undergoing clear-cut reforms, especially in the light of the vivid public debates which have continued for several years. According to Szumlicz, the process of systemic transformations, which has put the social policy of Poland in a very distinct socioeconomic condition that fosters demographics and the market-economy order,¹ is of utmost importance for any changes within the social insurance structure. This implies that such insurance solutions that will aim at rationalising the social security system will become more and more essential in newly-developed social policies. Nonetheless, the social insurance system in agriculture is still based on the financing of ongoing pension needs through insignificant receipts from farmers' premiums, and through high state subsidies. The state budget support for the agricultural social insurance system in Poland amounts to approximately PLN 16 billion per annum. Considering the increasing debt in the public finance sector, the problem of the effective allocation of the money spent on agricultural social insurance has now taken a special meaning. Although the Agricultural Social Insurance Fund (KRUS) reform seems indispensable, it should be conducted carefully. One should not forget that agricultural production displays a number of specific

¹ Szumlicz T., Ubezpieczenia w systemie zabezpieczenia społecznego [in:] Handschke J. i Monkiewicz J. (red. nauk.), Ubezpieczenia. Podręcznik akademicki, Wydawnictwo Poltext, Warsaw 2010, s. 477.

features, and it is not an ordinary economic activity. This was proven in 2007, which brought a decline in food production, due to the unfavourable weather conditions worldwide. It triggered a growth in food prices, which in turn raised social concerns. Furthermore, the subsidies to agricultural social insurance systems are used by many European countries which are based on market economies. It should be borne in mind that one of the state functions is to ensure security to its citizens. In social terms, this means ensuring the right to benefits, the real value and provision of which would not be threatened until the recipient's death, vested in any person upon satisfying certain requirements determined by law.²

A thorough outline of the entire social insurance system in Poland reveals that agricultural reforms constitute only one of the domains of social insurance changes which need to be effectively conducted. This may stem from the existence of four separate insurance systems in Poland, namely:

- the employee system, based on the Social Insurance Institution (ZUS),
- the system for entrepreneurs conducting business activity, who also pay premiums within the employee system of ZUS,
- the system for the uniformed services, the benefits of whom are financed from the state budget, and
- the farmers' system, based on KRUS.

Practically speaking, as pointed out by Ickiewicz, such a multitude of social insurance options may often give rise to various combinations, aimed at reducing the financial burden.³ In this context, it seems justified to closely examine the purpose and essence of any reforms to be implemented in KRUS.

The main purpose of this study was to attempt at assessing the current regulations concerning the social insurance for farmers, in terms of its impact on public finances.

The study discusses the underlying systemic problems. Along with the analyses of the system's organisation and functioning, and of the solutions adopted by other countries, this has provided grounds for determining certain directions for most demanded reforms.

² Pszczółkowska J., Ubezpieczenia społeczne rolników – stan obecny i możliwości rozwoju, Ubezpieczenia w rolnictwie, Materiały i studia. KRUS, Warsaw 2000, s. 5.

³Ickiewicz J., Obciążenia fiskalne przedsiębiorstw, PWE, Warsaw 2009, s. 283.

1. The idea of social insurance – theoretical aspects

The idea of insurance is based on the theory of risk and uncertainty. The notion of risk may be defined and interpreted in a number of ways. In order to understand the idea of insurance, it is extremely important to properly quantify the risk factor. This allows the adopting of a certain strategy for insurance against various events, which may have positive or negative outcomes. It should, however, be emphasised that not all risk types can be subject to insurance. This stems from the potentially two-faceted perception of risk, namely as a danger embedded in any business activity, or as the outcome of certain threats. In insurance practice, it is the latter approach that constitutes the starting point for insurance construction. This means that the insurer may be insured against a certain risk, provided that it can be properly identified and quantified, i.e. it is possible to determine the likelihood of its occurrence and the scope of any foreseeable damage.⁴ Therefore, the risk defines a situation in which at least one of the constituents is unknown, but there is a likelihood of its occurrence.⁵

Such aspects of human life as old age, disability, accidents at work, maternity or sickness prospects constitute the bases of the social insurance system. The principal assumption of social insurance is to grant protection against poverty to the entire population insured, for the benefit not only of the risk-bearing individuals, but in the widely-accepted general interest, reflected as the country's and the citizens' well-being.⁶ The major objective is to compensate for the financial consequences of various risks related to the loss of ability to work as a result of accidental events, as well as to ensure income stability, and to guarantee an appropriate quality of life.⁷ For this reason, social insurance constitutes a system of social security for employees and their families against any adverse consequences related to the inability, or limited ability, to perform salaried work, to the loss of a breadwinner, or to increased family burdens.⁸ In individual terms, social insurance involves transferring part of the income earned in the working period to the period in which we cannot earn money because of our inability to work. In consequence, the insurance system facilitates the replacing of an uncertain major financial loss with a certain minor cost.⁹ Looking through the prism of the whole society, this is an efficient tool for

⁴ Kunreuther H., Roth R.J., *Paying the Price*. Sr., Joseph Henry Press, Washington D.C. 1998

⁵ Szyszko L. [red. nauk.], *Finanse przedsiębiorstwa*, PWE, Warsaw 2000, s. 246.

⁶ Przygodzka R., *Fiskalne instrumenty wspierania rozwoju rolnictwa – przyczyny stosowania, mechanizmy i skutki*, Wydawnictwo Uniwersytetu w Białymstoku, Białystok 2006, s. 241.

⁷ Woś A., *Agrobiznes. Makroekonomia*, Wydawnictwo KeyText, Warsaw 1998.

⁸ Kapusta F., *Agrobiznes*, Wydawnictwo Difin, Warsaw 2008, s. 71.

⁹ Tamże s. 45.

sharing the GDP generated by working persons with pensioners who may no longer participate in its production. Social insurance is, therefore, a means of fulfilling various employee needs, related to the loss of the source of income. The research conducted by D. Lassarre and C. Roland-Levy¹⁰ reveals that even young children are aware of the need to have an old-age insurance policy. In their opinion, this may secure us against the outcomes of certain accidental events which have an adverse impact on our ability to earn income in old age.¹¹

The development of social insurance and its common character may be related to the theory of savings. It is based on two economic phenomena, namely on considering future needs and on securing oneself against the future. The principal aspect of saving, which may provide the starting point to constructing all social insurance systems, may be viewed as *an effective desire for accumulation*. This entails sacrificing part of our financial goods at present in order to get a certain level of benefits in the future. This desire leads to foreseeing and securing ourselves against the future, that is to saving part of our resources, the main reason for which, as revealed by the research conducted by Warneyd,¹² as well as Horioka and Watanabe,¹³ stems from uncertainty. Therefore, social insurance may constitute a contract-based saving, which is conceptually close to the idea of *precommitment*, as proposed in 1956 by R.H. Strotz.¹⁴ Becoming a member of a pension scheme implies the willingness to enter into a contract that makes us obliged to make regular savings throughout the period of intense occupational activity for fear of old age, which usually brings financial deficiency. Nevertheless, it should be noted that saving means accumulating one's own property for the purpose of its future use. In contrast, insurance is a form of property which is no longer owned by the saving person, but the right to which will be granted by public authorities in the future. Savings can be used in both foreseeable or unforeseeable life situation. They can finance both planned and unplanned expenditures, whereas the idea of insurance is that

¹⁰ Sassari D., Roland-Levy C., Understanding children's economic socialisation. [in:] K.G. Grunert, F. Olander (red.) Understanding Economic Behaviour. Dordrecht, The Netherlands: Kluwer Academic Publishers, 1989, s. 300.

¹¹ Jędrasik-Jankowska I., Treść ryzyka emerytalnego [w:] Konstrukcje prawa emerytalnego, Bińczycka-Majewska T. (red. nauk.), Kantor Wydawniczy Zakamycze, Zakamycze 2004, p. 69.

¹² Warneyd K., A Study of Saving Behaviour Towards the End of the Life Cycle, Centre for Economic Research Working Paper No. 28, 1995.

¹³ Horioka C., Watanabe W., Why Do People Save? A Micro-Analysis of the Motives for Household Savings in Japan, The Economic Journal, 1997.

¹⁴ Strotz R.H., Miopia and inconsistency in dynamic utility maximisation. Review of Economic Studies, 23 (3), 1956, s. 165-180.

it can only be used in accidental events, through mutual funds.¹⁵ In both cases, the income earned in the period of occupational activity is decreased by the amount of the premium.

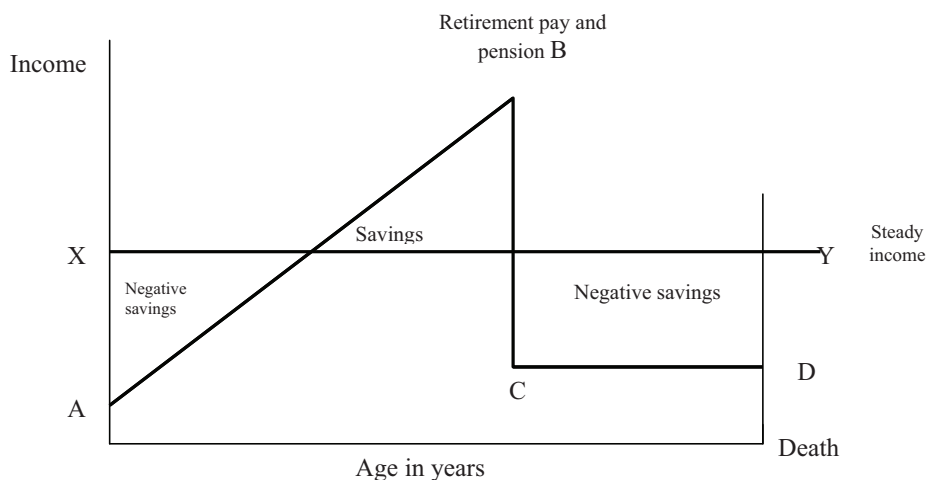
Savings refer to individual cases, which requires the establishing of huge reserves in order to cover the potential losses. On the contrary, the idea of insurance is based on the law of large numbers, which means that every insured person makes his/her contribution to the financing of the outcomes of accidental events that will happen only to some persons. The premiums paid by one insured person constitute a minor part of the entire possible losses. Therefore, it is a more efficient tool for covering losses, as compared to savings.¹⁶ The willingness to save in the form of insurance is explained through the Life Cycle Hypothesis (LCH). It is based on the assumption that people are forward looking, and they tend to limit their consumption in certain periods of life, so as to ensure a comparable living standard in the future, when their income is likely to drop. This implies that at all stages of life, people want to spend similar sums of money, aiming to maintain a relatively steady consumption level. Furthermore, insurance makes it possible to continue consumption in spite of a decreased future income. All these assumptions are presented in Figure 1.

According to the LCH, consumption in the retirement period should be as high as the average level through the entire life period. However, this does not mean that retirement pay and pension should be as high as income from salaried work, given that part of it should be saved for retirement purposes. The level of the savings index results from the length of the anticipated retirement period, related to the entire active life, and not only to the working period. In Poland, this index amounts to 29%, which implies that the average citizen should save around a third of his/her income from salaried work in order to maintain the same consumption level in the retirement period. The savings theory forms grounds for the construction of pension schemes, the financial security of which is guaranteed in a different way in each country. Depending on the financing model assumed, it may be based on the intergeneration solidarity (the Rhine model originating in the time of the Great Crisis), or on the accumulation of assets on private accounts in pension investment funds (the Anglo-Saxon model dating back to the Bismarck's reforms).

¹⁵ Hadyniak B., Szumlisz T., *Ubezpieczenia jako urządzenie finansowe* [w:] Handschke J. i Monkiewicz J. (red. nauk) *Ubezpieczenia Podręcznik akademicki*, Wydawnictwo Poltext, Warszawa 2010, s. 45.

¹⁶Hadyniak B., Szumlisz T., *Ubezpieczenia jako urządzenie...*op. cit. s. 45.

Figure 1. The economic life cycle hypothesis



Key: Fields ABCD: disposable income. Pola ABCD: dochód dyspozycyjny.

Source: own study based on T. Tyszka, *Psychologia ekonomiczna*, Gdańskie Wydawnictwo Psychologiczne, Gdańsk 2004, p. 535.

Notwithstanding the solutions applied, the guarantee of the social insurance functioning is based on the common system participation, which implies the state's contribution to the process of system creation and administration. This means that social insurance constitutes a financial system supported by the persons who earn income from salaried work, whose principal features include obligation and social purpose.¹⁷ These indicate that the idea of social insurance is centred on financial solidarity, realised within a certain group (e.g. farmers) or in the whole of society. State participation may take various forms, depending on whether it is only involved in the process of establishing legal grounds for social insurance, or whether it also assumes financial responsibility for the organised system. Regardless of the scope of intervention, however, the state is obliged to implement the principles of subsidiarity, personalism and solidarity. These principles find application in social policy, as a tool of stabilising financial living conditions (protecting the consumption sphere)¹⁸ and ensuring a certain standard of social security to specific entities.¹⁹

¹⁷ Muszalski W., *Ubezpieczenia społeczne*, PWN, Warsaw 2004, s. 12.

¹⁸ Hadyniak B., Szumlicz T., *Ubezpieczenia jako ...* op. cit. s. 78.

¹⁹ Szumlicz T., *Ubezpieczenia w systemie zabezpieczenia społecznego* [w:] Handschke J. i Monkiewicz J. (red. nauk.), *Ubezpieczenia*. Podręcznik akademicki, Wydawnictwo Poltext, Warsaw 2010, s. 475.

Social insurance, therefore, constitutes a social policy instrument.²⁰ It should be, nevertheless, noted that social insurance schemes not only grant protection against sickness or old age, but they also provide for income redistribution. Hence, the principal problem connected with the existing social insurance systems is the fact that they not only function as pension schemes, but also as income redistribution systems. As such, they are meant to change the income structure for the benefit of less wealthy families, in which only one person works, and they provide for the income transfer from the currently-working generation to the generation of pensioners. Given that insurance constitutes a financial instrument which makes the state capable of redistributing income. According to Gołasa, such a redistribution in agriculture may be viewed from two perspectives.²¹ The first implies the levelling of income earned by farmers and by the rest of society, whereas the second stands for the redistribution among farmers themselves, which may occur between agriculture and the state budget, and the other way round. This implies that farmers actively participate in establishing state funds, part of which may be transferred for the income levelling purpose. Making the social insurance premium dependent on income is a literature-based example of income redistribution among farmers. There are some doubts as to whether the agriculture – state budget – agriculture transfer, based on insurance instruments, is used in an appropriate way, as the current premium dependency on farmers' income in the Polish agriculture is rather symbolic, and it concerns an insignificant group of farmers. A problem of social justice seems to arise in this context, which can be seen from two perspectives (namely, that of an individual, and that of the whole society). Looking through the prism of a single person, the essence of justice becomes visible through his/her experience. This means that it forms a significant aspect of human life, which is further transferred to the political, economic and social domain, constituting a social phenomenon. The idea of justice in the social dimension comprises the issues of fair property division, equal socioeconomic opportunities and equality towards the state.²² Market economy is, thus, based on the principle of social justice that reduces a tension between competition-specific phenomena and the political requirement of social equality. Practically speaking, it defines the obligations of an individual towards the state (referred to

²⁰ This notion relates to the state activity aimed at shaping the general working and living conditions of the population, the development-inductive social structure, and social relations based on equality and social justice, which is conducive to satisfying various needs on the available level.

²¹ Gołasa P., *Redystrybucyjna rola rolniczych instrumentów finansowych w Polsce*, Praca doktorska SGGW, Warsaw 2010, s. 49.

²² Blok F., Sikora J., Sztumska B., *Wybrane aspekty socjologii rynku*, Politechnika Częstochowska, Częstochowa 2001, s. 51-53.

as legal justice), and vice versa (the so-called distributive justice). The latter entails, on the one hand, the redistribution of assets to the persons who can no longer act as market players and, on the other hand, the protection of the common national property. This means that the objectives to be realised by the social market economy include a fair division of income and property, the development prospects of an individual in his/her workplace, and security against sickness and old age.²³ As a result, the social policy system functions, taking the form of developed social insurance institutions, combined with the aim to decrease social inequalities, are considered among the principal features of the social market economy.²⁴

Social insurance is an important constituent of economic security in each country, as a result of which the care for financial stability should be the underlying obligation. The financial stability of social insurance systems is globally put under pressure, due to the following premises: longer life expectancy (population ageing), economic transitions (continually high unemployment and insignificant GDP growth), as well as political and social changes (longer education period, worsened income situation of families with small children, and generation conflicts, resulting from the fact that the needs of the elderly are satisfied at the costs of youngest generations)²⁵. This pressure can be expressed as the number of persons capable of working in relation to the number of pension scheme beneficiaries.²⁶ It is projected that in 2030 the proportion of old people aged more than 64 years in the entire working-age population may reach approximately 30% in the United States, 40% in France and England, and nearly 50% in Germany and Japan.²⁷ Similar forecasts have been developed for Poland.²⁸ It is projected that the system burden coefficient in Poland (i.e. the number of pensioners to the number of taxpayers) will increase from the current 30% to 60% (1.6 taxpayers per 1 pensioner) in 2050. These projections also find confirmation in the data presented by the Office of the Government Plenipotentiary for Social Security Reform, which reveals that the relationship of the number of premium payers to the number of retirement benefits recipients has been declining. In 1998 it amounted to 2.17, and in 2020 it is likely to drop to 1.76. As various research shows, this will result from

²³ Kaczmarek T., *Cud gospodarczy Niemiec. Ludwiga Erharda koncepcja społecznej gospodarki rynkowej*, Warsaw 1997, s. 47.

²⁴ Przeciszewski T., *Koncepcja społecznej gospodarki rynkowej (SGR): Systemowa podstawa polityki gospodarczej i społecznej*, VII Kongres Ekonomistów, PWE, z. 5, Warsaw 2001, s.14.

²⁵ Preston S. *Children and the Aged in the US*, *Scientific American* 2000, vol. 251, s. 44-49.

²⁶ Triest R.K., *Social Security Reform: An Overview*, *New England Economic Review*, Economist, Federal Reserve Bank of Boston, November/December 1997, s. 11.

²⁷ Tamże, s. 12.

²⁸ *Prognoza wpływów i wydatków funduszu emerytalnego do 2050 roku*, ZUS 2006.

a sharp natural decrease and from longer life expectancy. Nowadays the female fertility rate amounts to 1.43 in the European Union, and to 1.37 in Poland, whereas it should exceed 2.1 in order for the number of children to equal the number of parents. In this situation, raising the retirement age or increasing the premium can be seen as the *ad hoc* measures to maintain the equilibrium of pension systems. Nonetheless, current analyses reveal that the former solution would only allow the reduction in retirement deficits in the short and medium run, whereas in the long run such reforms would prove ineffective.²⁹ This stems from the fact that the possibility to pay benefits depends also on other factors, among which employment and the level of wages and salaries appear the most crucial. Therefore, several proposals concerning, among other things, changes in the basis for establishing the amount of benefits, and the length of the premium period, have been put forward for many years. In 1997 Coussat suggested replacing the 10 highest with the 25 highest salaries as the basis for establishing the amount of benefits, together with extending the obligatory premium period from 37 to 42.5 years. In his opinion, such changes would have allowed the reaching of financial equilibrium by 2010.³⁰ Given the above, it can be seen that social insurance systems are now facing a long-term fiscal problem, which should be promptly and effectively solved through reforms appropriate for the country-specific economic conditions.

2. Social insurance in agriculture

The first obligatory social insurance was introduced in 1883-89 in Germany, and it covered benefits provided in case of sickness, disability, old age and accidents at work.³¹ In Austria, accident and sickness insurance was introduced in the years 1887 and 1888, whereas in England old-age insurance began to function in 1908, and France introduced disability insurance in 1910. The intensive development of social insurance systems began with establishing the International Labour Organisation in 1919.

Social insurance systems in Poland, operating until 1918, were those of the occupying powers. The Social Insurance Institution, set up in 1935, did not cover farmers. Generally speaking, it should be noted that farmer-oriented systems, existing in the interwar period, were marginal, even in the richest countries. Nevertheless, such European systems, as compared to the Polish

²⁹ Magnani R., A general equilibrium evaluation of the sustainability of the new pension reforms in Italy, *Research in Economics* 65, Elsevier 2011, pp. 5-35.

³⁰ Coussat L., *De l'âge d'or de la retraite a sa reforme*, Gerontologie et Societe 1997.

³¹ Jagła W., Ubezpieczenia społeczne rolników – 30 lat systemu i co dalej, *Realia i co dalej*, dwumiesięcznik społeczno-polityczny, *Studia i Materiały*, Czerwiec nr 3 (18) 2010.

ones, have a much longer history and tradition. Individual farmers in Poland are subject to a separate non-employee system of social insurance. Various EU countries have clearly distinct pension schemes, originating from diversified traditions and conditions. The social insurance systems for farmers, established as part of country-specific insurance systems, are also different from those addressed to other social and occupational groups. Such a separation stems from the fact that, apart from insurance purposes, the social insurance systems for farmers also perform the objectives assumed within agricultural and social policies.

The EU systems analysis reveals that six member states have already decided to establish autonomic systems providing social protection to farmers. These include Austria, Finland, France, Greece, Germany and Poland. They form part of the European Network of Agricultural Social Protection Systems (ENASP) (Table 1).

Table 1. The institutions running separate social insurance systems for farmers, associated within the European Network of Agricultural Social Protection Systems (ENASP)

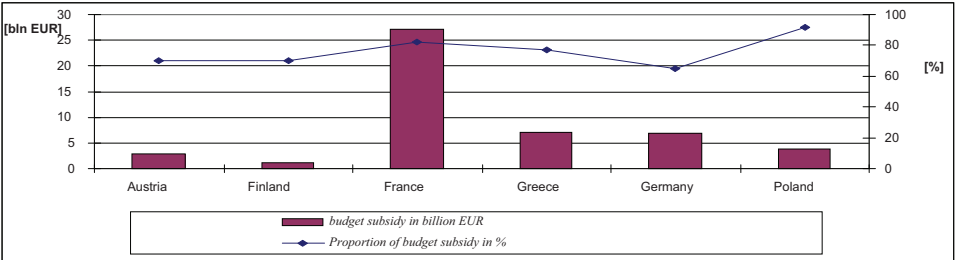
Country	Name of the institution	Year of establishing a separate social insurance system for farmers
Austria	SVB (Sozialversicherungsanstalt Der Bauern)	1974
Finland	MELA (Maatalousyrittäjien Eläkelaitos)	1969
France	MSA (Mutualite Sociale Agricole)	1945
Greece	OGA (Organizmoz Georgikon Azfalizeon)	1961
Germany	LSV (Die Landwirtschaftlichen Sozialversicherung)	1919
Poland	KRUS (Kasa Rolniczego Ubezpieczenia Społecznego) - the Agricultural Social Insurance Fund	1990

Source: own study.

The purpose of establishing ENASP was to protect and strengthen the value of social security provided to farmers, based on solidarity and territorial cohesion. Its aim was to represent the interests of various members before the EU authorities, as well as to disseminate information and good practices regarding social insurance, among all network members and social partners. The social insurance systems of farmers, operating in the ENSAP countries offer a diversified range of social services, comprising not only retirement and pension insurance, but also health, accident and sickness insurance, as well as various kinds of benefits and allowances, tailored to the needs and status of the

agricultural population. In all those countries, the mode of financing the above benefits is based on the substantial contribution of state subsidies. The amounts of co-financing the social insurance systems of farmers in the ENASP countries are shown in Figure 2. The data included therein reveals that the systems analysed are, to a large extent, subsidised from the state budget. Both the amount and the proportion of such financing is hugely diversified, ranging from EUR 1.1 billion to EUR 27.1 billion, and from 65% to 92%. The highest budget (EUR 27.1 billion) on the financing of the agricultural social insurance system is allocated in France, including EUR 16.5 billion on the co-financing of the insurance system of individual farmers, and EUR 10.6 billion on the co-financing of the system of hired employees in the agricultural sector (Table 2). France is followed by Greece (EUR 7.9 billion) and Germany (EUR 6.9 billion), while Poland allocates the amount of EUR 3.9 billion for this purpose. The proportion of the subsidies at issue in the financing of the said systems looks slightly different. It is the highest in Poland, reaching 92%, and the lowest in Germany, i.e. 65%. This means that Polish farmers, as compared to the European ones, participate in the financing of the social insurance system to the smallest extent.

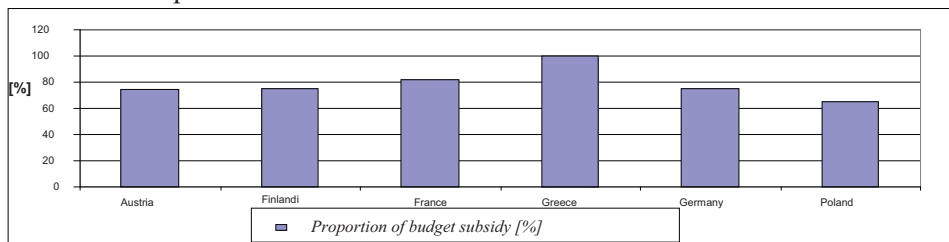
Figure 2. The amounts of the co-financing of the social insurance systems of farmers in the countries of the European Network of Agricultural Social Protection Systems in 2008 (in billion EUR and in %)



Source: own study based on the ENASP data included in “Agricultural Social Insurance in the European Union”
http://www.enasp.eu/files/enasp/enasp_1293802765477_ENASP_BOOKLET_INSIDE_2010.pdf

However, it should be noted that a considerable proportion of state subsidies in all countries under analysis is allocated to the financing of retirement benefits, as shown in Figure 3.

Figure 3. The proportion of subsidies in the expenditures on retirement benefits provided to farmers in the ENASP countries in 2008



Source: own study based on the ENASP data included in “Agricultural Social Insurance in the European Union”

http://www.enasp.eu/files/enasp/enasp_1293802765477_ENASP_BOOKLET_INSIDE_2010.pdf

Based on the ENASP data for 2008 and on the calculations performed, it can be inferred that the Polish social insurance system for farmers, as compared to other ENASP countries, uses state subsidies for the agricultural retirement payments and pensions to the lowest extent. Among the ENSAP countries, the highest proportion of subsidies to retirement benefits occurs in Greece and in France.

In the countries which operate a separate social security system for farmers, the organisations established for this purpose not only deal with providing benefits to the agricultural holding users and their families, but they also perform the function of an agricultural policy instrument, regarding farmers’ income and agrarian structure transitions.³² However, it should be noted, that the functional consequences of separate social insurance systems may be twofold. While agricultural insurance institutions become a bargaining chip in the negotiations with farmers’ organisations, a separate system has to face the political pressure towards harmonising the principles of social insurance for farmers with the common system.³³

2.1. Social insurance for farmers in the ENASP countries

As previously mentioned, many EU countries operate separate social insurance systems for farmers, and Poland is no exception. Various countries

³² Kowalski A., Społeczne uwarunkowania rozwoju wsi i rolnictwa, Wydawnictwo IERiGŻ, Warsaw, 1998.

³³ Sikorska A. (red. nauk.) Instrumenty oddziaływania Państwa na kształtowanie struktury obszarowej gospodarstw rolnych w Polsce; rola systemu ubezpieczenia społecznego rolników w kształtowaniu tej struktury. Stan obecny i rekomendacje na przyszłość oraz propozycje nowych rozwiązań dotyczących tego obszaru dla systemu ubezpieczeń rolników; Ekspertyza dla Ministerstwa Rolnictwa i Rozwoju Wsi, Warsaw 2009, s. 87.

display considerable differences in the organisation and functioning of such systems. These concern both the principles of determining the group of beneficiaries and the principles of accumulating insurance funds.

The oldest institution providing insurance for the agricultural population was established within **the German system**. The legal foundations, which have undergone a number of modifications, are provided by three acts of law, dating back to the 19th century, i.e. the Act of 1883 on Sickness Insurance, the Act of 1884 on Accident Insurance, and the Act of 1889 on Old Age Insurance. The 19th-century social insurance system also comprises benefits addressed to the agricultural population. As early as in 1886, farmers were covered by accident insurance, and their families joined the insurance scheme in 1942. The act providing for an old age assistance to farmers was adopted in 1957, and in 1972 the current system was extended by adding sickness insurance. In 1995 Germany conducted a reform of the pension scheme for farmers, the principal aims of which were to impose obligatory insurance on farmers, to increase the correlation between the agricultural and common pension schemes, and to correlate the amount of premiums with the scale of income tax. These assumptions obviously translated themselves into varying levels of state participation in the premium financing. The maximum level of state subsidies to the entire agricultural insurance system now reaches 65%. The premium rate is determined by the amount of total income, which also provides the grounds for deducting income tax. The receiving of retirement pay by the owner of an agricultural holding is subject to fulfilling certain conditions, such as attaining the age of 65, and paying the insurance premium for at least 180 calendar months (15 years), as well as liquidating the agricultural holding or transferring it to a new user.³⁴ As part of the 1995 reform, care insurance was introduced (referred to as agricultural care insurance), which covers all persons who pay the obligatory sickness insurance. The expenditures on care insurance are covered jointly and severally from the premiums, the amount of which is regulated by law. Until 2009 the German agricultural insurance system functioned within three Federations, namely BLB – *the German Federation of Agricultural Occupational Associations* (set up in 1919), GLA – *the National Association of Agricultural Pension Funds* (set up in 1957) and BLK – *the German Federation of Agricultural Sickness Funds* (operating since 1972). On 1 January 2009 a single institution was established under the name of the Main Association of the Social Insurance in Agriculture (LSV – *Die landwirtschaftliche Sozialversicherung*). The said system offers a wide array of insurance options,

³⁴ Korsak R., *Systemy emerytalne na świecie, Ubezpieczenia rolnicze nr 4*, Warsaw 1994, s. 8-9.

including accident insurance, retirement pay and pension, health insurance, and insurance in case of the necessity to use long-term care.

Accident insurance, which covers all persons employed in agriculture and forestry, own-account farmers, their spouses and their families, is the oldest element of the system discussed. It performs three functions, regarding prevention, rehabilitation and damages. Related expenditures are financed through agricultural funds, using farmers' premiums. Their allocation is determined annually, based on the expenditures incurred in the previous year. The amount of the premiums paid in 2009 reached approximately EUR 832 million. In 2009, as part of the system, accident insurance covered around 1.6 million insured persons and 3.5 million recipients, i.e. around 1.5% and 4% of the entire population in the country, respectively. The obligation to pay accident insurance depends on the agricultural holding utilisation. Using less than 0.25 ha of land might be grounds for exemption from the insurance obligation.

Retirement insurance constitutes the second pillar. It covers all farmers on the condition that their holding is of a certain size (approximately 6 ha, depending on the region). Retirement insurance premiums are income-dependent, whereas benefits are connected with a single premium and benefit. Since 1995 the obligatory retirement insurance has also covered farmers' spouses, ranging from 95% to 98% of the premium. The assistance provided as part of retirement insurance covers retirement payments and pensions, as well as medical rehabilitation, to avoid occupational exclusion. In 2009 retirement insurance covered around 650 thousand recipients, which accounts for 0.8% of the entire German population, whereas the number of premium payers reached 270 thousand, i.e. 0.3% of the German population. Farmers pay their retirement insurance premiums on a monthly basis, and these are further subsidised by the state in the amount of 75%.

Agricultural *health insurance* is an obligatory insurance scheme addressed to farmers. In terms of benefits, it does not differ from other legally-operating health-insurance funds, with the exception that the retired farmers ("Altenteiler") are financed by the legislator. Health insurance covers around 850 thousand recipients, i.e. around 1% of the German population, including 1/3 of the economically-active farmers and 2/3 of retirees, which implies that the state finances 2/3 of the expenditures. The number of health insurance premium payers has reached 214 thousand.

The foundations for the **Austrian** social insurance system for farmers were laid by the Act of 1929 on the Insurance of Agricultural Workers. However, full insurance protection was not granted to farmers until the 1970s. First came sickness insurance, followed by retirement insurance in 1971, by

retirement insurance for women employed in agriculture in 1992, and by a new accident insurance against accidental events in 1999. The local-government insurance institution aimed at individual farmers and their families, referred to as SVB (*Sozialversicherungsanstalt Der Bauern*), has been entrusted with the efficient functioning of this system since 1974. It comprises one central and seven federal funds. They are supervised by the Ministry of Agriculture, the Ministry of Finance, the Ministry of Health and Women's Affairs, and the Ministry of Social Security, Family and Consumer Protection. The said system provides for agricultural retirement payments, disability and family pensions, sickness, accident and maternity benefits, and social assistance, as well as healthcare. The number of persons insured within the SVB system accounts for around 3.5% of the entire Austrian population (292 thousand people), and the number of recipients for 4.8% of the population (387 thousand people). In 2000 the Austrian social insurance system for farmers underwent a thorough reform, which was forced by the financial difficulties related to sickness insurance. This reform entailed cutting administrative expenditures and accumulating resources for the purpose of Sickness Funds. Apart from their duties related to obligatory sickness insurance, Sickness Funds collect premiums as part of insurance against accidents at work, retirement insurance, and insurance against unemployment. Austria, similar to Germany and Poland, operates a premium-based system, in which the premium rate depends on the agricultural holding value and on expected income, which reflects the size, location and production. The agricultural holding value is calculated once every 10 years by the tax office. The main valuation criteria include holding size, soil quality and location. The unit value of the holding must reach a certain level (EUR 150 in the accident insurance sector and EUR 1500 in the health and retirement sector). If the holding is smaller, the premises are considered obligatory only when their income comes mainly from agricultural economic activity. The entire premium in the SVB system accounts for approximately 25% of farmers' income, and it is paid on a quarterly basis. It consists of accident and sickness insurance – 1.9%, 75.5% of which is financed by farmers, retirement insurance – 15%, 25.7% of which is covered by farmers, health insurance – 7.65%, 53.6% of which is paid by farmers, and family insurance – 0.4%, which is almost entirely financed by the state (99.8%). There is just one premium, independent of the number of persons insured by the farmer. The retirement age is 60 years for women and 65 years for men, while the premium period must be at least 15 years. The Austrian Social Insurance Institution (SVB) is in 70% subsidised from the state budget. The state finances accident insurance premiums to the level of 24.5%. The subsidy to health insurance amounts to 46.4%, whereas that to retirement

insurance 74.3%. In 2009 the total amount of state expenditures on financial benefits reached EUR 2.92 billion.

In **Finland** an independent central social insurance fund for farmers, referred to as MELA, was set up in 1969. It is based on the state pension scheme (granting minimum protection) and on the income system, which is centred on the occupational retirement system, referred to as KELA, which grants minimum protection to all residents of Finland. Although social insurance provided by the KELA Social Insurance Institution ensures only minimum protection, it also covers other benefit forms, including medical treatment, family benefits, basic unemployment security, and other benefits related to the place of residence and principal means of living. The KELA system is addressed to all persons working as hired employees, and to entrepreneurs whose income is secured within the said system. In turn, MELA (the Agricultural Social Insurance Society) is responsible for the retirement and pension protection of agricultural entrepreneurs, for statutory accident insurance, and for the substitution system of individual farmers staying on holiday. The system covers individual farmers, including agricultural entrepreneurs, fishermen, reindeer breeders, foresters, fruit producers, gardeners, and their family members. Since the beginning of 2009, MELA also provides insurance for artists and scientists, whose principal source of maintenance is based on grants. The system in question is supervised by the state, including by the Ministry of Finance, the Ministry of Agriculture and Forestry, and the Ministry of Social Affairs and Health. The major differences that occur between the MELA and KELA systems are as follows:

- a separate early retirement system for agricultural entrepreneurs,
- an obligatory accident insurance system for agricultural entrepreneurs, which for other entrepreneurs is based on supplementary insurance,
- farmers with lower income from salaried work pay lower premiums than entrepreneurs working outside agriculture.

In 2009, 84 thousand people (i.e. 59 thousand holdings) were insured in MELA, and 162 thousand people received benefits from this system. This accounts for about 1.6% and 3.0% of the entire Finnish population, respectively. Generally, the high number of recipients in relation to insured persons implies that the government has to substantially participate in the system's costs. The financing of the benefits system comprises three major categories:

- 1) the occupational retirement system;
- 2) the accident system;
- 3) the holiday substitution system.

The financing of the agricultural occupational retirement system of entrepreneurs is based on personal income from salaried work, performed by each entrepreneur, on the rate of the premium paid towards occupational retirement in the general system, and on the agricultural system of lower premiums for agricultural entrepreneurs. The difference between the actual cost of retirement pay and the premium income is financed by the government. Retirement premiums are calculated according to the percentage rates determined by the Ministry of Social Affairs and Health on a yearly basis. In 2009 they ranged from 10.2% to 20.8%, depending on the annual income of premium-paying farmers. As a result, 10.2% was paid by farmers earning less than EUR 23 thousand, whereas farmers whose income exceeded EUR 36 thousand paid a premium of 20.8% of their annual income. As regards accident insurance, the premium also depends on the annual income, its rate averaging 2.4%. The following benefits are paid from the system: agricultural retirement payments and pensions, benefits in the case of accident and sickness, benefits in the case of the substitution of work, unemployment benefits, and subsidies to agricultural land settlement. State subsidies to the pension fund amount to 75%. The retirement age of women is 60 years while that of men 65 years. The retirement benefit rate is the function of recalculated income per holding and the length of system membership, and it may reach a maximum of 60% of the recalculated income. In 2008 the amount of all benefits paid from the MELA system was EUR 1.1 billion.

The French system has a long-standing tradition, based on the principle of national solidarity. Accident insurance was the first insurance introduced in the French agriculture in the 1920s. In 1945 retirement payments were introduced, together with the obligatory membership of farmers in pension schemes. However, a separate system of Retirement Insurance for Individual Farmers was not introduced until 1952. The system was gradually modified, i.e. by the Act of 4 July 1980, and then by the Act of 6 January 1986. The latter provided for the possibility to lower the retirement age from 65 to 60 years for those farmers who cease to conduct agricultural economic activity, transferring their land to a younger generation. Since 1 January 1989, independent farmers may retire at the age of 60, provided that they are either considered unable to work, or hold the status of veterans or prisoners of war. In other cases, obtaining retirement entitlements requires attaining the age of 65 (irrespective of sex), and paying insurance premiums for over 37 years. Since 1945 the French agricultural insurance system has been operated by a non-public decentralised organisation, administering public funds, referred to as MSA – Mutualité Sociale Agricole. This institution was set up to deal with the obligatory social insurance

of individual farmers, all employers and employees in the agricultural sector, and their families. It is supervised by the Minister of Agriculture, Forestry and Fisheries, as well as by the Ministry of Finance and the Budget, and the Accounting Chamber. The French social insurance system covers over 1.26 million premium payers (including 576 thousand individual farmers and 684 thousand persons employed in agriculture), and 6 million recipients, which accounts for 2% and 9.4% of the entire French population, respectively. This means that, in the case of individual farmers, one premium payer falls on three retirees, whereas for agricultural workers this ratio is 1 to 2. The MSA members include individual farmers who conduct agricultural economic activity bearing a specific code, provided that such activity falls within a specific range, determined by certain thresholds, namely: 1) the minimum statutory area – SMI, the size of which depends on the location and type of agricultural economic activity; 2) the utilisation time required. In general, the SMI threshold averages 0.25 ha, whereas the utilisation time is 1200 hours a year. MSA manages all branches of social insurance, not only health insurance, family benefits and retirement payments, but also accident insurance and occupational diseases. Furthermore, MSA supervises various initiatives related to preventing danger at work, and it administrates supplementary social benefits to retirement payments, health insurance and social allowances. The following benefits are paid as part of the system: agricultural retirement payments and pensions, social assistance for single farmers, families and seniors, social assistance in case of unemployment or disability, child care benefits and settlement allowance. The social insurance system of farmers is financed from two sources, where approximately 35% comes from the premiums paid by employers and insured persons, and the remaining 65% from state subsidies. The financing system is divided into two subsystems, one for individual farmers, the other for persons employed in the agricultural sector. The rate of premiums paid by individual farmers depends on cadastral (taxable) income. In the case of farmers running specialised holdings, the grounds for determining the premium are provided by the income estimated using lump-sum indicators for various types of crops and breeding. For agricultural entrepreneurs, the basis for calculating the premium is provided by the lump-sum remuneration paid to the managerial staff and to other employees. The budget subsidy to the individual farmers' system accounts for approximately 82%, whereas the subsidy to the hired employees' system for approximately 53%. The total system co-financing in 2008 amounted to EUR 27.1 billion, 61% of which related to individual farmers and 39% to hired employees.

In Greece, the Main Social Security Fund of Farmers, referred to as OGA, has been operating since 1961. It consists of one central fund at the

national level, and of five regional branches and representatives countrywide (employees of local government communes). This institution manages the state funds allocated to the social security of farmers, fishermen, agricultural workers, craftsmen and own-account workers, including clergymen, residing in rural areas of up to 2 thousand residents, as well as of persons working in the agricultural environment in localities of up to 5 thousand residents. In global terms, OGA recipients account for 18.7% of the Greek population (around 2 million people), whereas the number of premium payers is 725 thousand, i.e. around 6.7%. The amount of benefits paid to these persons reached approximately EUR 7.8 billion in 2008. The state subsidy currently amounts to 74%, whereas the retirement premiums of farmers account for approximately 4.8%. The said institution is supervised by the Minister of Labour and Social Protection. The following benefits are paid from the system: retirement payments and pensions for orphans and widows, general family allowances and allowances for families with many children, disability allowances, medical care, co-financing to training courses and holidays for children and young people, and maternity allowances. Agricultural retirement payments constitute the largest percentage of OGA benefits. The basic retirement entitlement is earned by persons attaining the age of 65, who have worked in agriculture for at least 25 years (in case of early retirement – for 15 years). At present, OGA has been undergoing certain transitions, which commenced in 1988 and are planned to be completed by 2026. OGA has been evolving from a fully-subsidised system, where the persons insured are not obliged to pay any insurance premium, to an insurance system based primarily on premiums, and following the “*pay-as-you-go*” principle. It should be noted that from 1988 to 1997 premiums were voluntary, and the obligatory premium was introduced in 1998. The whole system was divided into seven premium categories. All persons insured are free to choose one category and pay 7% of the said premium. The state, in contrast, pays 14% of the same amount. Since 2003 the basic retirement pay has been decreased by 4% in annual terms. The aim to be accomplished by 2026 entails replacing the state-dependent retirement payments with basic retirement payments based on premiums.

The social insurance for farmers **in Poland** has functioned since 1977, and in its current form since 1991. The administration of insured persons and recipients has been entrusted to the Agricultural Social Insurance Fund, referred to as KRUS. Social insurance provided by KRUS covers farmers and their family members working in agriculture, on the condition that none of them is subject to other social insurance or has been granted the right to retirement payment or a pension, or to any social insurance benefits. The Act on the Social

Insurance for farmers distinguishes two types of insurance – retirement and pension insurance, and accident, sickness and maternity insurance – together with two forms of insurance coverage, namely obligatory and voluntary. The social insurance for farmers also provides for financial health benefits, as part of the common healthcare system. Detailed information on the organisation and functioning of the KRUS system will be provided in Chapter 3.

Table 2. Comparison of the insurance systems of farmers in the ENASP countries

Country	Total amount of co-financing (in billion EUR in 2008)	Principles of system financing	Number of beneficiaries and premium payers (% of the country's population)
Germany	6.9	State subsidy to the system – 65 Retirement insurance – premium subsidy – 75 Health insurance – premium subsidy – 50	<u>Beneficiaries:</u> Accident ins. – 4.0 Retirement ins. – 0.8 Health ins. – 1.0 <u>Premium payers:</u> Accident ins. – 1.5 Retirement ins. – 0.3 Health ins. – 0.25
Austria	2.9	State subsidy to the system – 70 Retirement insurance – premium subsidy – 74.3 Health insurance – premium subsidy – 46.4 Accident insurance – premium subsidy – 24.5 Family benefits – premium subsidy – 99.8	Beneficiaries – 4.8 Premium payers – 3.5
Finland	1.1	State subsidy to the system – 70 Retirement and family insurance – premium subsidy – 75 Accident and sickness benefits in MELA – premium subsidy – 28, KELA – premium subsidy – 40 Substitution system in the holiday period – state subsidy – 100	Beneficiaries – 3.0 Premium payers – 1.6
France	27.1 including: - 61% to the individual farmers' system - 39% to the hired employees' system	State subsidy to the system – 82, Retirement insurance – premium subsidy – 36; State subsidy to the hired employees' system – 53, Retirement benefits – premium subsidy – 28	Beneficiaries – 9.4 Premium payers – 2
Greece	7.9	State subsidy to the system – 76,8 Retirement fund co-financed in 100%	Beneficiaries – 18.7 Premium payers – 6.7
Poland	3.9	State subsidy to the system – 92 Retirement benefits – subsidy to benefits – 65 Health benefits – subsidy to benefits – 100 Accident insurance – state subsidy – 0	Beneficiaries – 3.7 Premium payers – 3.5

Source: own study based on the ENASP data for 2008.

The analysis of insurance systems in the selected EU countries reveals that they are co-financed, similarly to Poland, from public funds, and the individual differences, in conceptual terms, are rather minor. It should be stressed, however, that Poland is one of the most rural and agricultural countries among all countries analysed. This is reflected in the population structure by place of residence, source of income and occupational activity. In Poland, around 38% of the population resides in rural areas, and 19% are persons employed in agriculture, whereas the agricultural population constitutes around 22%. To compare, in Finland, where agriculture plays a significant role in the national economy, over 35% of the population resides in rural areas, but just over 3% actively works in agriculture, and the agricultural population constitutes around 7%. Based on the analysis of the social insurance systems of farmers, it can be inferred that in each of the countries compared there is an unfavourable proportion between the number of recipients and premium payers (Table 2). This situation affects the high level of state subsidies to the system. However, despite such high costs, these countries maintain separate insurance systems for farmers, as they perform a number of other functions in the agricultural policy domain, along with the social one. It should also be noted that in the context of state functions, which include without limitation ensuring residents' security, the co-financing of pension schemes seems unquestionable, and the only question to be solved is the amount of such subsidies. A separate fundamental issue to be considered while constructing social systems refers to the scope of state interventionism.

2.2. The agricultural social insurance system in France – a detailed analysis

2.2.1. The history of agricultural social insurance in France

The French farmers expressed their initial demand for establishing a national occupational organisation in the second half of the 19th century. The first social insurance, imposing an insurance obligation on all employees, shared by employers, was introduced in France under the acts dated 5 April 1928 and 30 April 1930. This insurance covered the following risk types: sickness, maternity, death and old age. The said acts, together with family allowances, initially provided to employees and then also to farmers, paved the way for establishing the Mutual Agricultural Insurance Fund, referred to as MSA (*Mutualite Social Agricole*). However, it was not until 1940 that the said institution, operating under the auspices of the Ministry of Agriculture, was

recognised as a valid occupational organisation, the objective of which was to manage all social risks faced by the insured farmers.

Under the regulation of 4 October 1945, which recognised the principles of common social insurance, providing for a multiple-system operation, the Mutual Agricultural Insurance Fund conducted its activity in the agricultural domain, and in 1949 a separate election system was introduced. This means that, since its beginnings, this institution has been managed on a democratic and professional basis.

In subsequent decades, the Mutual Agricultural Insurance Fund evolved towards enriching the range of insurance provided to employees or farmers with new elements:

- **1951-1958:** gradually introducing the old-age insurance of agricultural workers;
- **1952:** establishing the old-age insurance for farmers;
- **1960:** establishing BAPSA (*Budget Annexe pour les Prestations Sociales Agricoles*) – the Supplementary Budget for Agricultural Social Benefits – together with undertaking a number of health and social actions;
- **1961:** introducing the sickness insurance for farmers;
- **1966:** introducing insurance against accidental events happening to farmers, by ensuring free choice of insurer;
- **1972:** establishing a system of obligatory insurance, covering accidents at work, accidents on the way to/from work, and occupational diseases of agricultural workers;
- **2002:** reforming and revalorising obligatory coverage in respect of accidents at work and the occupational diseases of farmers conducting economic activity, together with establishing an occupational risk prevention fund, the management of which was entrusted to MSA (*Mutualite Social Agricole*);
- **2003:** establishing a supplementary obligatory system for the managerial staff of agricultural holdings or enterprises, which provided, among other things, for free-of-charge additional obligatory retirement payments to managers of agricultural holdings and enterprises, upon fulfilment of certain conditions.

Special attention should be given to establishing, pursuant to Article 58 of the Financial Act for 1960, the Supplementary Budget for Agricultural Social Benefits, referred to as BAPSA (*Budget Annexe des Prestations Sociales Agricoles*). This was connected with a very unfavourable demographic structure in agriculture, given that the functioning of the entire

social insurance system of farmers was hugely dependent on a solidarity agreement with both other systems and taxpayers. It should be stressed that BAPSA is not an exception, as there are numerous special insurance systems in France that use state subsidies to maintain the equilibrium, at the same time not generating any additional budget. These include the French railways (SNCF), mariners, and miners, to name but a few. Such a supplementary budget makes it possible to maintain a continual budget equilibrium of social insurance, in accounting terms, and to achieve the equilibrium within the general budget in the last instance. Nevertheless, the status of BAPSA should be considered “in the past tense.” In 2005 it was replaced by the Social Benefits Fund in Agriculture, referred to as FFIPSA (*Fonds de Financement des Prestations Social Agricoles*). BAPSA became inefficient, due to applying the principle of organic law to the financial acts (LOLF). FFIPSA is a public institution, intended to finance sickness benefits, family benefits and retirement payments, provided to persons conducting economic activity in agriculture, i.e. mainly to agricultural holdings.

As part of FFIPSA, the following expenditures were made in 2007 by individual sections: the sickness insurance section – EUR 7.589 billion, the family benefits section – EUR 410 million, and the old age insurance section – EUR 8.543 billion. FFIPSA receipts came mainly from premiums, CSG (*common social insurance premiums*), taxes and charges (tobacco tax and certain other charges), as well as from demographic compensations.

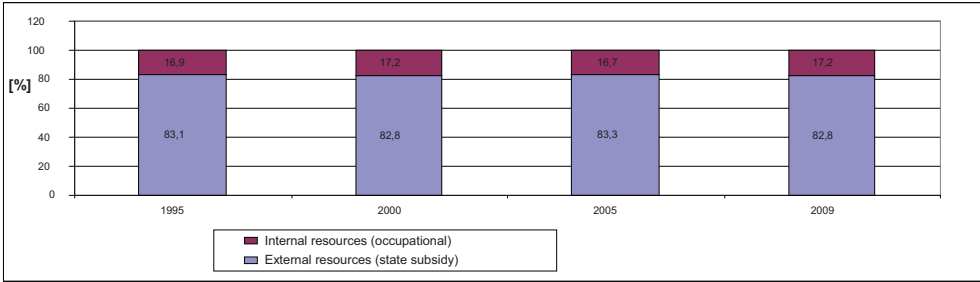
In 2007 FFIPSA indicated total expenditures of EUR 16.542 billion, total receipts of EUR 14.313 billion, and a deficit of EUR 2.229 billion. The deficit of FFIPSA was mainly caused by the lack of demographic equilibrium within the system, where 0.37 premium payer fell on one retiree. In addition, the subsidy for reaching the equilibrium, previously agreed for BAPSA was reversed, and VAT income was replaced by tobacco tax income, less secure than the former. From 2008, due to this rather unfavourable situation, FFIPSA used loans to finance social benefits provided to farmers. Until 2008 FFIPSA transferred the acquired resources to the Mutual Agricultural Insurance Fund (MSA), which managed the social benefits of persons conducting agricultural economic activity. On 1 January 2009, pursuant to Article 17 of the Act No. 2008-1330 on Financing Social Insurance for 2009, the Fund was dissolved, and the supervision over the insurance system of farmers was entrusted to the Central Agricultural Fund of Mutual Social Insurance (CCMSA – *Caisse Centrale de la Mutualite Sociale Agricole*).

On that day, the assets and liabilities of the Fund were taken over by the Agricultural Fund of Mutual Social Insurance. At the same time, in order to

ensure neutral acquisition of the Fund obligations by CCMSA, in accordance with the Financial Act for 2009, immediate attempts were made to settle the FFIPSA debt, which had accumulated since 2005, arranging for its partial assignment to the state, in the amount of EUR 7.5 billion.

The demographic correlation between premium payers and insured persons explains the structural deficit of the system, and the necessity to refer to external financing sources. These account for over 82% of the entire system burden (Figure 4), with the inter-system demographic compensation constituting the principal source.

Figure 4. The sources of financing the social insurance system of persons conducting agricultural economic activity in the years 1995- 2009.



Source: own study based on MAAPRAT

2.2.2. The grounds for the functioning of the social insurance for farmers

The historical conditions of social insurance in the French agriculture constitute the grounds for the functioning of the Mutual Agricultural Insurance Fund. Its philosophy is based on the notion of mutual assistance, oriented towards widely-understood solidarity, comprising:

- intergenerational solidarity,
- solidarity between various agricultural domains and auxiliary professions,
- solidarity between high-productivity and underdeveloped agricultural regions,
- solidarity between people who are able-bodied, and those who are sick or disabled.

The Mutual Agricultural Insurance Fund – MSA (*Mutualite Sociale Agricole*) is an institution providing obligatory insurance to agricultural workers and to owners of agricultural holdings in France. It comprises the traditional agricultural sector (agricultural economy, landscape architecture, forest economy, etc.), auxiliary domains (occupational organisations in agriculture, such as Crédit Agricole, Groupama, etc.), and agricultural and food industry sectors.

The Mutual Agricultural Insurance Fund manages the social insurance of persons conducting agricultural economic activity and agricultural workers. This covers the risk of sickness, maternity, disability, accidents at work, retirement payments, death, family-related benefits (including housing benefits and social minimum payments). Along with the statutory social assistance, MSA implements health and social policies, as well as preventive measures related to healthcare.

The agricultural insurance system managed by the Mutual Agricultural Insurance Fund covers over 4 million people, including agricultural workers and farmers conducting agricultural economic activity.

MSA provides the financial resources necessary to expand social assistance, and it has taken an active part in overcoming the barriers arising in this process (related to effectiveness, services quality or security) through:

- the fund network restructuring, completed in 2010,
- accounts certification,
- actively fighting fraud.

Network restructuring

Network restructuring eventually led to decreasing the number of funds from the 78 entities operating up to 2010, to 35 remaining after 2010. Each of the 35 funds holds the sufficient financial means and resources to allow the conducting of complex legislative activity, subject to continual changes, and for meeting the expectations of fund members. As a result of the restructuring process, MSA has strengthened its institutional activity through better cohesion and increased network management prospects. Each fund consists of 2 or 3, and in special cases of 4, departments, which makes it possible to comply with one of the key MSA assumptions, i.e. a small distance from the client. The restructuring process has further allowed the maintaining of both territorial bonds with all members (the funds allocation in various departments) and political bonds, as the department-based structure ensures a political and territorial presence, visible and identifiable at a departmental level.

The powers vested in the fund administrative panels

Each fund has its own administrative panel, the powers of which relate especially to widely-understood healthcare, to preventing occupational risk, to health and safety at work, and to health and social measures (e.g. accommodation for hired employees, newborn care, social aspects of crisis management in agriculture, and adaptation to the working environment). To perform the said tasks, health commissions were founded, dealing with the

issues of rational expenditure planning. On the initiative of MSA, they were also intended to solve such problems as:

- an underdeveloped network of medical assistance in certain rural areas – this especially relates to the development of rural outpatient clinics;
- the lack of coordination of the assistance addressed to seniors – this especially relates to the development of the gerontology network.

In the domain of health and social measures, administrative panels perform a significant role in undertaking various initiatives tailored to current needs. Their operations made it possible for the MSA fund to design the initiatives suitable for rural development, such as Rural Assistance Homes for Seniors (referred to as MARPA) or a special assistance form addressed to day nurseries. These measures fall within the scope of institutional or departmental action programmes, attended by the managers from a given region.

Administrative panels also play a decisive role in mitigating crisis consequences in agriculture, assisting the families which have fallen into trouble by considering their applications for spreading the liabilities in time, or for returning insurance premiums.

In 2010 around 1800 administrators were appointed to perform the said tasks.

The allocation of field representative networks

27 thousand cantonal representatives work in rural areas within the MSA network. Practically speaking, there is one MSA representative for one commune. This network is composed of cantonal or multi-cantonal cells in all funds. Each cell is in charge of implementing local MSA tasks in the fields listed above.

Preventing occupational risks may be viewed as an exemplary measure undertaken by cantonal representatives. The regulations in this field are complex. MSA field cells have offered guidelines in order to simplify the development of a uniform occupational risk evaluation document for each owner of an agricultural holding. The cooperation with fund specialists, on the one hand, and with representatives who are familiar with both their operational field and related risks, on the other, provides an opportunity to benefit practically from the existing regulations. In other cases, the Central Administrative Panel makes use of a network of selected MSA field representatives, in order to supplement its study for the purpose of providing assistance to each specific department. Selected field representatives play a crucial role in all activities connected with health education and preventive measures, implemented by MSA. Their task is to support the campaigns promoting a healthy lifestyle and happy old age through reaching individual farmers.

The MSA network restructuring was a risky venture, which could weaken the relationship between the fund and the insured persons. Avoiding such a danger by MSA was possible due to the act of law which provides for the establishing of departmental cells. So far such cells have been established for 12 funds, covering numerous departments. Their activity does not boil down to mirroring the activity of administrative panels at the departmental level, but it focusses on preserving the organised MSA representation, consisting of the persons appointed by way of election, at that level. This proves to facilitate the connection between the rural revival policy, as well as health and social interventions, implemented by the administrative panel with its subordinated area.

The election system

The administrative model presented is efficient, which results from a multi-levelled election system. The insured persons are locally represented by representatives whom they often know personally. Such representatives elect fund administrators from among themselves, who in turn appoint members of the Central Administrative Panel. The advantages of this system include establishing a local network of persons whose rights are legally justified, and imposing a requirement that each member of the administrative panel must first act as a representative in a given area.

The system discussed allows MSA to perform the role of an organisation in charge of social assistance, which does not lose its capacity to assess the realities of a given area. The attendance of the persons insured in the agricultural system, connected with the said administration model, reached 50% in the last election.

Accounts certification

On 1 July 2008, MSA introduced an institutional audit function at a central level. This was in line with the attempts made by the Accounting Court, outlined in the social insurance report for 2007. The purpose of internal audits is to keep the domestic accountant and the Managing Director of CCMSA posted on the procedure of establishing a complex accounting system of the Mutual Agricultural Insurance Fund units. The new statutory provision grants to the MSA Central Fund the right to supervise both the MSA funds, and the groups and societies that control them. The act of law provides that CCMSA “*may also audit the accuracy of the liquidation operations on insurance premiums and social insurance benefits, performed by the MSA funds.*” Such audits are performed in the mode defined in the regulation dated 22 May 2008.

The said regulation stipulates that the MSA organisational units shall be subject to audit in the period determined by the Board of CCMSA. On 1 July 2008, the Central Administrative Panel decided that audits would be performed every 5 years.

Fighting fraud

Fighting social benefit fraud takes place on an ongoing basis for three major reasons:

- for MSA, this is an opportunity to prove that it conducts its public mission both professionally and diligently,
- in the public's opinion, and especially in the opinion of insured persons, this is a concrete means of verifying the operations of the institution, to which everyone is connected, and which reflects two underlying principles of the economic mutuality, i.e. solidarity and responsibility,
- for public authorities, this is a means of achieving the public benefits equilibrium, as well as of verifying the proper application of various acts and regulations by state bodies.

A common information system of MSA for the entire legislative system is one of the main tools to avoid a number of potential abuses. MSA also undertakes some partnership initiatives with diversified social assistance and administrative units, in order to exchange thorough information that may contribute to an effective fight fraud. The implementation of such measures has been facilitated through the establishment of the national delegation for fighting fraud, referred to as DNLF (*Delegation Nationale de Lutte la Fraude*). Furthermore, the legal instruments currently available within the insurance-related legislation allow the funds to improve their methods of detecting and penalising fraud.

2.2.3. The organisation and functioning of the agricultural social insurance system in France

The Mutual Agricultural Insurance Fund is a social assistance system addressed both to persons conducting economic activity (owners of agricultural holdings, auxiliary professions, and partly agricultural craftsmen), and to employees (due to their own activity, or the activity conducted by their employers). This implies that the social insurance subsystem of farmers, similarly to other insurance systems in France, is occupation-oriented. This subsystem is an integral part of the insurance system, though it was separated on a statutory basis.

Membership of the social insurance system is granted to persons conducting economic activity, or to agricultural workers, upon determining the type of any such activity. This must be “agricultural” activity within the meaning of the agricultural and fisheries provisions, and as regards persons conducting economic activity, especially within the meaning of Articles L 722-1 to L 722-3 thereof.

In accordance with the principles and statutory provisions adopted in the social insurance system, three categories of activity are distinguished:

- generic agricultural activity,
- auxiliary activity,
- agricultural activity within the statutory meaning.

The “social” definition of agricultural activity, included in the Collection of Agricultural and Fisheries Acts, applied in the legislature and administrative doctrines, differs from the definition used for fiscal purposes (fiscal provisions, Article 63). It is also clearly different from the “civil” definition (the Collection of Agricultural Provisions, Article L 311-1), despite certain similarities (introducing to agricultural activity, within the “social” meaning, the notion of activities that constitute an extension of production activity, or tourist activities supported by an agricultural holding).

In accordance with the administrative doctrine, the following activities are distinguished: **generic agricultural activity**, understood as the activity of any person who performs certain economic operations aimed at producing agricultural, plant or animal products, and **auxiliary activity**, which comprises any activity that follows production, or that falls within the agrotourism structure, conducted by an agricultural holding or on its premises (including especially accommodation and board). Any such activity must be undertaken by persons conducting generic agricultural activity, working on their own account, dealing with plant cultivation or animal breeding of any kind, training animals, or running stud farms, or by any enterprises run by owners of agricultural holdings, for the purpose of processing and commercialising agricultural products (the Collection of Agricultural Provisions, Article L-722-1, 1°).

These provisions imply a relationship between generic agricultural activity and the activity connected with processing or commercialisation. Persons employed in the entities or structures listed are covered by the insurance system of agricultural workers (the Collection of Agricultural Provisions, Article L-722-20, 1°).

Agricultural activity “within the statutory meaning” is the agriculture-oriented activity that comprises various activities implemented by enterprises for agricultural purposes, including:

- agricultural work within the animal or plant production cycle,
- soil-improving and auxiliary work necessary to perform agricultural work,
- work conducted with creating, recreating and maintaining parks and gardens.

The agriculture-oriented activity also covers any activities performed by representatives of local insurers, or by employees of mutual agricultural insurance funds, acting in the capacity of persons conducting economic activity, provided that any such activity is performed by way of ordinary representation between the insurer and the insured person, for the purpose of signing an ordinary contract or collecting a premium.

The agricultural activity which is subject to the social insurance system of farmers also covers various activities undertaken by **rural craftsmen** who permanently employ not more than two persons, and whose type of activity is clearly connected with the needs and specificity of the farming activity in a given geographic area. Notwithstanding agricultural insurance, rural craftsmen are also covered by other insurance systems, according to the risks regarding the following benefit types:

- family benefits: subject to agricultural social legislation,
- old-age insurance: excluded from the agricultural system and covered by the “retirement benefits system for craft professions”,
- sickness and maternity insurance: covered by the system of own-account workers outside agriculture.

The agricultural social insurance system, in accordance with the Act of law, covers employees of various occupational groups and agricultural institutions, such as the Mutual Social Insurance Fund, the Mutual Agricultural Social Insurance Funds, agricultural credit funds, agricultural cooperatives, agricultural trade unions, agricultural chambers, licensed management centres, and management and accountancy centres whose statute provides for establishing a management board mostly composed of members appointed by agricultural occupational organisations or agricultural chambers, etc.

The principles of accession to the agricultural social insurance system

Accession to the social insurance system of farmers (comprising sickness, disability and maternity insurance, old-age and widowhood insurance, family benefits, and insurance against accidents at work and occupational diseases) by managers of agricultural holdings, or by private enterprises run by natural persons takes place on the general principles, determined pursuant to the provisions of Articles L 722-1 to L 722-7 of the Collection of Agricultural and Fisheries

Provisions. Furthermore, each category of insured persons contains detailed provisions that govern the accession to the system and the provision of benefits.

Managers of agricultural holdings or enterprises run by natural persons

Accession to the agricultural social insurance system by managers of agricultural holdings, or by agricultural enterprises, is subject to the following conditions: such persons conduct agricultural activity, within the meaning of the provisions adopted for the purpose of social assistance, as discussed in Section 2.2.3.1, such persons work in an agricultural holding or in an enterprise of a given size.

However, it should be stressed that, in the event where the size of an agricultural holding does not allow accession to the social assistance system, the manager of such an agricultural holding or private enterprise must pay a solidarity premium. An exemption may be granted if the agricultural holding has a too small area, or the labour input is insignificant. Such persons may, nevertheless, apply for admission by way of derogation, upon satisfying certain conditions, which will be described in further detail later in this study.

The obligatory agricultural system covers all persons who manage agricultural holdings or enterprises, the size of which is at least equal to, or equivalent of, half of SMI (the minimum statutory area) for each department or part thereof, within the meaning of Article L312-5 of the Collection of Agricultural Provisions, taking into consideration the coefficients of equivalence, if any, applied to specialised agricultural production. Under the commune-specific regulations on fallow land, any uncultivated land is taken into consideration in calculating the threshold required in such a way as if it was used as agricultural land, cultivated in the year preceding its exclusion from agricultural production. While determining the threshold, SMI is calculated separately for each landscape area, and for each crop type, in the leading department structure.

Companies

Accession to the mutual social insurance fund (MSA) is obligatory for all companies conducting agricultural activity, as long as they satisfy the conditions related to the type of activity and to the area of land cultivated. The size and threshold above which the company is subject to insurance are determined in the same way as in the case of managers of individual agricultural holdings. This principle is applied only when the size of the company may be estimated in relation to the area, and whether real or theoretical (based on the coefficients of equivalence). Otherwise, the threshold is determined at 1200 hours.

Partners

Partners in the companies covered by the agricultural assistance system, which are either private partnerships (SCEA – Agricultural Holding Private Partnership), or commercial companies (SARL – Limited Liability Company), are offered various social assistance options. They may join the system as persons conducting economic activity, or as persons participating in agricultural activity. The latter is viewed by CCMSA (the MSA Central Fund) as direct and efficient participation in the work performed by an agricultural holding. However, in administrative or technical terms, such participation does not have to entail any physical work. Partners who do not participate in agricultural work (they are viewed as “not being owners of an agricultural holding”) are not obliged to join the social assistance system. However, they must pay social insurance premiums on dividends (12.1% of CSG, the so-called common social insurance premium, or CRDS, the so-called contribution to the social debt repayment).

Family members

Farmers’ spouses are covered by obligatory insurance if they regularly participate in agricultural work. Such persons hold the “**cooperating spouse**” status which was stipulated in the Agricultural Act dated January 2006. Its aim was to ensure retirement entitlements to one of the spouses, upon termination of his/her occupational activity, in the amount corresponding to the basic retirement pay of the other spouse. Since 1 January 2007, this status has also applied to persons living in partnership or cohabitation. In order to obtain the said status, the spouse: must participate in the work of an agricultural holding, must not receive any remuneration from this holding, must not be a partner, must not simultaneously conduct economic activity outside agriculture.

An auxiliary “cooperating spouse” status may also be granted to a person working in or outside agriculture on more than a half-time basis.

The said Act further provides for the insurance coverage of “**domestic servants.**” This only applies to individual agricultural holdings. Since 18 May 2005, any persons becoming domestic servants (descendants, ascendants, or sideline relatives) may not hold such a status for over 5 years. The said status may be sought upon completing the age of 16.

Slightly different conditions must be satisfied by “**agricultural holding partners**”. Such persons are domestic servants having an interest in the agricultural holding income. Their participation is variable and income-dependent (20-50%), and it constitutes the cost of the holding. It is not subject to insurance premium (except for CSG, the so-called common social insurance

premium, or CRDS, the so-called contribution to the social debt repayment). In order to join to the insurance system as an agricultural holding partner, several conditions must be satisfied. Namely, the person:

- must be aged between 18 and 35 (in the case of married persons – two years marriage),
- must be a domestic servant other than an ascendant,
- must participate in the use of the agricultural holding,
- must not be employed in the enterprise structure.

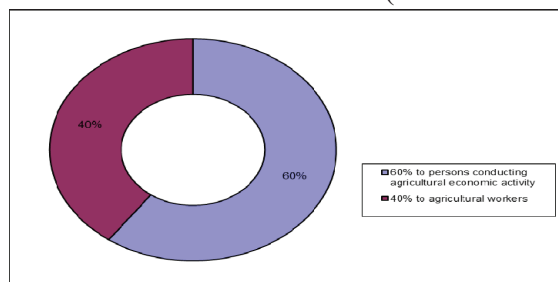
The advantages of having “an agricultural holding partner” include:

- decreasing the agricultural holding income, which translates itself into lower taxation and insurance premiums,
- increasing the costs in the category of “wages and salaries”,
- transferring the CSG and CRDS premiums directly to MSA, i.e. to the social insurance for farmers,
- decreasing employee’s remuneration by the amount of his/her contribution.

2.2.4. Social benefits from the agricultural social insurance system

Benefits from the French social insurance systems of farmers are paid through two parallel subsystems, addressed to agricultural workers and to persons conducting agricultural economic activity. In 2010 the total value of benefits paid to both subsystems amounted to EUR 27.7 billion, EUR 11 billion of which was allocated to the agricultural workers’ system, accounting for 40% of the benefits paid from the MSA fund. In contrast, the benefits to the persons conducting agricultural economic activity amounted to EUR 16.7 billion, i.e. 60% of the total sum of benefits in the agricultural social insurance system (Figure 5).

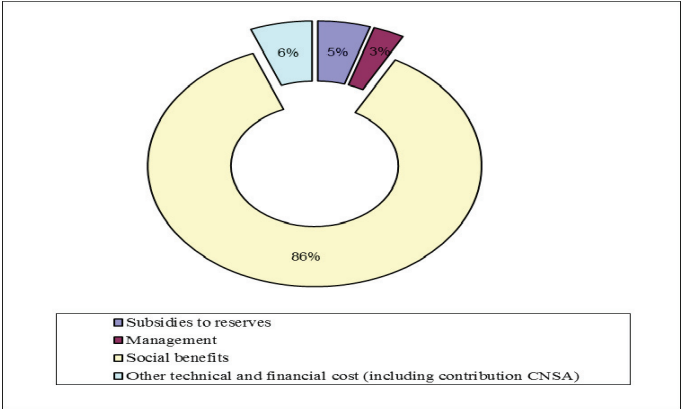
Figure 5. Social benefits of MSA in 2010 (in billion EUR and in %)



Source: own study based on the MSA data.

The analysis of benefits paid from the system addressed to persons conducting agricultural economic activity revealed that in 2011, as compared to 2010, the benefits value slightly dropped, from EUR 16.7 billion to EUR 16.4 billion. The MSA data indicate that social benefits in 2011 accounted for 86% of the total costs of the subsystem of persons conducting agricultural economic activity. The remaining operational costs include management costs – 3% (amounting to EUR 0.57 billion), technical and financial costs – 6% (i.e. EUR 1.15 billion), and the so-called subsidies to reserves – 5% (i.e. approximately EUR 1 billion) (Figure 6).

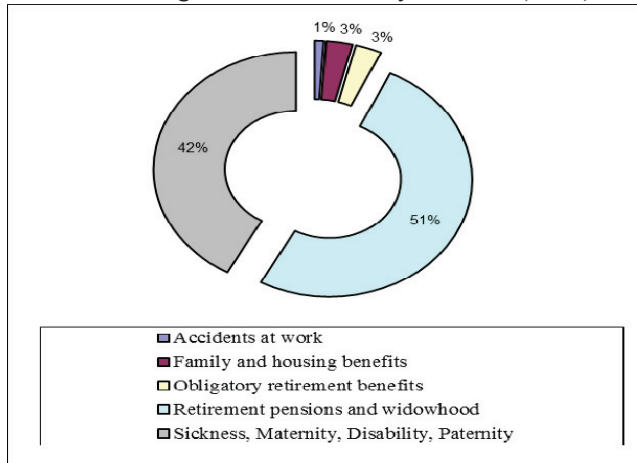
Figure 6. The proportion and value of costs by type in the social insurance subsystem of persons conducting economic activity (in % and in billion EUR)



Source: own study based on the MSA data.

The following social benefits were paid in 2011 as part of the subsystem for persons conducting economic activity: benefits in respect of accidents at work (approximately EUR 0.17 billion), family and housing benefits (approximately EUR 0,5 billion), obligatory retirement benefits (approximately EUR 0.5 billion), sickness, maternity and disability benefits (approximately EUR 7.14 billion), and old-age benefits, comprising retirement payments and widowhood benefits (approximately EUR 8.52 billion). A detailed analysis of the social benefits paid from the subsystem for persons conducting economic activity indicates that the highest proportion in total expenditures on social benefits is attributed to sickness and retirement benefits. Their amount in 2011 totalled EUR 15.5 billion, which accounted for 93% of total expenditures on social benefits from the subsystem in question (Figure 7).

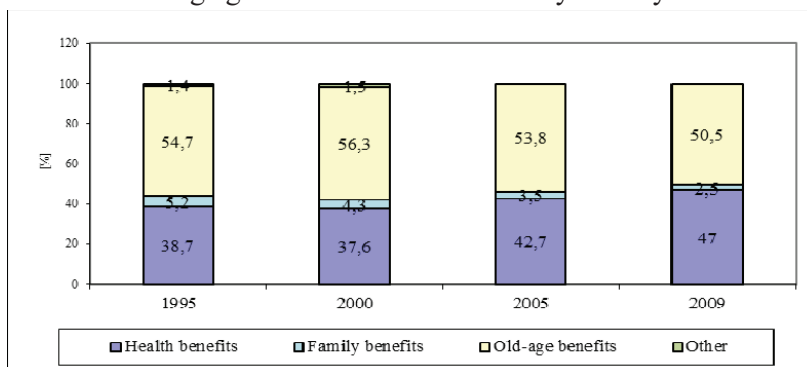
Figure 7. Social benefits by risk group, paid from the subsystem of persons conducting economic activity in 2010 (in %)



Source: own study based on the MSA data.

The research indicates that from 1995 to 2010 the structure of expenditures on social benefits underwent slight fluctuations (Figure 8). In the analysed period, their proportion on health-related benefits (sickness, maternity, disability, paternity and accidents at work) increased from 38.7% in 1995 to 47% in 2009. In 2010 the proportion of these benefits decreased by 4 percentage points, to the level of 43%. The proportion of old-age benefits dropped from 54.7% in 1995 to 50.5% in 2009, and so did the proportion of family benefits from 5.2% to 2.5%, respectively.

Figure 8. Structural changes in the expenditures incurred by the system for persons conducting agricultural economic activity in the years 1995-2009



Source: own study based on the MAAPRAT data.

Health benefits for persons conducting economic activity

Managers of agricultural holdings, and – on certain conditions – members of their families, partners to companies and retirees, are covered by obligatory sickness, maternity and disability (excluding death) insurance, generally referred to as AMEXA (*Assurance Maladie des Exploitants Agricoles* – sickness insurance for owners of agricultural holdings). AMEXA is administered by many entities, and the persons involved may freely choose their insurer. This gives the persons covered by the obligatory sickness insurance of owners of agricultural holdings an opportunity to choose an entity providing such insurance in a given department area, within which their holding or enterprise is located. The AMEXA administration units include: the mutual agricultural social insurance fund (MSA), private entities licensed under the relevant ministerial regulations, which are authorised to grant insurance against certain risks.

MSA ensures coordination and runs the entire system of obligatory sickness insurance. It also performs settlements and audits.

Benefits provided as part of the sickness insurance of persons conducting agricultural economic activity are limited to the reimbursement of treatment costs, and are referred to as “benefits in kind”. Persons conducting agricultural economic activity are not entitled to the daily rates, referred to as “pecuniary benefits”. “Benefits in kind” paid from sickness insurance cover the costs related to sickness or accidents, except for accidents at work, including the costs of general and specialised treatment, the costs of medical care and dental prostheses, the costs of pharmaceutical products and equipment, the costs of analyses and laboratory tests, the costs of hospital and sanatorium treatment, and the costs of surgical operations and patient transportation.

Women using “benefits in kind” from the AMEXA sickness insurance are entitled to such benefits in respect of maternity. This insurance covers the costs of treatment and medicinal products, as well as the costs of equipment and hospital stays, incurred in connection with pregnancy, childbirth and its consequences. The substitution benefit to female farmers (maternity insurance) allows them to cover the costs incurred in connection with their substitution in the agricultural holding, due to maternity or child adoption. The said benefit is granted to women performing the function of managers of agricultural holdings, domestic servants or agricultural holding partners, own-account partners in agricultural companies, and to spouses of managers of agricultural holdings. Male farmers may also seek such benefits in respect of paternity leave, referred to as substitution benefits due to childbirth or adoption, provided that they are substituted by regular employees.

The AMEXA insurance also comprises insurance against disability. Benefits as part of this insurance are paid in the event of full or partial lack of ability (at least 2/3 loss of health).

Retirement benefits, referred to as old-age benefits

The retirement pay of owners of agricultural holdings is based on three pillars:

- the basic system,
- the supplementary obligatory system,
- the supplementary voluntary system.

Before 1990 retirement entitlement was granted to owners of agricultural holdings only through **the basic system**, whose functioning differed from other retirement systems.

The **basic system** for persons conducting agricultural economic activity comprises two subcategories, i.e. a lump-sum payment and a pro-rata payment.

The lump-sum retirement payment is a lump-sum benefit unrelated to the amount of contribution paid through premiums. Its calculation is based only on the number of years worked.

The pro-rata retirement payment retains the features of the supplementary obligatory retirement pay. It is based on scores which depend on the income of the farmer concerned.

The supplementary obligatory retirement payment, introduced in 2003 with the purpose of ensuring full retirement pay (the basic system + the supplementary obligatory system), equal to at least 75% of the minimum net pay (SMIC net), to persons working as agricultural holding managers upon termination of their employment. The system functioning is similar to other retirement systems that cover different activities, and the processing of past data allows the thorough and accurate indexation of retirement payments, provided to former managers of agricultural holdings. Before 2003 there was no supplementary obligatory system.

An extension of the supplementary obligatory retirement pay to cooperating spouses, and to domestic servants, is a proof of the clear-cut reforms.

The supplementary voluntary retirement payment forms the third retirement pillar, which is most similar to the insurance systems applicable to other professions. It can be proposed by insurers as a collective insurance agreement. It should be noted that, with time, the retirement structure covering persons conducting agricultural economic activity, previously so much distinct, seems to come more and more close to the solutions applied in the employee systems.

Benefits in respect of accidents at work and occupational diseases

Persons conducting agricultural economic activity are subject to obligatory insurance against accidents at work and occupational diseases, referred to as ATEXA.

The ATEXA insurance obligation covers:

- managers of agricultural holdings or enterprises,
- domestic servants working on their own account, and partners to agricultural holdings run by managers of agricultural holdings or enterprises,
- members of agricultural holdings or enterprises, conducting economic activity in the form of companies covered by the AMEXA insurance,
- spouses, cohabitants and partners of the aforementioned persons, whenever they participate in the use of the agricultural holding or enterprise,
- children of the aforementioned persons, who have reached the age of 14 and occasionally participate in the work of the agricultural holding,
- persons paying premiums jointly and severally, whose agricultural holding or enterprise meets the criteria of size and labour input.

Family allowances

Family allowances constitute a separate group of benefits. These may be classified into four categories:

- strictly-construed family allowances,
- housing allowances,
- solidarity allowances,
- allowances to disabled persons.

2.2.5. Financing the social insurance system for persons conducting agricultural economic activity

The expenditures made by the social assistance system addressed to persons conducting agricultural economic activity, in respect of all insurance types in total (sickness insurance, basic retirement pay, supplementary obligatory retirement pay, family allowances, and insurance against accidents at work and occupational diseases) amounted to EUR 19.4 billion in 2010.

The main sources of financing these expenditures in 2010 included:

- taxes and charges imposed by the State: EUR 6.5 billion,

- intersystem demographic compensations – sickness and retirement: EUR 4.9 billion,
- insurance premiums and the common social insurance premium (CSG): EUR 3.7 billion,
- benefits taken by other insurance systems and institution co-financing social insurance: EUR 1.3 billion,
- compensatory transfers from the general system: EUR 0.325 billion.

The social insurance system discussed, addressed to persons conducting agricultural economic activity, is not a self-financed agricultural system because: the demographic agricultural population structure is characterised by an imbalance (one economically active person, paying sickness and retirement premiums, falls on three recipients of benefits), the receipts from premiums are low (the insurance premiums and the common social insurance premium, CSG, jointly cover at least 19% of the entire burden within the social insurance system of persons conducting agricultural economic activity).

In this event, the principles of state and intra-system solidarity are indispensable to the system functioning. However, in spite of upholding these principles, the financial equilibrium of the agricultural retirement system has not been achieved yet. In 2010 the system closed with a deficit of EUR 1.2 billion. It was covered through bank loans which may be statutorily used by the Central Mutual Agricultural Insurance Fund (the MSA Central Fund).

Taxes and charges imposed by the state

Taxes and charges imposed by the state are tax receipts provided for the financing of social benefits or other extraordinary expenditures incurred by some of the insurance subsystems.

The resources allocated to the insurance system of persons conducting agricultural economic activity were refunded in 2009, which was when the sickness insurance of such persons was integrated, in financial terms, within the general system.

In 2010 taxes and charges were determined by the state at EUR 6.5 billion, which was allocated to benefit payments in respect of sickness insurance (EUR 4.2 billion) and to retirement payments (EUR 2.3 billion) in the system of persons conducting agricultural economic activity.

The receipts for this purpose in 2010 covered the following types of taxes:

- taxes on alcoholic beverages, amounting to EUR 3.1 billion (alcohol consumption charge, charges on beverages with the alcohol content exceeding 25%, charges on the sales of wine, cider, beer, and mineral water),

- part of tobacco consumption charges, amounting to EUR 2.1 billion,
- charges on the use of company cars, amounting to EUR 1 billion, which have been allocated to the system since 2009 as a supplement to including the financing of sickness insurance within the general system,
- whole or part of other taxes (on flour, fats, pharmaceutical products, and the like), amounting to EUR 0.3 billion.

It should be stressed that the taxes and charges imposed by the state are the principal source of financing the social insurance system of persons conducting agricultural economic activity, which covers one-third of the system expenditures.

Inter-system demographic compensations to sickness and retirement benefits

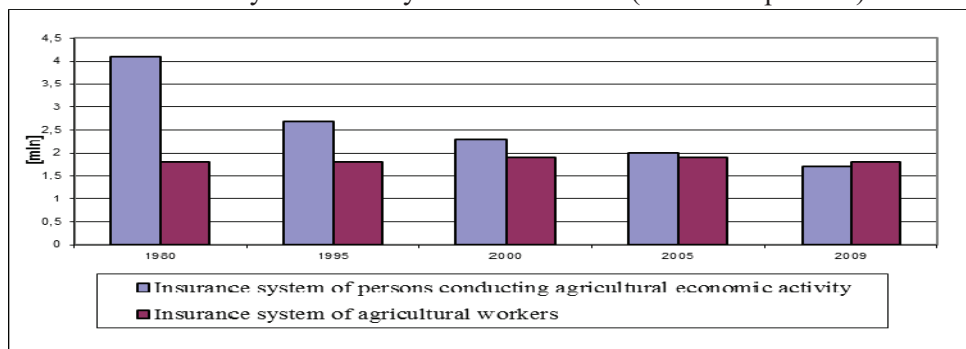
Demographic compensations relating to sickness insurance, on the one hand, and to retirement payments, on the other, are financial transfers between insurance systems. They are aimed at mitigating the inequalities arising from the lack of demographic equilibrium, and from tax receipts to various systems.

The said compensations were introduced by way of the Act adopted in 1974, and each of them is based on the same general principles of fairness (the compilation of the number of recipients and the number of persons economically active, who pay premiums to various systems), on one basic benefit and on the remuneration funds within employee systems. Each demographic compensation is a financial unification to the zero sum: the sum of credits (paid to the system) is equal to the sum of debits (paid from the system).

While considering the unfavourable demographic situation, the system intended for persons conducting agricultural economic activity has always been the main beneficiary of such mechanisms. The income from compensations, recorded in 2010, amounted to EUR 4.9 billion, EUR 1 billion of which was allocated to sickness insurance, and EUR 3.9 billion to retirement insurance. This accounts for over a half the inter-system transfers (the total amount of transfers in 2010 reached EUR 9.6 billion). The compensation transfers of EUR 4.9 billion in 2010 covered 25% of the entire burden within the system of persons conducting agricultural economic activity.

In recent years, as a result of the dropping number of persons conducting agricultural economic activity (Figure 9), the receipts from compensation charges to the agricultural system have decreased by approximately 2% per year. To compare, in 2006 the compensation income amounted to nearly EUR 5.6 billion.

Figure 9. Changes in the number of recipients of the agricultural social insurance system in the years 1980 – 2009 (in million persons)



Source: own study based on the MAAPRAT data.

It is worth noting that France is undergoing changes in the structure of economically active persons: in some economy sectors their number is growing, while in others it is declining. The general employee system has indicated a growth in the economically active population, to the detriment of other systems, which show comparable declines in such populations. The latter encounter certain difficulties in the financing of retirement payments. To solve this problem, a compensation mechanism was introduced in 1974, operating within all basic systems, referred to as **“a common demographic compensation to retirees”**.

Its aim is to close the demographic gap: the systems with a favourable demographic structure compensate those which have an unfavourable structure. However, if the system deals with providing a larger amount of retirement payments, it has to bear its own operational costs, or resort to state subsidies.

Insurance premiums and the common social insurance premium (CSG)

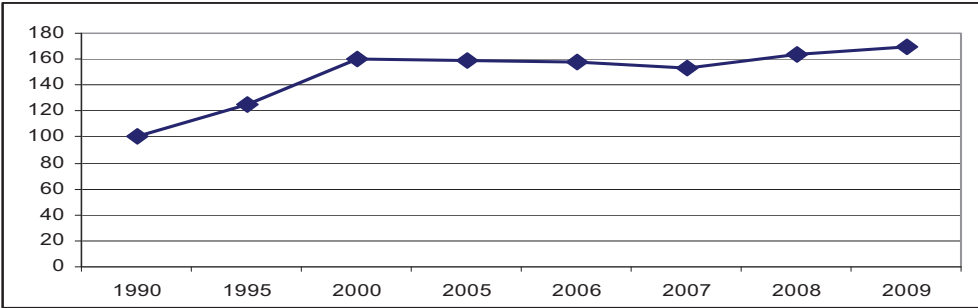
In 2010 insurance premiums of persons conducting agricultural economic activity and common social insurance premiums (CSG) provided a total income of EUR 3.7 billion. Insurance premiums paid by persons conducting agricultural economic activity amounted to EUR 2.6 billion in 2010, and to EUR 2.8 billion in 2009. The said premiums are deducted from the income generated by managers of agricultural holdings and enterprises in respect of conducting agricultural economic activity, and they are allocated to the financing of retirement benefits.

For most owners of agricultural holdings, the premium calculation basis, applied in 2010, reflected their average income earned in 2007-2009 from agricultural economic activity, and it was approximately 10% lower than the

calculation basis applied a year earlier. The general basis applicable to the income from agricultural economic activity, used to calculate the insurance premium in 2010, was established at EUR 6.2 billion. Depreciation of the profitability drop in farmers' premiums in 2010 (-7.7%) resulted from applying the minimum premium calculation basis, or the lump-sum premium calculation basis. It is also worth noting that decreased income, resulting in lower premiums paid in 2010, indicates a certain trend that emerged already in 2005. In 2005-2010 the differences in the level of insurance premiums amounted to approximately 10 percentage points. Nevertheless, from 1990 to 2009, the premiums paid by owners of agricultural holdings considerably increased (Figure 10), which was mostly due to:

- a reform in the premium calculation basis: a transition from the “cadastral income” calculation basis to the calculation basis using income from agricultural economic activity or lump-sum income,
- a transition made by many farmers from the lump-sum income calculation basis to the calculation basis involving a real profit earned from agricultural economic activity, as a result of changing the taxation system.

Figure 10. Changes in the level of premiums paid by owners of agricultural holdings in the years 1990-2009



Source: own study based on the MAAPRAT data.

The CSG income allocated to the financing of sickness benefits in the social insurance system of persons conducting agricultural economic activity amounted to EUR 1.1 billion in 2010.

The common social insurance premium (CSG) has existed since 1991. It contributes to the financing of the obligatory sickness insurance system. The amounts of the CSG premium collected by the agricultural system are determined in the regulation. In 2010, for the entire agricultural system (comprising persons conducting agricultural economic activity and agricultural

workers), they amounted to EUR 2.5 billion, increasing by 5.4% in relation to 2009 (Figure 11). Receipts from insurance premiums and CSG premiums in 2010 totalled EUR 3.7 billion, which accounted for 19% of the entire receipts into the system.

Inter-system transfers involve taking over the effective expenditures incurred by the system addressed to persons conducting agricultural economic activity by other insurance systems, or by the state.

The principles of inter-system transfers within the social assistance system to persons conducting agricultural economic activity are as follows:

1. The costs are covered by the National Solidarity Fund, as regards medical and social expenditures incurred for elderly people, incapable of independent existence, and the disabled. The analysis indicated a growth from EUR 565 million in 2006 to EUR 884 million in 2010, combined with intensified efforts to ensure better care for people incapable of independent existence, and to the disabled, in connection with the population ageing.
2. Retirement allowances to dependent children are paid by the family allowance section of the general system (85% in 2010), and by the Old-age Solidarity Fund (FSV) (the remaining 15%). Such a 10% retirement pay increase is granted to parents having three children or more, and it amounted to EUR 327 million in 2010.
3. Old-age allowances covered from FSV are granted to non-retired persons conducting agricultural economic activity. In 2010 they amounted to EUR 58 million.

The inter-system transfers in 2010 totalled EUR 1.3 billion, covering 7% of the entire agricultural system burden.

2.2.6. Assessing the functioning of the social insurance system for persons conducting agricultural economic activity, and its impact on public finances

In the current economic situation, the governmental attempts at fulfilling its obligations and at solving the deficit problem, occurring in the sickness and old-age insurance sections of the social insurance system of persons conducting agricultural economic activity, are considerable, though not sufficient.

The measures taken in the draft Act of 2009, concerning the financing of social insurance, aimed at reaching an interim solution to the deficit problem of health and retirement insurance in the social insurance system of persons conducting agricultural economic activity, fall within the assumptions that do not compromise, but further strengthen, the abilities of MSA in the managing and providing social benefits in all domains, as well as in collecting premiums and charges due. A tremendous success accomplished by MSA was assigning

the entire debt to the state (EUR 7.5 billion in 2009), which was accompanied by the liquidation of FFIPSA (the Social Benefits Fund of Persons Conducting Economic Activity).

As regards debt transfers, the financing scheme is different for retirement and sickness insurance, specifically:

- **Sickness insurance:** a continual sickness insurance equilibrium is ensured by allocating new financial resources, coming from taxes on company cars (amounting to EUR 1.2 billion), and – where necessary – by paying a subsidy from the general system, administered by the National Employee Health Insurance Fund (referred to as CNAMTS). The methods adopted to equalise health insurance raise some controversy, as, logically speaking, it would seem reasonable to establish a common financial fund for all systems, given that the right to benefits in kind is identical for all system participants (as proven by the reform implemented in Germany).
- **Retirement insurance:** this insurance group currently provides for no receipts, and MSA will be forced to finance its tasks through bank loans, as was stipulated in the Draft Act on Social Insurance (PLFSS). MSA hopes that a suitable solution to the structural deficit within this insurance group will be found soon, as promised by the state authorities.

2.2.6.1. The proportion of social insurance premiums in the income of persons conducting agricultural economic activity

The premiums paid by persons conducting agricultural economic activity are determined using the income generated from agricultural work, to which the minimum and/or maximum basis may be possibly applied. The workers' premiums are determined through the limited or unlimited wages and salaries fund.

As there is no minimum or maximum rate in the family insurance section, the premium calculation basis reflects the basis for calculating the gross “income from salaried work” of persons conducting agricultural economic activity, though with a one-year or three-year shift in respect of the said year.

The income earned from salaried work is determined as a lump sum or real income of a person running an agricultural holding. The income from agricultural economic activity, providing the premium calculation basis, includes:

- the income from agricultural economic activity subject to IRPP (personal income tax), comprising BA – the agricultural income taxation system, BIC – the income taxation system in agricultural

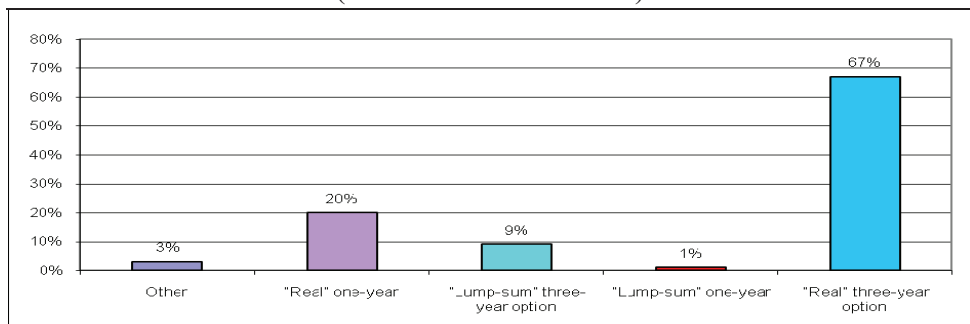
- industry, or BNC – the commercial income taxation system (applicable to tourism, agricultural enterprises, horse breeding, etc.),
- remuneration paid to managers and partners conducting agricultural economic activity in the companies which are subject to corporate taxation.

The premium calculation basis is equal to the taxation basis in a given year. The lump-sum basis applies when the income earned in a given year is unknown, and it relates to: persons starting a new job, spouses of managers of agricultural holdings, starting a new job, partners subject to corporate tax: family allowances concern only the partners of owners of agricultural holdings, who did not receive remuneration. The premium calculation on a lump-sum basis for persons “starting a new job” is subject to separate regulations when the regular premium calculation basis is unknown.

Solidarity premiums apply to small structures, such as:

- small agricultural holdings, the area of which ranges from 1/8 to 1/2 of the minimum holding area,
- small enterprises in which the labour input corresponds to at least 150, but no more than 1200 hours.

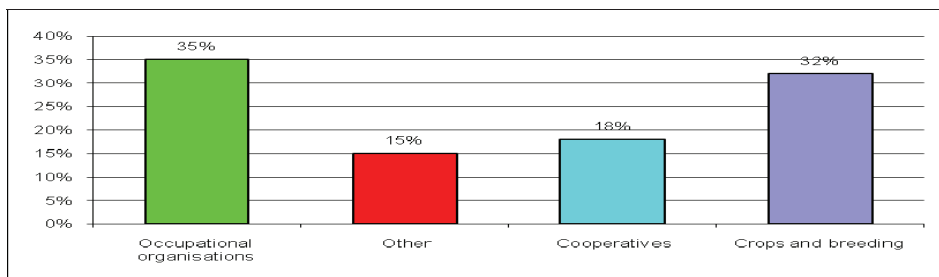
Figure 11. The structure of income providing the “occupational income” calculation basis, in line with the taxation system binding in 2010 (in billion EUR and in %)



Source: own study based on MSA data.

Premiums paid to the agricultural social insurance, referred to as ASA, comprising sickness, retirement and widowhood insurance, are based on the remuneration paid to agricultural workers by employees, who are covered by the agricultural insurance system. The wages and salaries fund in 2009 amounted to EUR 17.3 billion, indicating an increase of 0.8 percentage points in relation to 2008 (Figure 12). Nearly one-third of the fund comes from the premiums paid by persons employed in the crops and breeding sectors.

Figure 12. The income structure of the Wages and Salaries Fund by activity sector in 2009

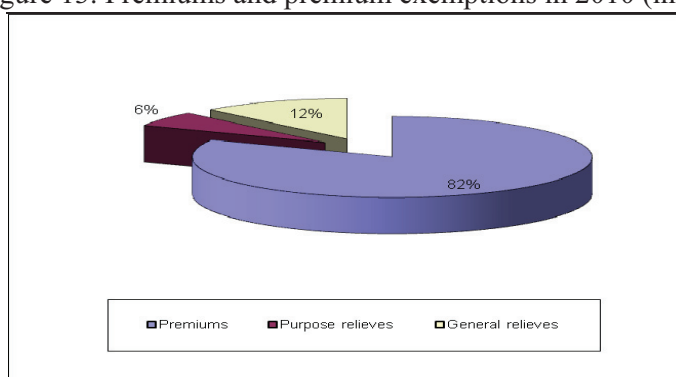


Source: own study based on the MSA data.

The premiums applicable to persons conducting agricultural economic activity amounted to EUR 2.6 billion in 2010, and they were 7.8 percentage points lower than in 2009. The premiums coming from agricultural workers amounted to EUR 6.4 billion, and they were 1.1 percentage points higher than in 2009. These premiums in total accounted for 82% of the entire receipts from premiums.

Since 2006 any operations aimed at decreasing the premium rates, in line with the low pay measures, are no longer covered by the state, but they are compensated from tax receipts. The value indicated, concerning the general premium decrease, reflects the costs of such operations, and not the expected tax receipts. The target decreases refer to rural revitalisation areas, to areas where a temporary exemption from taxes and charged is applied, etc.

Figure 13. Premiums and premium exemptions in 2010 (in %)



Source: own study based on the MSA data.

The amount of premiums paid to the social insurance system by farmers conducting economic activity accounts for approximately 33% of the “occupational income” calculation basis. This value is obtained in the following way:

$$\text{EUR 2.6 billion in respect of premiums paid by persons conducting agricultural economic activity} * 82\% \text{ proportion of premiums paid to MSA} / \text{EUR 6.3 billion of the premium calculation basis applicable to persons conducting economic activity} = 33\%$$

These premiums are paid by persons conducting economic activity in the following way: 50% of the premium is paid in March, 25% in June, and the remaining part (the balance) in November.

In 2010 owners of agricultural holdings paid premiums to the social insurance system of farmers, in the amount of 35-36% of their holding income, whereas the CSG and CRDS tax accounted for 8%. These payments constituted the so-called revenue-earning costs, except for CSG at 2.4%. The compilation of all premiums paid to the insurance system by owners of agricultural holdings is included in Table 3.

Table 3. The compilation of insurance premiums in 2010 paid by owners of agricultural holdings

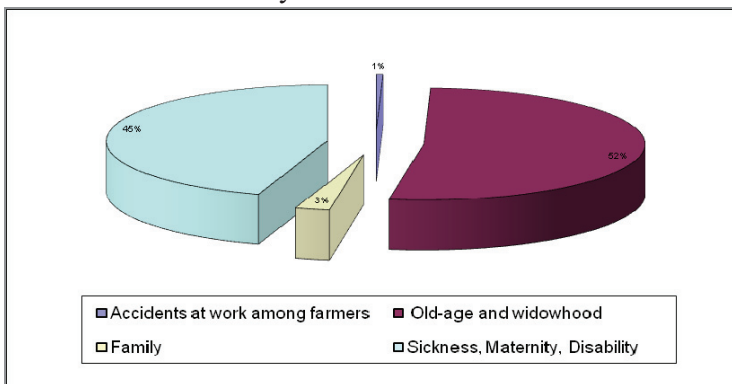
AMEXA	Sickness	10.84%
AVI (limited)	Individual retirement pay (lump-sum pay)	3.20%
AVA (limited)	Agricultural retirement pay (pro-rata pay)	11.17%
AVAD	(solidarity pay)	1.64%
RCO	Supplementary obligatory retirement pay	3.00%
AF	Family allowances	5.40%
On accidents at work	Accidents at work	From EUR 331 to 360
CSG	Social security contribution	2.40% non-deducted 5.10% deducted
CRDS	Social dept repayment	0.50 %
VIVEA net	Permanent occupational training	0.49% (min. EUR 47) (max. EUR 260)

Source: own study.

2.2.6.2. The proportion of expenditure on the social insurance for farmers in the entire state budget expenditure

The projected costs of the insurance system of persons conducting agricultural economic activity, indicated by the Social Insurance Accounting Committee, amounted to EUR 19.1 billion in 2011. This indicates a growth of 1.1 percentage points in relation to 2010. **Social benefits** amounted to EUR 16.4 billion (a growth of 0.8% in relation to 2010). Retirement and widowhood benefits constituted the most important item within social benefits, amounting to EUR 8.5 billion (a drop of 1.1% in relation to 2010), whereas benefits in respect of sickness, maternity, disability and death reached EUR 7.4 billion (a growth of 3.3% in relation to 2010) (Figure 14).

Figure 14. The proportion of social benefits in the budget of the social insurance system of farmers

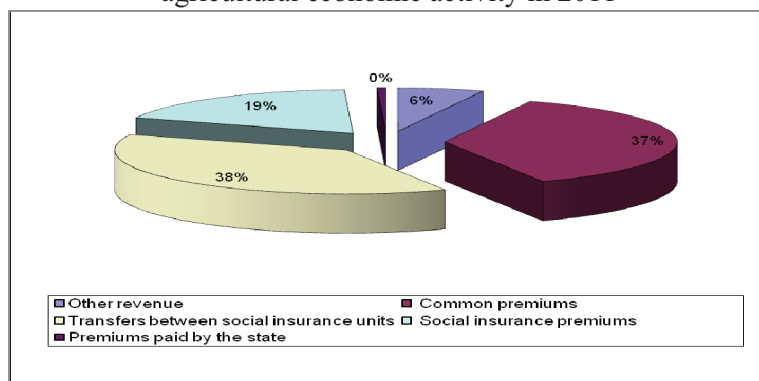


Source: MSA calculations according to the Social Insurance Revision Committee (October 2010).

Against this background, the income from premiums in the insurance system of persons conducting agricultural economic activity in 2011 amounted to EUR 17.8 billion. Therefore, the budget projected for this system indicates the imbalance of EUR 1.4 billion, which accounts for 7.2% of the entire budget. It is worth noting that the insurance system of persons conducting agricultural economic activity is financed from various types of income. The industrial financing comprises insurance premiums and common social insurance premiums (CSG), accounting for approximately 18% of the budget. Other sources of financing come from:

- various transfers between social insurance bodies (EUR 6.7 billion, including demographic compensations of EUR 4.8 billion),
- public premiums, including taxes and charges (EUR 6.6 billion),
- EUR 0.1 billion from administrative income (Figure 15).

Figure 15. The forecast of income by type in the system of persons conducting agricultural economic activity in 2011



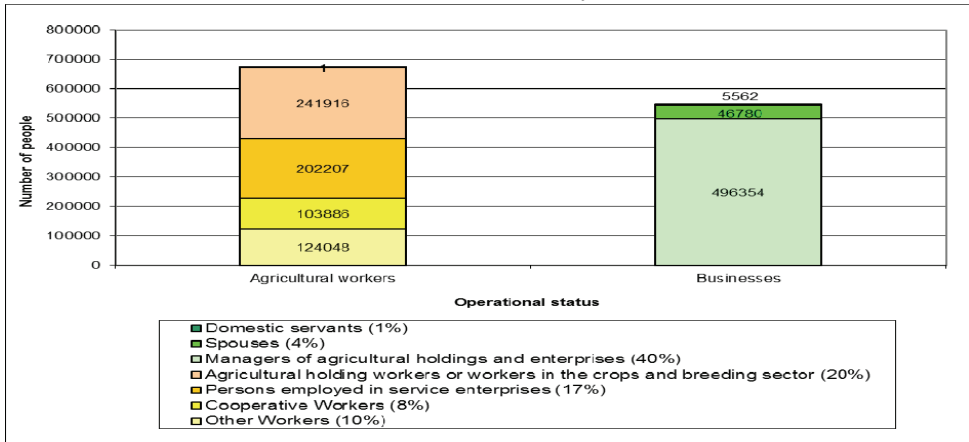
Source: MSA calculations according to the Social Insurance Revision Committee (October 2010).

2.2.6.3. Insured persons and recipients of the social insurance system in agriculture

The total number of economically active people in agriculture, conducting economic activity, and the number of agricultural workers, amounted to 1.2 million in 2010, indicating a drop of 1.1% in relation to 2010. The number of persons conducting only agricultural economic activity amounted to 548,696 (Figure 16). It should be added that this group also includes managers of agricultural holdings and their partners, irrespective of their status, as well as domestic servants.

In 2010 a further demographic drop in the number of owners of agricultural holdings was recorded, though the drop rate was slower than in the preceding years. It was due to the fact that, on the one hand, service enterprises, including especially those dealing with landscape architecture, indicate a growing dynamic, which partly mitigates the demographic decrease in the number of owners of agricultural holdings. On the other hand, going on early retirement was stopped in 2009, which limited the abandonment of an active economic life by owners aged 57-59. Such an immediate halt in the process of going on early retirement caused a potential decrease in the acquisition of agricultural holdings by new managers.

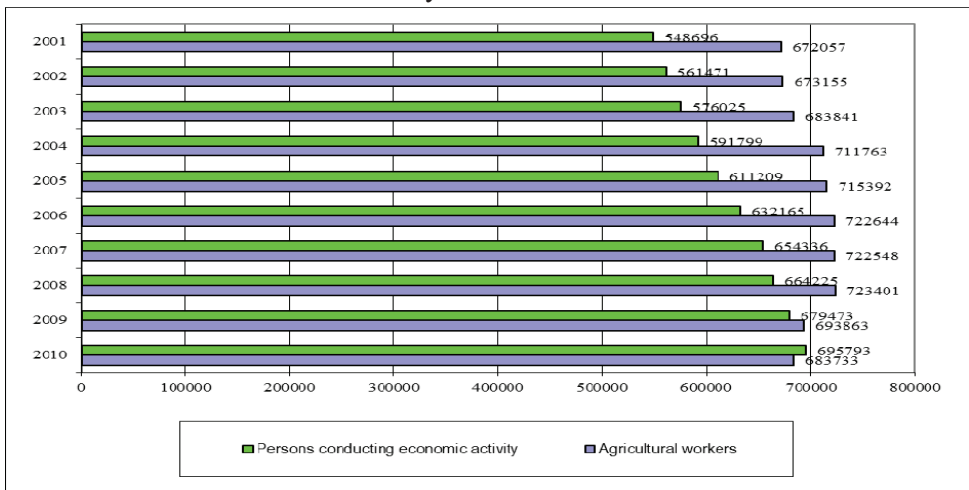
Figure 16. Economically active people by status and/or sector of agricultural economic activity



Source: own study based on the MSA data.

The number of economically active persons conducting agricultural economic activity has been dropping annually: in 2010 a drop of 2.3% was recorded, and in 2009 of 2.7% in relation to 2008. In the period from 1992 to 2010, a drop in this number was recorded from 1 million to approximately 0.548 million (i.e. approximately 49% in 18 years). The number of managers of agricultural holdings for the first time dropped to the level of 0.5 million in the year 2010.

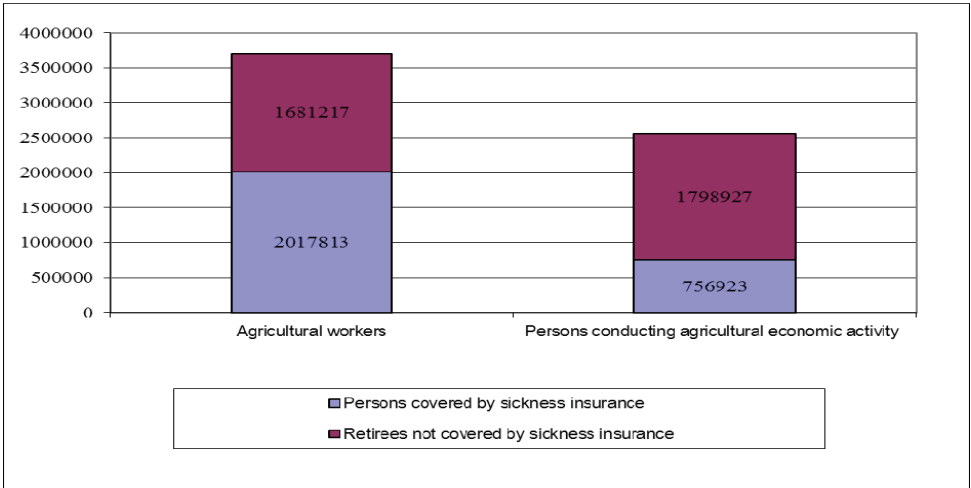
Figure 17. The number of economically active persons in agriculture in the years 2001-2010



Source: own study based on the MSA data.

The number of persons collecting at least one benefit from the agricultural system, as of 1 July 2010, amounted to 5.6 million, indicating a downward tendency (an annual drop of 1.3%). This number is smaller than the number of benefits provided, mostly due to the fact that the retirees collecting many benefits may act as simultaneous beneficiaries of the system addressed to persons conducting economic activity, and of the employee system. The retirement beneficiary may, or may not, be insured against sickness in the agricultural system. The number of the agricultural system beneficiaries, conducting economic activity, has dropped by 2.6%, whereas in the employee system the drop reached 1.4%.

Figure 18. The number of recipients from the agricultural social insurance system



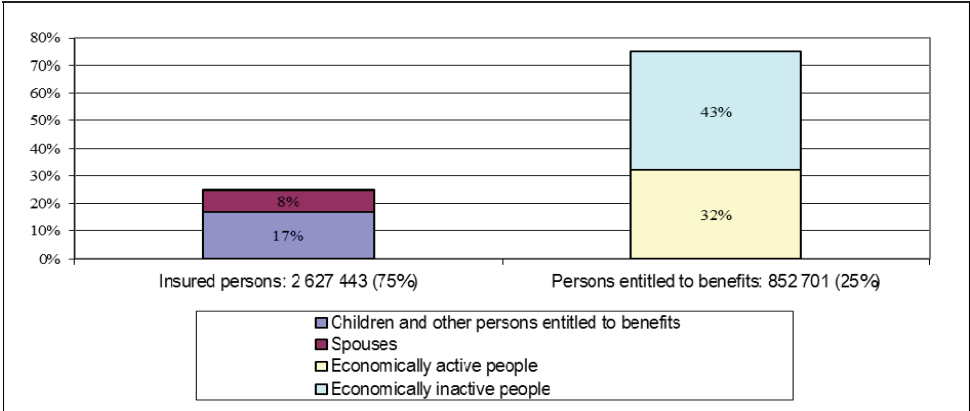
Source: own study based on the MSA data.

Number of insured persons to whom the agricultural insurance system pays for sickness benefits, amounted to 3,480,144 in 2010, which was 1.7% lower than in 2009. 48% of these persons are covered by the system addressed to persons conducting agricultural economic activity, whereas the remaining 52% use the agricultural employee system (Figure 19).

The number of persons insured and entitled to benefits amounts to 2.6 million, including 1.1 million of economically active premium payers and 1.5 million of economically inactive persons (retirees, early retirees, unemployed persons collecting benefits and disabled persons who do not pay premiums). The number of persons entitled to benefits has reached 853,000, 69% of whom are children.

In average terms, 3.1 insured persons fall on one economically active premium payer, which implies that each economically active premium payer covers sickness allowances.

Figure 19. Persons insured against sickness in the agricultural insurance system in 2010



Source: own study based on the MSA data.

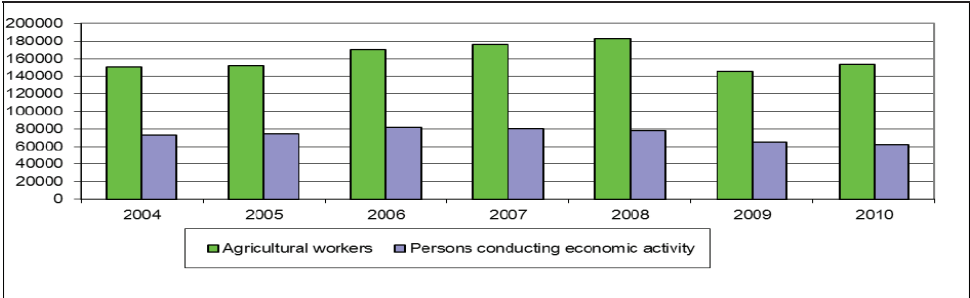
In 2010 around 4.2 million people insured in the agricultural system used the retirement supplement. This population dropped by 0.7% in relation to 2009. This drop is connected with the fact that the system of persons conducting agricultural economic activity records more deaths among retirees than new beneficiaries. Therefore, the number of retirees who previously conducted agricultural economic activity (AVA) amounted to 1.7 (a 2.3% drop in relation to 2009). In turn, the number of retirees who are former agricultural workers (ASA) amounts to 2.5 million (a 0.5% growth). The agricultural system manages 4.2 millions of retirement files. Nearly 17.4% of retirees simultaneously collect the supplement from two systems, i.e. from the system of persons conducting economic activity and from the employee system. In 2010 2.8 retirees with direct entitlements, aged 65 years and more, in the system of persons conducting agricultural economic activity, and 2.3 retirees in the agricultural employee system, fell on one economically active premium payer. An additional benefit from the old-age solidarity fund (FSV), or a solidarity allowance to seniors (ASPA), calculated as an income-dependent lump sum, is paid as a retirement supplement.

Changes in the number of beneficiaries indicate the weakness and instability of retirement payments. The number of persons entitled to the FSV and ASPA supplement amounts to 33,230 in the system of persons conducting

economic activity, and to 19,834 in the employee system, which corresponds to a drop of 17.5% and 4.8%, respectively, in 2009-2010. The number of newly-granted retirement payments, including those that are transferred post-mortem to the person appointed, grew by 2.6% in 2010, in relation to 2009, amounting to 215,529, 62,045 of which were granted in the system of persons conducting agricultural economic activity, and 153,484 in the employee system.

The renewed growth in retirement payments provided is connected with taking early retirement, in the context of the retirement reform. As of 31 December 2010, the obligatory retirement supplements system (RCO) covered 507,106 beneficiaries, 450,623 of whom hold a personal non-premium or premium-based entitlement, 48,303 collect the retirement pay post-mortem, after other person’s death, and 8,180 simultaneously hold a personal and post-mortem entitlement.

Figure 20. The number of persons with recognised retirements in the years 2004-2010



Source: own study based on the MSA data.

2.3. Social insurance in Polish agriculture – the impact of reforms on public finances

Social insurance for farmers in Poland has functioned as an autonomous insurance system. The scope of benefits provided in the insurance system for the Polish agricultural population resembles the employee system, except for maternity care, post-maternity and unemployment allowances, which are granted only in the employee system. The difference lies in the amount of such benefits as retirement payments, pensions and sickness allowances, whose level is considerably lower than in the general system. In 2009 the average monthly retirement pay from the non-agricultural insurance system amounted approximately to PLN 1651, whereas in the agricultural system it was PLN 950. However, it should be noted that agricultural retirement payments are financed

through relatively low premiums, which forces high budget subsidies. While assessing the agricultural retirement system, one should account for the fact that farmers constitute the occupational group that has most recently obtained its social insurance entitlements. As stipulated by Wawrzyniak and Wojtasik, keeping farmers for so many years outside the system had no substantive grounds whatsoever. It resulted from a subjective decision of politicians and decision-makers, based on doctrinal views, according to which farmers did not satisfy the criteria assigned to socialised employment institutions. For this reason, they could not be subject to social security on the principles equal to those applying to employees in the socialised sector³⁵.

2.3.1. Social insurance for farmers in Poland before 1990

Individual farmers in Poland had to wait for their social insurance coverage much longer than any other society group. For several years, they were outside the principal stream of social expectations, mainly due to their specific production methods, which were not in line with the official policy that aimed at establishing socialist relations in rural areas.³⁶ Family-owned agricultural holdings were treated as the source of accumulation for national industrialisation. To this end, high rates of the progressive agricultural tax were imposed, and in 1951 obligatory supplies of agricultural crops were introduced. Their prices were lower than free market prices, and they were subject to strict state regulations. The only system that functioned in the interwar period was the life-annuity system, which in certain regions imposed a legal obligation on adults taking over the ownership of their parents' agricultural holding, to provide financial benefits, or benefits in kind, as the source of their parents' income. As indicated by Pszczółkowska, this form of protection, granted to parents by children, was only accepted by the rural community out of necessity³⁷. The first insurance solutions were introduced into Polish agriculture in the post-war period. For instance, in 1946 agricultural workers hired by the National Agricultural Holdings (referred to as PGR) were covered by insurance against accidents, and a year later by sickness insurance. In 1950 they acquired the right to family insurance, and in 1953 to retirement benefits. Specific provisions on the social insurance of members of agricultural production cooperatives, and their families, were adopted in 1949-1976. However, not until 1962 could they benefit from retirement insurance, and the full range of benefits

³⁵ Wawrzyniak B.M., Wojtasik B., *Ubezpieczenia społeczne rolników*, Włocławskie Towarzystwo Naukowe, Włocławek 2005, s. 5.

³⁶ Tamże, s. 8.

³⁷ Pszczółkowska J., *Ubezpieczenia społeczne rolników – stan obecny i możliwości rozwoju*, *Ubezpieczenia w rolnictwie*. KRUS, Warsaw 20, s. 5.

was provided as late as in 1971.³⁸ Individual farmers were covered by social insurance in 1978.³⁹ From 1962 to 1978, retirement benefits were only provided to those farmers who transferred their holdings to the state.⁴⁰ As mentioned before, the life-annuity system was the only form of protecting agricultural seniors in Poland, operating before the said period.⁴¹ The life-annuity agreements, however, failed to effectively protect the holders' interests, thereby worsening the situation of old people.⁴² It is also worth stressing that establishing a pension system based on agricultural holding transfers exclusively focussed on structural and economic aspects, while neglecting the social ones. The former decision-makers were mainly interested in acquiring additional land, in order to strengthen the socialised sector. The Act on transferring agricultural holdings to the state, in lieu of pensions and financial payments, was adopted in 1974.⁴³ This was another step towards establishing the appropriate agricultural insurance system. Unfortunately, the said Act failed to cover those farmers who assigned agricultural holdings to their successors, as a result of which a large group was once again placed outside the insurance system. As previously mentioned, Poland was not an isolated case. Also in other countries farmers were covered by social insurance much later than other society groups.⁴⁴

The Act of 1977⁴⁵ gave rise to the social insurance system in Poland. Its principal objectives were of a three-fold nature:

- social – ensuring retirement pay and pension benefits to farmers and their families; the benefits being granted both to the farmers assigning their agricultural holdings and to their successors;
- economic (productive) – implemented through retirement pay and pension entitlements dependent on the agricultural production generated by the holding and sold to the state;

³⁸Podstawka M., Rolnicze ubezpieczenia społeczne w Polsce oraz propozycje ich zmian, Wydawnictwo SGGW, Warsaw 1998.

³⁹ Ustawa z dnia 27 października 1977 o zaopatrzeniu emerytalnym oraz innych świadczeniach dla rolników i ich rodzin, (Dz.U. 1977 nr 32, poz. 140).

⁴⁰ Ustawa z dnia 28 czerwca 1962 o przejmowaniu niektórych nieruchomości rolnych w zagospodarowanie lub na własność państwa oraz o zaopatrzeniu emerytalnym właścicieli tych nieruchomości (Dz. U. 1962 nr 38, poz. 166).

⁴¹ The life-annuity system entailed transferring the agricultural holding by the oldest family members to their successors, and retaining a small part of land to ensure minimum living standards or benefits in kind.

⁴² Wawrzyniak B.M., Wojtasik B., Ubezpieczenia społeczne rolników, Włocławskie Towarzystwo Naukowe, Włocławek 2005, s. 5.

⁴³ Ustawa z dnia 29 maja 1974 o przekazaniu gospodarstw rolnych na własność państwa za rentę i spłaty pieniężne, (Dz.U. nr 21, poz. 118).

⁴⁴ Tryfan B., Zabezpieczenie społeczne rolników w Europie, Fundacja Programów Pomocy dla Rolnictwa (FAPA) Warszawa 2000.

⁴⁵ Ustawa z dnia 27 października 1977 o zaopatrzeniu emerytalnym ... op. cit.

- structural – preventing the scattering of agricultural holdings, and shaping the desired demographic structure of rural areas.

Along with these principal objectives, the said Act was also intended to accomplish certain social and systemic goals. In accordance with its provisions, a generation exchange could be performed, as a result of introducing obligatory transfers of agricultural holdings to the successors aged less than 55, holding qualifications to conduct such activity. Furthermore, the Act facilitated a system transformation that favoured the transfer of agricultural holdings to the state by those farmers who failed to satisfy the conditions of the sales level of agricultural products. In accordance with the Act, the provision of retirement payments or pensions to farmers was conditional on:

- holding agricultural property, comprising more than 0.5 ha of agricultural and forest land,
- transferring the agricultural holding to the successor, or to the state. Retirement entitlements were granted only to those farmers who held the ownership title to the agricultural holding for a period of 5 years preceding the transfer,
- attaining retirement age (women – 60 years, men – 65 years),
- being qualified for the 1st or 2nd disability group,
- selling agricultural products, with a minimum value of PLN 15 thousand, to the socialised economy units for a period of 25 years (in the case of male owners of agricultural holdings), or for 20 years (in the case of female owners), including for the last 5 years of conducting agricultural economic activity. It should be noted that in the last period of sales, the annual sales value could not be lower than PLN 15 thousand. The failure to satisfy this condition excluded retirement entitlement,
- continually running the agricultural holding for a period of 5 years preceding its transfer.

Upon adopting the Act of 1977, the social insurance system covered 3.1 million holdings. At that time, an average premium per holding amounted to PLN 1489,⁴⁶ and it was slightly higher than an average agricultural retirement pay and pension, which in 1978 amounted to PLN 1409. In relation to an average employee retirement pay, this was 63.5%, and in relation to the average wage and salary 30.2%.⁴⁷ The current correlation is even less favourable, amounting approximately to 47% and to less than 26%, respectively. Such a low value of retirement benefits was jointly granted to both spouses (based on the principles of joint benefits), which made the Act detrimental to all farmers (and

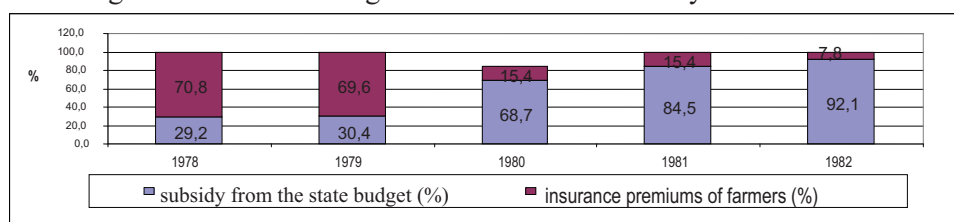
⁴⁶ Piątkowski M., *Zaopatrzenie emerytalne rolników*, Książka i Wiedza, 1979.

⁴⁷ Jagła W., *Ubezpieczenia społeczne rolników – 30 lat systemu i co dalej*, *Realia i co dalej*, ... op.cit.

especially to female spouses). The lack of compliance with the idea of commonness, and the principle of product-based retirement payments constitute a serious drawback to the Act of 1977. It proves detrimental to the farmers selling their agricultural products outside the socialised networks. The Act was, therefore, beneficial only to those farmers who achieved a production value at a level exceeding PLN 15 thousand per year, which at that time was considered rather high. This provision violated the principle of commonness, under which insurance should be provided to all farmers, irrespective of their ownership title to agricultural property. Upon adopting the Act of 1977, a considerable participation of farmers in the financing of social insurance was assumed. Based on these assumptions, the premiums paid by farmers were to cover 33% of the system expenditures. The remaining part was to come from budget subsidies. However, the financing of the newly-established Social Insurance Fund of Individual Farmers (referred to as FUSR) was based on these principles only for two years. The proportion of state subsidies in the system financing grew in subsequent years. As a result, until adopting another Act in 1982, the proportion of insurance premiums of farmers in the financing of FUSR amounted to 7.9%.

This triggered the necessity to increase state subsidies to 92.1%, in order to cover the operating costs of the social insurance system of farmers (Figure 21). This was due to the increasing number of benefits paid from FUSR. 423 retirement payments were provided in 1980, 549 in 1981, and 599 in 1982.⁴⁸

Figure 21. The financing structure of FUSR in the years 1978-1982



Source: own study based on the data included in the Statistical yearbooks of GUS, dated 1979-1985, Warsaw.

To sum up, the Act of 1977 implemented the principal objective of ensuring retirement payments and pensions to individual farmers, indispensable for any further functioning of agricultural holdings. From the farmers' perspective, this Act became a guarantee of future retirement and pension benefits, though its contribution to improving the living conditions of agricultural families was rather minor. Quite to the contrary, it can be stated that

⁴⁸ Rocznik Statystyczny Ubezpieczeń 1946-1985, Warsaw 1987.

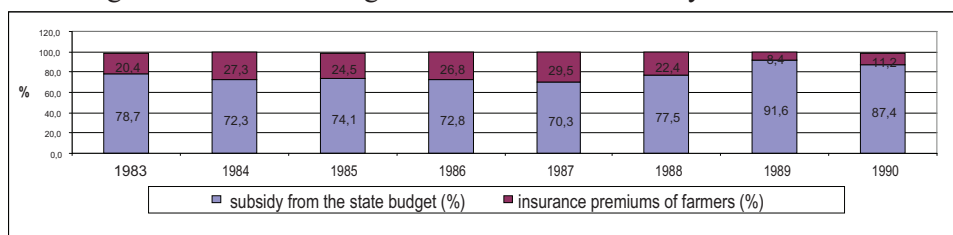
newly-insured farmers were obliged to make an approximately 30% contribution towards the pensions granted to around 180 farmers, pursuant to the provisions adopted before 1978, while the burden of financing these benefits should be on the state. This was due to the fact that each pension granted before 1978 was meant to constitute the payment for holding transfer. However, looking through the prism of state finances, the said Act (considering the growing number of beneficiaries) had a significant impact on increasing the state budget participation in the financing of insurance benefits. It should be stated that, back in the said period, it did not raise any serious controversies, especially given that the proportion of expenditures on agricultural insurance in the entire budget expenditure ranged from 0.5 to 1.0% (Figure 22).

Another Act on social insurance of individual farmers, and their families, was adopted in 1982.⁴⁹ Although it served the same purposes as those assumed in the previous Act, it brought significant changes. The general principles of granting retirement payments were similar to those stipulated in the Act of 1977. The main positive change was extending social insurance coverage to farmers' family members, which implied that each insured person was entitled to a separate benefit. The condition on receiving retirement benefits was to achieve the required level of sales, at a minimum value of 5 q of rye per annum from each conversion hectare. This requirement was valid for all years of farmer's service, and it especially disfavoured small area holdings that were unable to produce and sell products at the required level. According to Świdorski's estimates, in 1983 around 22% of agricultural holdings of up to 10 ha did not achieve the required level of sales.⁵⁰ Imposing the insurance obligation on farmers operating in special sections was a novelty. The level of minimum retirement payments and pensions of farmers was levelled off with the level of minimum employee retirement payments. As in the previous years, the assumed relation of premiums paid by the insured farmers to the state contribution in the financing of FUSR was not maintained in the effective period of the said Act (Figure 23). The year 1988 was an exception, as the structure of financing sources of FUSR was consistent with the ranges determined in the Act. In accordance with its provisions, agricultural social insurance was to be financed in 1/3 by the insured persons, and in 2/3 by the state. In the previous years, the rate of farmers' financing was maintained at 20-30%.

⁴⁹ Ustawa z dnia 14 grudnia 1982 o ubezpieczeniu społecznym rolników indywidualnych i członków ich rodzin (Dz.U. 40, poz. 268).

⁵⁰ Świdorski J., System emerytalny w indywidualnej gospodarce chłopskiej, Wydawnictwo ANS, Warsaw 1987.

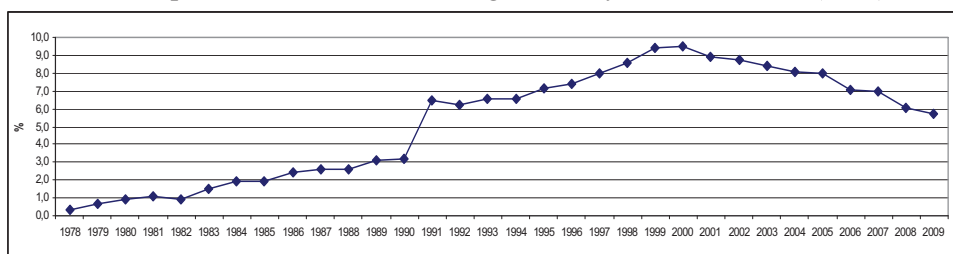
Figure 22. The financing structure of FUSR in the years 1978-1990



Source: own study based on the data included in the Statistical yearbooks of GUS, dated 1984-1991, Warsaw.

A dramatic increase (to approximately 90%) of the state participation in the financing of agricultural retirement payments and pensions occurred in 1989. It was caused by the provision stipulated in the revised Act of 1989 on increasing the lower insurance threshold of holding area from 0.5 to 1.0 ha. Another problem was posed by the growing number of agricultural retirement payments and pensions paid in 1983-1990. In 1990 this number was 2.5 times higher than in 1982. However, it should be emphasised that low premiums were reflected in low benefits. An average agricultural retirement pay in the said period corresponded approximately to 62% of an average employee's retirement pay. Unfortunately, despite many positive elements of the said Act (e.g. preventing a scattered area structure of agricultural holdings), its impact on public finances should be considered negative. A growing number of beneficiaries of the agricultural insurance system, combined with a low level of premiums, created in 1982-1990 a significant increase in the proportion of expenditures on the social insurance for farmers in the total expenditures of the state budget. Furthermore, this was likely to be an upward tendency (Figure 23).

Figure 23. The proportion of expenditures on social insurance for farmers in the total expenditures of the state budget in the years 1978-2009 (in %)



Source: own study based on the data included in the Statistical yearbooks of GUS, dated 1979-2010, Warsaw.

Such a system was incapable of satisfying the claims of all beneficiaries, and increasing state subsidies were viewed as a short-term solution. Therefore, a thorough reform of the social insurance farmers seemed indispensable.

2.3.2. Social insurance for farmers in Poland after 1990

As of 1 January 1991 the Act of 20 December 1990 on Social Insurance for Farmers⁵¹ took effect, which was an attempt at the general reforming and shaping of the system of social insurance for farmers. This Act with further amendments has been in force until now, and its basis was French and German experience in this regard⁵². The implementation of tasks resulting from the Act was given to the charge of a separate institution – Agricultural Social Insurance Fund (KRUS), which acts upon:

- the Act in question,
- the statute, being an annex to the Ordinance of the Council of Ministers of 1 March 1994 on establishing the Agricultural Social Insurance Fund (Journal of Laws No. 33, item 120),
- the organisational regulations.

The following to the Act are most important in relation to the previous Acts:

- establishing the independent institution (KRUS), realising the tasks of the system of farmers' social insurance;
- distinguishing two basic funds financing benefits for farmers, i.e. the pension and disability fund and the contributory fund;
- excluding from agricultural fund entities subject to it pursuant to other regulations, i.e. so-called double professionals. This decision was correct regarding retirement and disability insurance, whilst in relation to accident insurance, it deprived double professionals of security and the right to receive injury benefits in the case of work-related risk and managing agricultural holdings;
- introducing uniform rates of retirement and disability insurance paid by all farmers and, consequently, a uniform old-age or disability pension equal for all entities insured under KRUS;
- introducing a uniform injury insurance rate for all farmers regardless of the size of their holdings. This entry equally treated the risk of injury on the premises of small and large agricultural holdings alike;

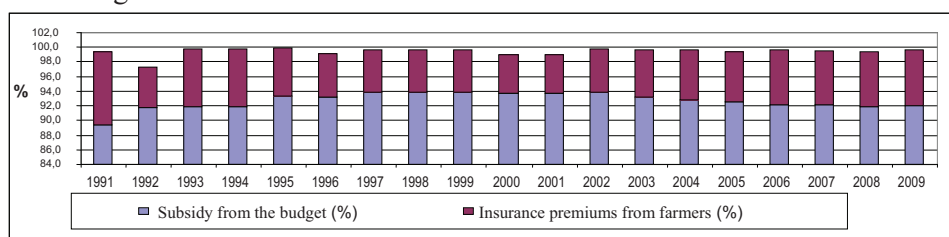
⁵¹ Ustawa z dnia 20 grudnia 1990 o ubezpieczeniach społecznych rolników (Dz.U. nr. 7, poz. 25, z póź. zmianami).

⁵² Siekierski C., Ewolucja systemu ubezpieczeń społecznych rolników w Polsce [w:] M. Adamowicz, Ubezpieczenia społeczne wieś i rolnictwo, Wydawnictwo SGGW, Warsaw 2002, s. 9.

- distinguishing retirement and disability insurance from accident, maternity and health insurance, together with different rules of their funding;
- new rules were introduced concerning retirement and disability pension size, distinguishing their complementary and supplementary parts.

Uniform insurance rates comprised two elements – retirement and disability pension premiums only partially contributing to the newly established Retirement and disability pension Fund (FER), and premiums for injury, health and maternity insurance contributing the Contributory Fund (FS) in 100%. The rules for establishing these premiums (equal premiums for all insured farmers) have negatively affected not only social reception of the new Act (this entry has put restrictions on the principle of solidarity among insured parties, which resulted in the equal use of state subsidies by rich and poor farmers), but, most of all, further deepening of the dependency of the system in question on state subsidy. Moreover, due to restricting the owners of agricultural holdings smaller than 1 ha from benefits, the number of the insured was decreasing, and consequently the farmers' contribution from premiums in financing these benefits decreased as well (Fig. 23). Furthermore, the requirement concerning the sale of crops by farmers was abolished, which resulted in higher accessibility to retirement and disability pensions. It negatively affected public finances. After 1991 we observe a considerable growth in state expenditures on farmers' social insurance compared to previous years, from 1% in 1982 to 3% in 1990 and over 6% in 1991 (Fig. 24).

Figure 24. The financial structure of FUSR and FER in 1991-2009

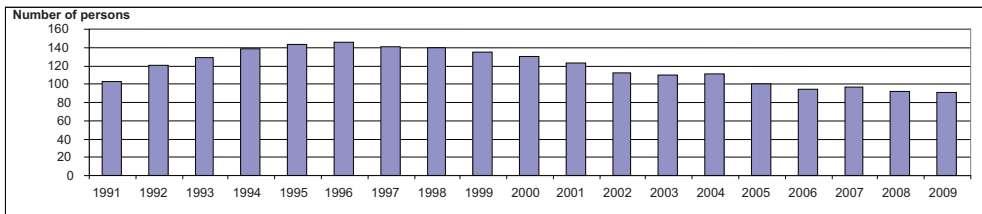


Source: own study based on the Statistical Yearbooks of GUS (Central Statistical Office) 1992-2010 data, Warsaw.

This situation is to be explained with increasingly unfavourable ratio of beneficiaries to the insured. This ratio is the determinant of the financial self-sufficiency level of the KRUS system, and consequently – the stability of public finances. As from the early 1990s the agricultural social insurance was characterised by the very unfavourable proportions of the insured as compared

to the beneficiaries. Before the Act was passed in 1989, in 1988 there were 100 premium payers per 28 beneficiaries, and a year later the number of beneficiaries grew to 53, whereas in 1991 this number rose to 102. During the following years this figure underwent subsequent negative changes (Fig. 25). The worst situation occurred in 1996, when the number of beneficiaries increased to 164 per 100 insured. Influenced i.a. by the Act on Employment and Counteracting Unemployment, which gave the status of unemployed to farmers owning agricultural holdings smaller than 2 conversion ha. Among other reasons behind this situation we may distinguish i.a. the duty to insure in the general insurance system (ZUS), due to undertaking other than agricultural economic activity by farmers, gaining the right to receive retirement and disability pensions by an increasing number of people (benefitting from the right to the payment of benefits in contributory part, with no obligation to suspend activity). Kobielska also indicates that the growth of the number of the insured results from the inflow of people who are not farmers, but e.g. buy land for investment and at the same time pay land taxes and do not work full time (e.g. freelancers), and thus fall under the agricultural insurance system⁵³. The above considerations indicate that the number of people insured under KRUS in the last two decades was not stable.

Figure 25. The proportion of beneficiaries to the insured per 100 persons in 1991-2009



Source: own study based on KRUS data.

After the year 2006 we observed a breakdown of this highly negative trend, which might have resulted from an amendment to the Act introduced in 1997, which extended the farmers' insurance system by an additional function – supporting the development of entrepreneurship among farmers. This provision facilitated the continuation of cheap insurance within KRUS for farmers and residents operating business enterprises. On the other hand, however, this regulation was not encumbered with any limitations, e.g. concerning income,

⁵³ Kobielska Z. (red. nauk.), Ubezpieczenie społeczne rolników system znany i niezany, KRUS, Warsaw, 2007.

which consequently enabled many entrepreneurs, offering services not always concerned with agriculture, to enter the KRUS system. This provision compromised the integrity of the agricultural insurance system, yet judging from the short-term improvement resulting from it, we can label it as beneficial.

In 2004 this positive trend in the number of beneficiaries falling in relation to the insured was hampered, which was the result of another amendment to the Act, introduced in 2004. Its purpose was to tighten up the agricultural insurance system, imposing the premium on the income of farmers within KRUS operating at the same time non-agricultural business enterprises, organising the scope and type of special agricultural economic activity, the organisation of the regulations regarding granting benefits on account of disability to work in agriculture, financing premium subsidies from public funds, and not, as before, from retirement and disability pensions. These regulations restricted approx. 40,000 farmers operating non-agricultural business activity from insurance in KRUS, but regardless, they were modified the next year. What is more, even uninsured members of farmer's families were entitled to injury benefits. KRUS was obliged to replace the disability pension with a retirement pension each time the pensioner reached retirement age and 20 years (women) and 25 years (men) of insurance period. This change, however, is not beneficial for farmers in the material sense whatsoever, and, what is worse, it blurs the statistical picture of reality. The Act did not acknowledge proposed changes in calculating premiums, whose rate was to be determined by agricultural income and the number of people operating in the agricultural sector. Another refused proposition concerned the change in the place of subsidy for agricultural social insurance, which confirmed the social character of the system, as subsidies go to pensioners and not to individuals currently operating in the agricultural sector.

On 24 April 2009 another amendment to the Act on social insurance for farmers⁵⁴ was passed. This Act took effect on 1 October 2009. The regulation relates to the differentiation of social insurance premium rates for farmers depending on the acreage of agricultural land (UR) owned. The higher premium rate covers approx. 20.4 thousand agricultural holdings, which constitutes 1.3% of the total. It must be clearly stated that increasing the proportion of potentially richer farmers in the system maintenance cost was beneficial. Moreover, the thus-amended Act addressed the principle of solidarity of the insured. However, due to the considerable discrepancy of assets and incomes of farmers, the current situation calls for further changes (e.g. including income premiums). The

⁵⁴ Ustawa o zmianie ustawy o ubezpieczeniach społecznych rolników z dnia 24 kwietnia 2009 (Dz.U. 79, poz. 667).

changes introduced by the Act of 2009 did not have significant influence on the improvement in public finances. The still-remaining problem is small number of the insured with higher premiums, who – as estimates show – contributed approx. PLN 30 million to FER. Nevertheless, since 2010 the structure of financing FER has slightly improved (Table 4). In 2010 the revenues from premiums increased to PLN 1363 million, which means they were higher by 4.9% compared to 2009. This growth is reflected in a slightly reduced budget subsidy to FER, although it still remains the main source of financing the fund.

Table 4. Main sources of income of Retirement and disability pension Fund.

Year	2007	2008	2009	2010	2011 plan
Total income (PLN million)	15,188	16,185	17,064	16,348	16,560
I. Budget subsidy	13,975	14,868	15,805	14,936	15,120
II. Revenues from premiums	1,196	1,225	1,299	1,346	1,413
<i>Proportion of state subsidy in revenues (%)</i>	92.1	91.9	92.6	91.4	91.4
<i>Proportion of premiums in revenues (%)</i>	7.9	7.6	7.6	8.2	8.6

Source: own study based on the reports on implementation of the budget for the years 2008-2010 and budgetary plans for 2011 data.

Conducted analyses indicate that in agriculture the development of the social insurance institution was slow. In fact, not until after World War II did the first models of social insurance for farmers begin to develop in Western Europe. While analysing the systems of countries belonging to the ENASP network we can notice that agricultural insurance is a group of social security systems separate from workers' payment insurance. This distinction results from the specificity of agricultural economic activity and the rate of earnings in this sector. The review of the farmers' social insurance system in Poland indicates that its history is relatively short, spanning only 34 years. Thus Poland is the only country within ENASP which established an insurance system for farmers so late. Solutions for the insurance system, adopted so late, stem from the system of family peasant holdings, which developed at their own pace and were characterised by their own specific features, with no reflection in any other form of production⁵⁵. Performed analyses of the system of social insurance for farmers show a number of similarities regarding entitlement to receive benefits, and also reveal many problems which should be addressed while working on reforming the agricultural social insurance system in Poland.

⁵⁵ Wawrzyniak B.M., Wojtasik B., Ubezpieczenia społeczne ... s. 95.

3. The organisation and functioning of the Agricultural Social Insurance Fund (KRUS)

Since 1991 agricultural social insurance has been operated on by the Agricultural Social Insurance Fund (KRUS). As mentioned above, its direct predecessor was Farmers' Social Security Fund, operating from 1983, and even earlier - Farmers Retirement Fund, functioning in 1978-1982.

3.1. The organisation of the agricultural social insurance system within the Agricultural Social Insurance Fund (KRUS)

The agricultural social insurance system plays a supplementary role in relation to the general social insurance. This means that the system covers only those farmers for whom their agricultural holding constitutes the main source of income⁵⁶.

3.1.1. The organisational structure and tasks of the Agricultural Social Insurance Fund (KRUS)

Agricultural social insurance is operated by the Agricultural Social Insurance Fund (KRUS). This institution was established pursuant to the Act of 20 December 1990 on Social Insurance for Farmers. The financial economy of KRUS is managed by order of the Ministers: of Finance, Agriculture and Food Economy and of Labour and Social Policy of 23 December 1991 on Specific Regulations of Managing Financial Economy of the Agricultural Social Insurance Fund and Transferring Cash from the Farmers' Social Security Fund. KRUS was established by the Ordinance of the Council of Ministers of 1 March 1994. The organisational structure of KRUS comprises the headquarters, 16 regional branches, 256 local branches, 1 training and rehabilitation centre and 6 rehabilitation centres for farmers.

The President of KRUS is the central body of state administration, under the Minister of Social Policy. The President of KRUS is elected and dismissed by the President of the Council of Ministers upon the application of the Minister of Agriculture and Food Economy, submitted in arrangement with the Council of Farmers' Social Insurance (the Farmers' Council). The Farmers' Council acts as the representative in the interests of all insured and beneficiaries concerning the insurance and activity of KRUS, functioning as a kind of supervisory board for KRUS. The Farmers' Council seats 50 members elected by the Minister of

⁵⁶ Siekierski C., Ubezpieczenie społeczne rolników, [w:] Adamowicz M., (red. nauk.) Ubezpieczenia społeczne. Wieś i rolnictwo, SGGW, Warsaw, 2002, s. 9.

Agriculture and Food Economy. Its term of office lasts 3 years. Candidates for Council Membership are submitted by farmers' social and professional organisations and individual farmers' nationwide trade unions. The work of the Farmers' Council is serviced by the President of the Fund. The Council has the right to supervise and assess the activities of KRUS. They can demand information, explanation and access to documents from the President of KRUS.

KRUS has no clearly-defined formal or legal status. The Fund is not a legal entity; it is neither a budgetary unit nor an earmarked fund (there is no such record, although within its framework there are funds functioning as state-(-earmarked funds), the Act does not stipulate if KRUS is a state legal entity. Difficulties in establishing its status are also reflected in covering its expenditures (they are not covered directly from the state budget), the existence of parallel funds with a different legal status (e.g. the Contributory Fund and Retirement and the Disability Pension Fund), the way of presentation of KRUS's data in budgetary Act. Expenditures in the budgetary Act are treated as subsidies directed to the Retirement and disability pension Fund (FER) and the Prevention and Rehabilitation Fund (FPiR) and in the form of transfers to the benefit of the population, although all these resources are directed to KRUS. Thus, the Fund cannot be classified as an institution of public finance sector⁵⁷. KRUS operates the implementation of the following tasks:

- offering services to farmers in relation to issues concerning social insurance for farmers and covering the premiums for this insurance,
- granting and paying financial benefits from pension and disability, injury, health and maternity insurance,
- conducting preventive action for the dissemination of safety rules in agricultural holdings and eliminating threats in the places of farmer's work and residency,
- operating voluntary, free-of-charge preventive medicine and medical rehabilitation for the beneficiaries of KRUS, threatened with disability or permanently or temporarily unable to work in agricultural holdings,
- initiating and supporting the development of voluntary insurance.

KRUS realises also other tasks ordered by the state, e.g. the payment of state structural pensions, veterans benefits, and servicing health insurance for farmers and their families, as well as pensioners and the retired and their families, and supporting mutual insurance. It also plays the role of the payer of health insurance premiums to NFZ (National Health Fund).

⁵⁷ Malinowska E., Misiąg W., System finansowy KRUS [w:] Wóycicka I. (red. nauk.) Przyszłość ubezpieczeń społecznych rolników, IBNGR, Gdańsk 2000.

However, the main task of KRUS is operating social insurance for farmers, under which two types of insurance are distinguished:

- pension and disability insurance, mostly financed from budgetary subsidy, supplemented with income from the premiums from insured farmers,
- injury, health and maternity insurance, benefits financed entirely from premiums accumulated and managed by the Contributory Fund.

Two forms of insurance coverage function within KRUS:

- obligatory,
- voluntary.

3.1.2. The principles of agricultural social insurance coverage, and the types of benefits

Both types of insurance apply for persons who are not subject to any other social insurance and are not entitled to retirement pension or benefits from social insurance. These persons are a farmer, the farmer's spouse and household members⁵⁸. As can be seen from the above, while establishing the insurance coverage any other insurance within general insurance system takes precedence over the agricultural insurance. The exception to this rule concerns farmers and household members additionally operating non-agricultural business enterprise or cooperating in such business. Such persons, in order to remain under agricultural insurance, should be covered with this insurance by right of the Act continuously for at least three years before the day of undertaking non-agricultural economic activity or cooperation.

Voluntary insurance (available after submitting appropriate application in one of KRUS branches) concerns those who do not meet the requirements for obligatory insurance, and for whom agricultural economic activity constitutes permanent source of income. This concerns farmers operating agricultural enterprise in an agricultural holding with the area of less than 1 conversion ha of agricultural land, their spouses and household members, as well as those who, being farmers, handed the lands of their enterprise for afforestation. Such persons are granted full agricultural insurance.

⁵⁸ **Farmer** is a person residing personally and operating agricultural activity on his own account on the territory of the Republic of Poland, in his own agricultural holding with the area of over 1 conversion ha of agricultural land (including the land within a group of agricultural producers) or special branch of agricultural production, i.e. agricultural activity which does not require possession of agricultural land, whose level and type of production are subject to the Act. **Household member** is a person relative of a farmer, who reached 16 years old, remains together with a farmer in one household or resides in the territory of the holding, permanently works in this agricultural holding and is not bound to it by employment contract.

Being covered with social insurance, farmers are obliged to pay premiums every three months. Pursuant to the Act on Social Insurance for Farmers of 01.10.2009 premiums for retirement and disability insurance as well as health and maternity insurance are paid monthly, whilst if the insurance period is shorter than a month the premiums are calculated proportionally to the number of days of insurance coverage. Monthly premium rate for retirement and disability insurance per insured person is 10% of the basic state pension. Farmers owning agricultural holdings with the area of agricultural land measured in conversion ha:

- from 50 to 100 ha pay premium at the rate of 12% of the basic state pension,
- over 100 ha to 150 ha – 24%,
- over 150 ha to 300 ha – 36%,
- over 300 ha – 48% of the basic state pension.

Monthly premium for injury, health and maternity insurance is equal for all groups of farmers regardless of their status and size of their agricultural holding. Its rate is set quarterly in a specified amount, which is announced by the President of KRUS on reception of the ordinance of the farmers' council. Monthly rate per any person under full injury, health and maternity insurance is always the same. Persons operating non-agricultural business enterprise must pay double rate of pension and disability insurance premium. It must be clearly stated that premium rates are calculated for any insured person in the holding. Premium rates for social insurance for farmers in the first quarter of 2011 are presented on the Table 5.

Table 5. Premium rates for social insurance for farmers in the first quarter of 2011

Premium rate for social insurance for farmers in the 1 quarter of 2011							
Status of insured person and size of agricultural holding	Insurance premium rate in PLN						Total premium (per insured person quarterly)
	retirement and disability				injury, health, maternity		
	basic monthly rate	additional monthly rate	total monthly rate (2+3)	quarterly	monthly rate	quarterly	
Farmer managing agricultural holding							
to 50 ha	71.00	0	71.00	213.00	36.00	108.00	321.00
over 50 to 100 ha	71.00	85.00	156.00	468.00	36.00	108.00	576.00
over 100 to 150 ha	71.00	170.00	241.00	723.00	36.00	108.00	831.00
over 150 to 300 ha	71.00	254.00	325.00	975.00	36.00	108.00	1,083.00
over 300 ha	71.00	339.00	410.00	1,230.00	36.00	108.00	1,338.00
Household member (in each area group of agricultural holding)							
	71.00	0.00	71.00	213.00	36.00	108.00	321.00

Source: own study based on KRUS data.

Within social insurance for farmers the beneficiaries are granted financial benefits from retirement and disability insurance (farmer's pension, agricultural disability pension, family pension, supplements to farmer's and agricultural disability pensions, funeral benefit) and benefits from retirement and disability insurance (single injury payments, illness benefit, maternity benefit).

3.1.3. The Agricultural Social Insurance Fund resources

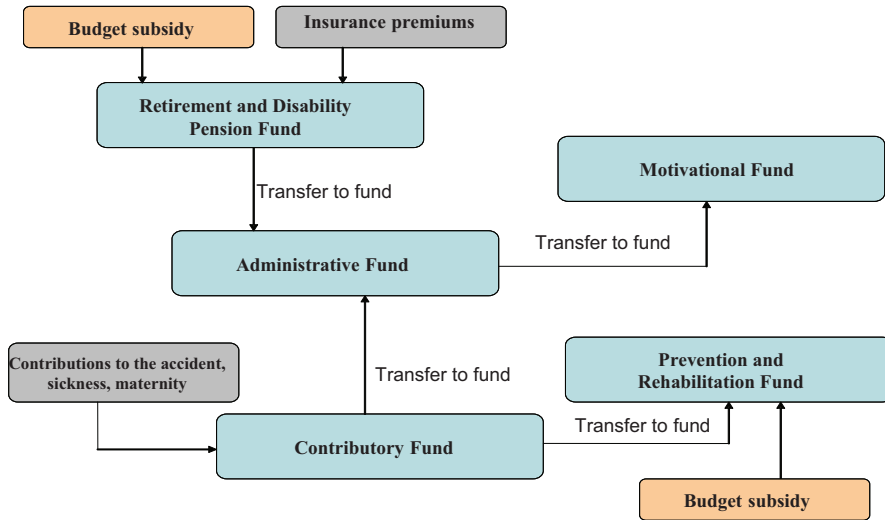
The financial resources of KRUS are accumulated in funds which are used for managing independent financial economy, as the Fund itself does not have individual resources:

- The Retirement and disability pension Fund,
- The Farmers' Social Security Contributory Fund (Contributory Fund),
- The Administrative Fund,
- The Prevention and Rehabilitation Fund,
- The Motivation Fund.

The year 2004 witnessed the abolition of the Reserve Fund, which significantly simplified the complex system of multidisciplinary links between the funds of KRUS.

Except for the Contributory Fund, all funds are managed by the President of KRUS. These funds have different sources of financial supply, as presented in the Diagram 1. The budgetary grant is allocated in two funds: the Retirement and disability pension Fund and Prevention and the Rehabilitation Fund. However, assets from the grants may also supply other funds, as they are bound financially to one another. Write-offs are made from the Pension Fund to the benefit of the Administrative Fund, for which this amount equals about $\frac{3}{4}$ of its revenues. Write-offs from the Administrative Fund, whose assets are charged from the Contributory Fund, are lodged in the Motivation Fund. The only fund which has no connections with others is the Contributory Fund. It is financed mainly from farmers' premiums, and write-offs from its assets are allocated in the Administrative Fund and Prevention and Rehabilitation Fund. Such connections hinder the control over KRUS, as well as the flow of budgetary means among the funds. These connections are presented in Diagram 1.

Diagram 1. Flow of budgetary means among the funds of KRUS



Source: Own study.

Retirement and Disability Pension Fund (FER) is the most important fund within KRUS. It is the second largest state-earmarked fund of public sector, next to the Social Insurance Fund. It is financed in approx. 92% from budgetary grants and approx. 8% from premiums paid by insured farmers. Considering the return to the budget from retirement pension tax and the transfer of premiums for health insurance to NFZ, the net value of the grant equals approx. 86% of FER's expenditures. Consequently, financing the fund from public funds is much higher than expected when the system was designed, when the participation of the state was established at 70%, whilst the contribution of farmers was 30%. As mentioned before, this fund accumulates most of KRUS's assets. The Fund's assets are used to cover retirement and disability pension benefits (pensions, family pensions, family benefits, funeral benefits and supplements to pensions) for farmers and their household members. The major group of expenditures are retirement and disability pensions – over 93% of FER's expenditures. This fund also covers the premiums for health insurance for farmers and their household members. Apart from the above benefits, FER's assets are given for the write-off from Administrative Fund, which constitutes 3.5% of the fund's planned expenditures.

The minimum farmers' retirement and disability pension cannot be lower than the basic state pension, i.e. the minimum monthly pension, specified in

pension regulations, unless the farmer gains the right to a farmer's pension 5 years before achieving retirement age. A farmer's pension is composed of two parts: contributory and supplementary. The amount of the contributory part is subject to the number of years during which a farmer was covered with insurance. The supplementary part constitutes 85-95% of the pension and is mostly independent from the period of insurance. The family pension equals 85% of the basic state pension, when one person is entitled, with each next entitled member of a family, the pension increases by 5%. Both farmer's pension and agricultural disability pension are subject to the minimum pension rate within the employee system, which means that they are indexed according to the indexation mechanisms of pensions paid from ZUS. These pensions are very little dependent on the insurance period in KRUS. A controversial benefit funded from FER is the premium for farmer's health insurance. This premium is financed from the budget in an amount equal to half quintal of rye from each hectare of agricultural lands on managed agricultural holdings, settled for the purposes of calculating agricultural tax. This means that the premium rate is neither calculated from income nor from the size of the agricultural holding, but it is paid in a lump sum. The exceptions are the farmers operating special branches of agricultural production, for whom the basis for premium rate is income declared for PIT taxation. The revenue and expenditure structure of the fund is presented in Table 6. This Table indicates that in 2010 the total revenue of FER was PLN 16,731 million, whereas the total expenditure amounted to PLN 16,668 million. The budgetary grant to FER reached PLN 15,337 million, whilst revenues from retirement pension premiums amounted to PLN 1,368 million. This indicates that the fund is financed mostly from the budgetary grant, which is over eleven times higher than the premium, i.e. approx. 92% of the total revenue of FER. It is a considerable burden on the state budget. Revenues from premiums in 2010 amounted to 8.2% of the total revenue of FER. The fund's revenues also involve an earmarked subsidy for the purpose of covering the premiums for disabled veterans' health insurance and additional benefits ordered by the state for persons not covered by health insurance, which in 2010 amounted to PLN 26 million. Over 11% (PLN 1,877 million) from the general budgetary grant transferred to FER was devoted to the earmarked subsidy for covering premiums for health insurance for farmers and their household members covered with social insurance, persons granted retirement and disability benefits within the contributory part, and farmers with no social insurance, but covered by health insurance.

Table 6. Sources of subsidising and revenues of the retirement and disability pension fund according to estimations for 2007-2011 (in PLN million and %)

Year	2007		2008		2009		2010		2011	
	PLN million	%	PLN million	%	PLN million	%	PLN million	%	PLN million	%
Revenues	15,188	100.0	16,185	100.0	17,064	100.0	16,348	100.0	16,560	100.0
1. Subsidy from the state budget	13,975	92.0	14,868	91.9	15,805	92.6	14,936	91.4	15,120	91.3
2. Premiums	1,196	7.9	1,225	7.6	1,299	7.6	1,346	8.2	1,413	8.5
3. Other revenues	17.0	0.1	92.7	0.5	59.0	0.3	55.5	0.3	27	0.2
Expenditures	15,419	100.0	16,262	100.0	17,235	100.0	16,668	100.0	16,626	100.0
1. Transfers for the benefit of population	13,348	86.6	13,704	84.3	14,095	81.8	14,348	86.1	14,322	86.1
- agricultural retirement pensions	10,263	61.6	10,529	63.2	11,137	66.8	10,827	65.0	10,889	65.5
- agricultural disability pensions	2,745	16.5	2,816	16.9	2,563	15.4	2,514	15.1	2,528	15.2
- other benefits	340	2.0	359	2.2	394	2.4	1,007	6.0	905	5.4
2. Current expenditures (write-off to the administrative fund)	375	2.8	380	2.3	411	2.4	442	2.7	442	2.7
3. Premium for health insurance	1,696	11.0	2,179	13.4	2,729	15.8	1,877	11.3	1,862	11.2

Source: own study based on KRUS data (www.krus.gov.pl).

The Contributory Fund is an independent legal entity, whose objective is to accumulate premiums for injury, health and maternity insurance for farmers and the provision of financial means for the purposes of these benefits. The objectives of the Contributory Fund are:

- financing benefits from injury, health and maternity insurance,
- actions supporting farmers and their families, organised by social, professional and local government organisations,
- initiating and supporting insurance for farmers and members of their families, developed by mutual insurance companies, according to the regulations concerning insurance business (less than 1% of the fund), as well as shortages in the administrative fund (up to 9% of its expenditures) and the prevention and rehabilitation fund (up to 5%).

The resources of the Contributory Fund mainly come from premiums for injury, health and maternity insurance. Additional income of the fund is derived from managing purchased real estates, operating business enterprise, i.e. offering service in the field of healthcare and social assistance. Benefits from the above insurance policies are self-funding due to quarterly the premium collection scheme; in order for the system to be solvent the fund produces the surplus which is allocated to deposit accounts and bonds. In the case of a shortage of

resources a credit may be taken, and its payment is considered whilst establishing the premium rate.

The Administrative Fund is financed from the write-off from the contributory fund in the amount to 9% of planned expenditures of the contributory fund, write-off from the pension fund (the maximum amount of the write-off is 3.5% of the planned expenditures of FER, in 2010 this amount was 2.7% of FER's expenditures) and refunding by costs concerned with the realisation of health insurance (Table 7). Write-off from the Contributory Fund is established by the President and confirmed by the Farmers' Council. The Administrative Fund subsidises all costs concerning the operation of KRUS. The fund's revenues are used for, i.a., premium collection costs and the payment of benefits from the insurance, administrative and accountancy costs of the funds and organisational units of KRUS, and the investments of KRUS (buildings). The most important task realised by the fund regarding its proportion in the expenditures is the payment of salaries (together with derived remunerations) to the employees of KRUS. In 2010 the total revenue of this fund was PLN 585 million, whereas the expenditure was PLN 597 million. The major part of the revenues of the Administrative Fund is covered with a write-off from FER (PLN 442 million in 2010, which amounted to approx. 75% of the revenues), or in other words a state budgetary grant. The revenues of the administrative fund may also come from interest from assets in bank accounts, refunding the Social Insurance Fund's benefit service costs in the case of overlapping entitlement, and, i.a., payments for instructory and informative publications and services. In the case of the shortage of resources required for carrying out the fund's tasks, it is covered by the assets of the Contributory Fund.

Table 7. Sources of subsidies and revenues of the administrative fund according to estimations for 2007-2011 (in PLN thousand and %)

Year	2007		2008		2009		2010		2011	
	PLN billion	%	PLN billion	%	PLN billion	%	PLN billion	%	PLN billion	%
Revenues	513	100.0	512	100.0	598	100.0	585	100.0	582	100.0
1. Write-off from the pension fund	375	73.1	380	74.2	460	15.4	442	75.6	442	75.9
2. Write-off from the contributory fund	46	9.0	50	9.7	54	83.8	58	10.0	59	10.1
3. Other revenues	92	18.0	82	16.0	84	0.8	84	14.4	82	14.0
Expenditures	524	100.0	513	100.0	596	100.0	597	100.0	584	100.0
1. Current expenditures	496	94.4	489	95.4	563	85.6	565	94.6	560	95.8
2. Investment expenditures	28	5.6	24	4.6	32	14.4	32	5.4	24	4.2

Source: own study based on KRUS data (www.krus.gov.pl).

The Prevention and Rehabilitation Fund (FPiR) is maintained by a write-off from the Contributory Fund in the amount of 5% of its planned expenditures and budgetary grant, which in 2010 amounted to PLN 6 billion (Table 8). This fund finances preventive actions in the area of accidents and injuries during the farmer's work and on-the-job illnesses. Additionally, the fund's resources are used for rehabilitation services and professional requalification directed at insured persons permanently unable to work in agriculture or threatened with such disability. This task is realised by: analysing accidents and illnesses, organising voluntary, free-of-charge training sessions in the area of life and health protection on agricultural holdings and reacting to accidents at work, disseminating the knowledge of injury risk during agricultural work and agricultural on-the-job illnesses, making attempts at the appropriate production and distribution of safe instruments used in agriculture, as well as equipment and protective clothing. KRUS also takes actions aimed at educating persons permanently unable to work in agriculture in other professions, or requalifying them. It also helps those who undergo different forms of rehabilitation. In 2010 the total earnings of FPiR amounted to PLN 39 billion and were lower than its expenditures by approx. PLN 6 billion. It is estimated that in 2011 the total earnings of FPiR will reach PLN 40 million and will balance the expenditures of this fund. The grant to FPiR is to be PLN 1 million (about 3% of its revenues), whilst the write-off from the contributory fund is over PLN 32 million (approx. 96% of the fund's earnings). This means a considerable, six-times, reduction in the state budget grant compared to previous years and leaving the amount of the write-off from the contributory fund at the level of 2010. Assets accumulated in the prevention and rehabilitation fund are earmarked for maintaining buildings operated by KRUS aimed at the realisation of tasks concerning prevention and rehabilitation, aiding persons using services in the field of prevention and rehabilitation, covering investment costs and assets and services for the realisation of tasks concerning prevention and rehabilitation and for the remuneration of employees of organisational sections of KRUS which act only in the area of prevention and rehabilitation.

Table 8. Sources of subsidies and revenues of the prevention and rehabilitation fund according to estimations for 2007-2011 (in PLN thousand)

Year	2007		2008		2009		2010		2011	
	PLN billion	%	PLN billion	%	PLN billion	%	PLN billion	%	PLN billion	%
Revenues	28	100.0	33	100.0	36	100.0	39	100.0	34	100.0
1. Budget subsidy	4	16.1	5	15.3	5	15.4	6	15.5	1	2.9
2. Write-off from the contributory fund	23	83.9	28	84.7	30	83.8	32	83.7	33	96.1
3. Other revenues		0.0		0.0	0.3	0.8	0.3	0.9	0.3	0.9
Expenditures	29	100.5	33	100.0	40	100.0	45	100.0	34	100.0
1. Current expenditures	27	92.9	30	91.8	34	85.6	34	76.8	31	91.2
2. Investment expenditures	2	7.7	3	8.2	6	14.4	11	23.2	3	8.8

Source: own study based on KRUS data (www.krus.gov.pl).

Apart from the above-mentioned funds, KRUS, the base of farmers' insurance in Poland, comprises also the Contributory Fund. It is the only fund of KRUS with legal status. It acts upon the Act on Social Insurance for Farmers of 20 December 1990 and the statute granted by the Minister of Agriculture. The President of KRUS is the person responsible for its board functions. The supervisory body is the Supervisory Board of the Fund assigned by the Farmers' Council. Farmer's council orders the statute of the contributory fund defining its scope of activity, generating and management of finances, the administration, rights and responsibilities of the Fund's Supervisory Board. Contributory Board is a self-financing unit, which operates without budgetary subsidy. It is funded from individual premiums from farmers. This fund is obliged to deliver write-offs to the Prevention and Rehabilitation Fund – up to 5% of the planned expenditures of this fund and to the Administrative Fund – up to 9% of the planned expenditures of this fund. It is appropriated for financing injury, health and maternity benefits as well as derivative funds: administration and prevention and rehabilitation. The premium rate for the above insurance is defined annually by the Farmers' Council. In the first quarter of 2011 the monthly premium rate was set at PLN 36. The fund finances payments on account of permanent or heavy detriment of the health resulting from performing agricultural work or from on-the-job illness, health and maternity benefits. The balance surplus of the Contributory Fund can be invested e.g. in bonds or properties of the State Treasury. If there is a shortage in the contributory Fund or in the Prevention and Rehabilitation Fund, it is covered from the assets of the Contributory Fund.

The Motivational Fund may be established on the account of a write-off to the Administrative Fund, charged from the contributory fund. It is managed

by the President of KRUS, in arrangement with the President of the Farmer's Social Insurance Council, pursuant to the regulation ordered by the Farmers' Council. Payments from this fund are realised beyond the limits resulting from the regulations on establishing remunerations in the state budgetary area. The resources of the fund are paid in the form of awards. The Motivational Fund was established on the basis of unpublished ordinance No. 2 of the President of KRUS of 6 January 1997 on the Motivational Fund of the Agricultural Social Insurance Fund. Its income originates from the write-off from the Administrative Fund in the amount of PLN 11.8 million.

A review of the funds of farmers' social insurance indicates that: the principles of the financial economy of KRUS are not clear, which is presented in Diagram 1; the main functions of farmers' social insurance are operated by three funds, FER, FPiR and FS, the other funds are auxiliary; the main financial source of the funds (except for the contributory fund, which operates its own financial economy) is a budgetary subsidy. This situation shows that such a large number of funds within KRUS and their mutual connections, as well as the fact that the assets from the individual funds both for operating "own" actions of KRUS and those concerning orders from other institutions complicate the functioning structure of KRUS, which does not favour effective management. This fact calls for the simplification of the rules of KRUS's financial economy, as the processes of accumulating and expending financial means should be clear. The transparency of the system allows better control over funds and imposes discipline on the public money in KRUS.

3.2. The financing of social insurance for farmers

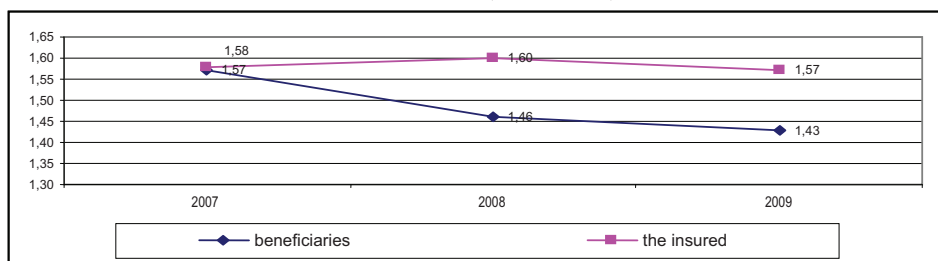
Within the system of farmers' social insurance we can distinguish two sources of financial supply:

- budgetary subsidy, intended for covering the benefits guaranteed by the state from retirement and disability insurance and family pensions,
- revenues from farmers' premiums for covering benefits which are not guaranteed by the state (benefits on account of accident, sickness, maternity insurance). Their amount results from the revenues from insurance premiums⁵⁹.

Due to the fact that the insurance premium rate is relatively low and the number of beneficiaries is only slightly smaller than the number of the insured (Figure 26) the system of KRUS must be supplemented from the state budget every year.

⁵⁹ Owsiak S., *Finanse publiczne, teoria i praktyka*, PWN, Warszawa 2005, s. 544.

Figure 26. The number of beneficiaries and insured within KRUS in the years 2007-2009 (in million)



Source: Own study based on the KRUS data.

The state budget directly finances two funds under KRUS: The Retirement and Disability Pension Fund and the Prevention and Rehabilitation Fund. The Administrative Fund is maintained mainly from write-off from the Pension Fund, which means that its main source of financial supply is budgetary subsidy. The volume of transfers between funds supplied mainly with public means is presented in Table 9. The only self-financing fund in KRUS is the Contributory Fund.

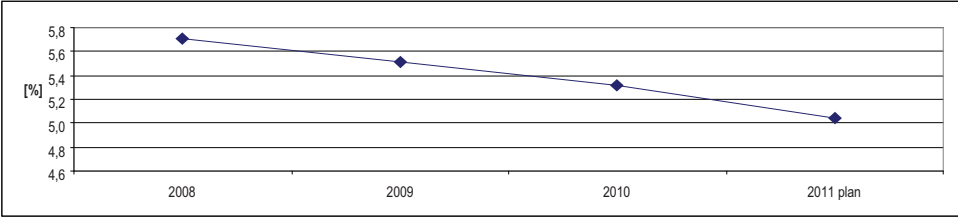
Table 9. Budgetary expenditures operated by KRUS; comparison of the revenues of Pension Fund, Prevention and Rehabilitation Fund and Administrative Fund in the years 2008-2011 (in PLN million)

Year	2008	2009	2010	2011 plan
Total subsidy to KRUS	15,636.4	16,441.8	15,671.0	15,811.6
Pension Fund				
Subsidy from state budget, including:	14,867.9	15,805.4	14,935.8	15,120.0
- premiums for health insurance	2,759.0	2572.0	1859.0	1862.0
Retirement and disability pension premiums	1,225.0	1,299.5	1,346.4	1,412.6
Other revenues	92.7	59.0	55.5	27.0
Prevention and Rehabilitation Fund				
Subsidy from state budget	5.0	5.5	6.0	1.0
Write-off from FS (Contributory Fund)	27.7	30.0	32.5	32.6
Other revenues	0.2	0.5	0.6	0.3
Administrative Fund				
Write-offs from FER (Pension Fund)	380.0	411.0	442.0	442.0
Write-offs from FS (Contributory Fund)	50.0	54.0	58.4	58.8
Other revenues	88.2	87.5	84.8	81.7

Source: Own study based on the information from KRUS regarding the implementation and plans of the funds of KRUS in the years 2008-2011 and reports on the implementation of the budget for the years 2008-2010.

In 2008-2010 the total subsidy to KRUS amounted to approx. PLN 15.9 billion. In 2010 it was PLN 15.7 billion and compared to the year 2009 it was lower by PLN 771 million, and compared to 2008, higher by PLN 35 million. Within this period its contribution to the total state budgetary expenditure decreased from 5.7% in 2008 to 5.3% in 2010 (Figure 27). In 2011 it is expected that budgetary expenditures on KRUS will be higher compared to 2010 by approx. PLN 141 million, but their contribution in the total budgetary expenditures will still decrease to the level of approx. 5.0%. These changes seem positive, considering we are talking about fixed expenditures. We must add that this is a continued trend, in 2011 the budgetary subsidy to KRUS will amount to 5.1% of the total planned budgetary expenditures of the state.

Figure 27. The Proportion of state budgetary expenditures on farmers' social insurance in the years 2008-2011 (%)



Source: own study based on reports from the budgetary Act for the years 2008-2010 and the draft budgetary Act for 2011 (www.mf.gov.pl).

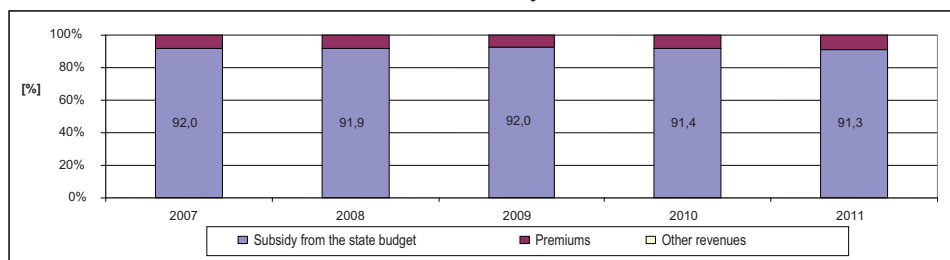
However, one should be cautious about positive assessment of this fact, as the situation is, i.a., the result of changes in the number of beneficiaries, which actually influences the reduction of expenditures on agricultural retirement and disability pensions. For instance, in 2000 the difference between the number of the insured and beneficiaries was almost 500 thousand people. Until 2008 we may observe a significant decrease in the number of beneficiaries with simultaneous growth of the number of the insured. In 2006 these values were practically equal. Thanks to this process the volume of transfers from the state budget to KRUS remains at nearly the same level. However, these are still considerable sums, and constitute the key argument for the opponents of the farmers' social insurance system for reforming KRUS. It is often emphasised that the pension system for farmers is yet another instrument for supporting

agriculture and farmers, resulting in their privileged position among other social and professional groups⁶⁰.

An analysis of the funds of KRUS has shown that the highest subsidy from the state is granted to The Retirement and Disability Pension Fund. The revenues of FER in 2010 amounted to PLN 16,348 million and were 716 million lower (by 4.2%) than in 2009 (a general decrease in the revenues of FER resulted from the reduction of the grant for health insurance by approximately PLN 713 million). In 2010 the subsidy to health insurance for farmers decreased by approx. 28% in relation to 2009. This resulted from the decrease in rye purchase prices, according to which the rate of health premium is declared. The expected subsidy level for covering these premiums in 2011 is similar to that of 2010 (Table 9). It must be noted that despite the considerable reduction in the subsidy to health premiums (approx. 12% in 2010 compared to approx. 56% in 2008), its level is still a large burden for FER. Moreover, this subsidy is still higher (by approx. 27%) than premiums delivered to the system by farmers. This calls for reform measures, especially as in October 2010 the Constitutional Tribunal stated that premiums for health insurance for farmers, regardless of their income, financed from the state budget, are not compliant with the Constitution and ordered a change in regulations within 15 months. Detailed analyses of farmers' health insurance will be presented further in this work.

The proportions between the subsidy to FER and the volume of pension premiums paid by farmers is also unfavourable – they constitute a mere 8% of FER's revenues (Figure 28).

Figure 28. The contribution of premiums and state subsidy to the revenues of the Pension Fund in the years 2007-2011

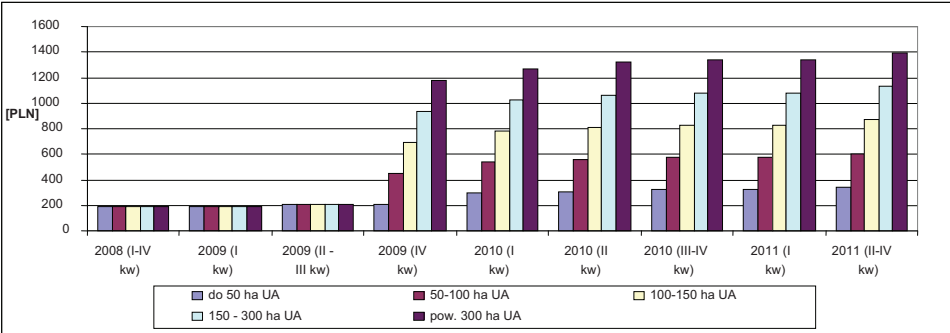


Source: Own study based on the information from KRUS regarding the implementation and plans of the funds of KRUS in the years 2008-2011.

⁶⁰ Duczkowska-Małysz K., Modernizacja wsi i rolnictwa a reforma finansów publicznych, autoryzowane wystąpienie, www.pte.pl/pliki/.../Reforma%20fin.publ.%20a%20modernizacja.doc, 25.02.2010.

It should be noted, however, that in recent years this situation has significantly improved. The contribution of premiums to the revenues of FER until 2006 amounted to approx. 5%, whilst since 2008 revenues from premiums have gradually increased. In 2009 they grew by PLN 74 million (5.8%) compared to 2008, and in 2010, compared to 2009, by another PLN 47 million (4.2%). It is the result of the above-mentioned amendment to the Act of 2009 addressing the differentiation of premiums for farmers' social insurance, depending on the scale of the operated agricultural economic activity. Yet it should be stressed that this change had little influence on the increase of savings in public finances. The basic monthly rent per one insured person is 10% of the basic state pension, and an additional premium introduced in 2009 covers a small group of farmers (about 16 thousand – approx. 1%) in possession of agricultural holdings above 50 conversion ha of agricultural land. In the fourth quarter of 2010 the quarterly premiums for retirement and disability insurance amounted to PLN 321 for holdings above 50 ha and from PLN 576 to 1338 for the largest holdings (Figure 29). However, due to the small number of farmers subject to the higher premium (approx. 1%) its growth is of marginal importance. Estimations show that additional revenues to KRUS on account of higher premiums paid by farmers in possession of larger agricultural holdings amounted to approx. PLN 30 million in 2010, which made 2% of premiums for retirement and disability insurance for farmers. It is a tiny amount considering subsidising KRUS from the budget in 2010 in the sum of PLN 15.3 billion, including the subsidy to the Pension Fund in the amount of PLN 14.9 billion and revenues from premiums equalling PLN 1.3 billion.

Figure 29. The volume of quarterly premium for retirement and disability insurance in the years 2008-2011 including the differentiation of the rates depending on the size of possessed acreage



Key: UA – agricultural land

Source: own study based on the KRUS data.

It is not surprising then that the growth in premium value did not translate into the reduction of subsidies to FER, which in 2007-2011 oscillated around the level of 92% (Figure 29). This is confirmed by Siekierski, who believes that increasing the premium by 100% will not have a significant impact on the reduction of the budgetary grant (by approx. 6%). He also predicts that premium collectibility, which is currently at the level of 98%, could fall to 50%⁶¹. The presented estimates indicate that this problem may be much deeper, as we must remember that part of the subsidy to FER is allocated for the total financing of farmers' health premiums. The annual amount on this account is about PLN 2 billion.

The above considerations indicate that the implemented changes did not solve the problem of high budgetary subsidies to farmers' social insurance, and further, they did not eliminate the problem of unequal insurance premium burden on income from agricultural production. This may signify that the real serious drawback of the farmers' retirement and disability pension system is the lack of connection between the premium and the income. FADN analysis indicates that the contribution of KRUS premiums to the income of farming families is very low and in 2007-2009 it amounted to approx. 3%. The high level of financing the system of social insurance in agriculture shows the very large role of state redistribution in shaping the income of farmers⁶². Thus we must state that the agricultural social insurance system is an instrument of income redistribution between the agricultural population and the rest of society. However, by analysing Diagram 7 we may observe that recently this role has become less significant.

The expenditures of the Retirement and Disability Pension Fund were characterised by decreasing dynamics, which may have been influenced by the reduction in paid pensions and the reduction in the contribution of expenses to health insurance subsidised by the state. The analysis of the expenditures of the Retirement and Disability Pension Fund indicates that the majority of all payments from this fund are expenditures concerning retirement and disability pensions (Table 10). Their proportion in the years 2008-2010 demonstrated a growing trend and reached 79.1%, 80.3% and 83.8% respectively. Within the analysed period the growth of expenditures on pensions was a little slower (by 2.8 percentage points) than the growth of revenues to FER from premiums, which resulted from improving correlation of the number of the insured to

⁶¹ Siekierski C., Ubezpieczenie społeczne rolników, [w:] Adamowicz M., (red. nauk.) Ubezpieczenia społeczne. Wieś i rolnictwo, SGGW, Warsaw 2002, s. 9.

⁶² Przygodzka R., Budżet państwa a system emerytalno-rentowy rolników, [w:] Adamowicz M., (red. nauk.) Ubezpieczenia społeczne. Wieś i rolnictwo, SGGW, Warsaw 2002, s. 151.

beneficiaries. Within the analysed period the proportion of premiums in the expenditures for retirement and disability pensions increased slightly from 9.2% in 2008 to 9.8% in 2010. It is expected that revenues from premiums in 2011 will cover 10.5% of expenses destined for pensions. Within the analysed period the average agricultural retirement and disability pensions grew slightly from 4.2% in 2009 to 5.0 in 2010. Moreover, the small difference between the lowest pay and agricultural pension makes receiving benefit an alternative to paid work. Also receiving benefits does not restrict people from working on the farm.

Table 10. The sources of expenditures of the Retirement and Disability Pension Fund

Item	2008	2009	2010	2011 plan
Total expenditures (PLN million)	16,793	17,046	16,575	16,626
Expenditures dynamics (%)	8.18	1.48	- 2.84	0.31
including:				
- retirement and disability pensions	13,291	13,689	13,901	13,416
- health premiums	2,759	2,572	1,859	1,862
- other benefits	743	785	815	1,348
Amount of retirement and disability pensions paid (in thousand)	1,478	1,426	1,375	1,334
The average retirement and disability pension financed from FER (PLN)	734.2	766.4	806.9	838.1

Source: own study based on data from the reports on implementation of the budget for the years 2008-2010 and the draft budgetary Act for 2011 (www.mf.gov.pl).finansowane.

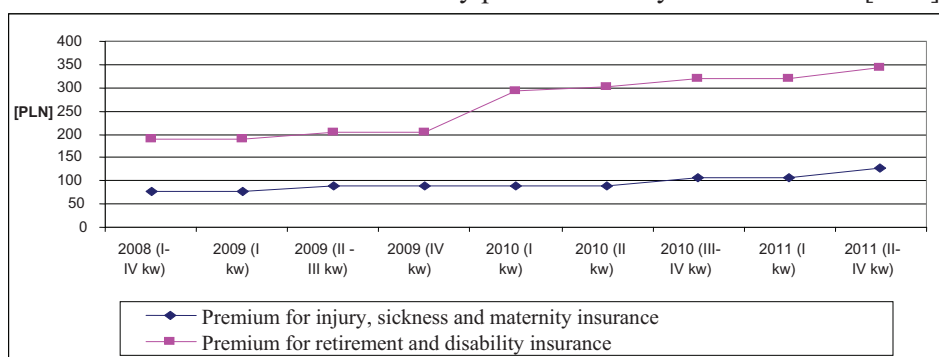
Each improvement in the finances of FER will require fundamental changes to the system. The current rate of the pension premium may discourage persons insured in KRUS from working in non-agricultural conditions. For this reason the most favourable case would be changes resulting in further increasing the contribution of the insured to financing retirement and disability pensions, which in consequence could lead to reducing subsidies to KRUS. These actions are necessary, not only for fiscal stability, but also for the economic development of Poland, as resources earmarked for the subsidy to retirement and disability pensions, together with other social benefits, prevent subsidising productive public objectives supporting economic development.

The Contributory Fund, unlike the Retirement and Disability Pension Fund, relies on the principle of self-financing. This means that the entirety of its expenditures is financed from the own premiums and revenues of the fund. The

volume of the quarterly premium for injury, health and maternity insurance is presented in Figure 30. The amount of the basic quarterly premium for the Pension and Disability Pension Fund was presented for comparison.

The analysis of the gathered material indicates that quarterly premiums for health, injury and maternity insurance within the analysed period oscillated around the level of PLN 78 in 2008 up to PLN 126 in 2011. A different situation relates to the amount of premiums for retirement and disability insurance, which from the fourth quarter of 2009 were more than twice as high as health, injury and maternity premiums, and from 2010 – even three times as high.

Figure 30. The volume of the quarterly premium for injury, health and maternity insurance vs retirement and disability pension in the years 2008-2011 [PLN]



Source: own study based on the KRUS data.

At the beginning of 2010 the amount of retirement and disability pension premiums rose significantly (by approximately 1/3), which was the result of introducing new rules concerning the payment of premiums in the agricultural system. However, it must be clearly stated that the pension premium is equal for agricultural holdings with an area of 50 ha of agricultural land, and, above this line, it grows in parallel with the size of the holding, which is presented in Figure 12. Retirement and disability premiums for a household member of agricultural holdings depend on the size of holding and oscillate around the level of premiums paid for farmers owning agricultural holdings below 50 ha of agricultural land. The analysis also indicates that all the insured (regardless of the size of their agricultural holdings) are subject to an equal premium for sickness, accident and maternity insurance⁶³ The revenue and expenditure

⁶³ The exception to these rules are premiums paid by: a farmer, household member or person who has handed over their land for afforestation, covered with insurance on the initiative of, in a limited scope (a single compensation), if they are subject to another social insurance or have the documented right to

structure of the fund is presented in Table 11. The analysis was limited to the year 2009 due to lack of data for the following years. A large part of revenues to the Contributory Fund comes from farmers' premiums. Additional income to the fund, approximately PLN 40 million, is derived from managing purchased real estates, operating business enterprises, i.e. offering services in the scope of healthcare and social assistance. The analysis of the expenditures shows that the amount of total expenditures by the fund is mainly influenced by health benefits, which grew successively throughout the three analysed years. This growth is connected with the gradual increase in the premium amount, whose average daily value in 2007 equalled PLN 7.5 and in 2009 – PLN 10.

Table 11. The structure of the sources of financing and expenditures of the Contributory Fund

Year	2007	2008	2009
Total income (PLN million)	515	569	519
including:			
<i>premiums for accident, sickness and maternity insurance</i>	474	523	482
<i>other revenues</i>	41	46	37
Total expenditures (PLN million), including	477	534	641
<i>Accident damages</i>	64	62	73
<i>illness benefits</i>	264	310	390
<i>maternity benefits</i>	80	84	94
<i>write-offs to the Administrative Fund</i>	46	50	54
<i>write-offs to the Prevention and Rehabilitation Fund</i>	23	28	30

Source: Own study based on KRUS data (due to the lack of data for the following years, the analysis was limited to the year 2009).

Considerable growth (by approximately 14% in 2009 compared to 2007) was also noted in the category of expenditures concerning maternity benefits. These benefits grew because of the increase in their average value. In 2007 the maternity benefit was PLN 2076, and in 2009 – PLN 2327, which means four times as much as the value of an average basic state pension.

While analysing the Contributory Fund, one must realise that in 2009 there occurred a surplus of the expenditures over the revenues of the fund. The projections of the Institute for Structural Research⁶⁴ indicate that due to the downfall of the number of persons insured in KRUS the value of revenues to the

a retirement or disability pension, or to benefits from social insurance, paying premiums in the amount of 1/3 of the basic rate.

⁶⁴ Marć Ł., Pogorzelski K., Zawistowski J., Ubezpieczenia wypadkowe, chorobowe i macierzyńskie. Koncepcja zmian systemowych ubezpieczeń rolniczych. Opracowanie przygotowane dla Departamentu Doradztwa, Oświaty Rolniczej i Nauki Ministerstwa Rolnictwa i Rozwoju Wsi przez Instytut Badań Strukturalnych, Warszawa 2009, s. 20.

Contributory Fund and the amount of sickness, accident and maternity benefits paid by this fund will also undergo reduction. The authors of the report forecast that revenues from premiums to the Contributory Fund will decrease in 2015 to the level of PLN 477 million and the total expenditure in 2015 – to the level of PLN 579 million. They realise that if the current system of sickness, accident and maternity insurance for farmers is not reformed, this system will report a shortfall (at the level of approximately PLN 55 million) in each following year. This means that it will lose the ability to finance itself. The authors also emphasise that the presented projections concerning this shortfall are much lower than the projections of KRUS, which indicate a surplus of expenditures over revenues to the fund at the level of PLN 170 million in 2015.

The results of the analysis show that the agricultural social insurance system is highly irrational and inefficient. This system is nearly completely dependent on subsidies, which is evidence for a clear lack of contribution of the insured in its financing. The amendment to the Act of 1 October 2009 concerning the differentiation of farmers' premiums for social insurance depending on the scale of agricultural enterprise has little impact on increasing the savings of public finances. This results from the fact that this higher premium involved only about 20 thousand insured farmers. This Act in such form still created the 'system of social assistance'. It should be pointed out, however, that this amendment was an important step towards reforming the social insurance system and let us hope that it is a catalyst for further changes in the system of farmers' social insurance. The result of these changes should be a reduction in the state contribution to subsidising this system, the subsidy should only be addressed towards those among the insured farmers whose income is the lowest and insufficient for financing their insurance. It may seem, however, that the problem of agricultural insurance system is much deeper and connected with, i.a., an outdated land structure of agricultural holdings. As an effect, in Poland there are approximately 1% of farmers managing agricultural holdings above 50 conversion ha of agricultural land who pay higher rates. The social insurance system, modernised by the recent amendment, still needs many improvements, yet its reforming is an exceptionally delicate matter, both politically and socially. What is more, reforming KRUS will not bring spectacular effects, as the weaknesses of the agricultural social insurance system reflect the weaknesses of Polish rural areas – low income of farmers, poor situation on rural labour market and hidden unemployment.

4. The assessment of the agricultural social insurance system

The above analyses indicate the necessity of reforming the agricultural social insurance system. It is not an isolated approach, as the discussion concerning the future of farmers' social insurance in KRUS is an ongoing issue in Poland. As of today, no common concept of its solution has been proposed. It is highlighted that the system should be tighter and the scope of the financial burden from premiums should be adjusted to the actual income of farmers. Several projects for reforming KRUS have been developed, but they are more concepts disregarding the specificity of agriculture (the life and work in rural areas). As M. Podstawka points out, among the concepts for reforming KRUS three groups of approaches can be distinguished:

- I. dismantling the KRUS system and including farmers into ZUS,
- II. maintaining the current agricultural social insurance system,
- III. implementing fundamental reforms of KRUS, which would tighten the regulations and change the rules for establishing the amounts of premiums and benefits⁶⁵.

According to Podstawka, the most reasonable is the third option, advocating the reforming of KRUS. This approach is also supported by many other circles⁶⁶. The necessity to change the rules of retirement and disability insurance and sickness insurance in KRUS is also indicated by the experts of IAFE-NRI, who believe that the current state facilitates the petrification of the existing land structure and constrains from leaving the agricultural sector. They also believe that these changes will activate the processes of eliminating parts of agricultural holdings and facilitate the growth of the occupational activity of the agricultural population, which will have a positive impact on the competitiveness of Polish agriculture⁶⁷. While introducing the reform of KRUS it is advisable to consider the current socio-economic situation in the country. Within the period of the decline in the economic tendencies, diving into the pockets of people who have been privileged in social systems may result in upsetting the balance and rationality of state expenditures.

Among the most significant steps that must be taken to reform the system of social security for farmers, the following can be distinguished:

⁶⁵ M. Podstawka, *Mity i prawdy o Kasie Rolniczego Ubezpieczenia Społecznego, Ubezpieczenia w rolnictwie, Materiały i studia Nr 37/2010, KRUS, Warszawa 2010.*

⁶⁶ A. Fandrejewska, *Miliardy topione w rolniczej kasie, Rzeczpospolita nr 2 z 4 stycznia 2010r., s. B-001.*

⁶⁷ A. Sikorska (red. nauk.) *Instrumenty oddziaływania Państwa na kształtowanie struktury obszarowej gospodarstw rolnych w Polsce; rola systemu ubezpieczenia społecznego rolników w kształtowaniu tej struktury (...), Warsaw 2009, s. 83.*

- defining agricultural holdings as fully legal economic entities,
- tightening up the system of KRUS,
- introducing the obligation to present necessary evidence for establishing the income of agricultural holdings,
- the differentiation of premiums for social insurance on the basis of income of the insured persons,
- introducing the obligation to pay health insurance premiums by farmers,
- increases in the amounts of benefits from KRUS.

The reforming the KRUS system results from the following issues:

- the reduction in the budgetary subsidy for retirement and disability pensions with the objective of restricting statutory state expenditures and reducing the deficit,
- the increase in farmers' contributions to financing retirement and disability pensions, which should restore the principle of the solidarity of insured farmers
- 'tightening up' the system of KRUS,
- observing the rules of equality and justice, as J.B. Say states "giving privileges to an individual is almost always injustice to the community."

Defining an agricultural holding as a fully-legal economic entity

In the Polish legal system it is not an agricultural holding but the farmer who is the legal entity. This leads to numerous misinterpretations and abuses of the regulations concerning subjects being the beneficiaries of the KRUS system. The lack of legal personality of agricultural holdings results in excluding this structure from economic activity. In the analysed EU countries an agricultural holding is treated as a company, as a consequence of which it is subject to the same legal regulations as any other business enterprise. This means that farmers managing agricultural holdings are subject to the obligation to pay income taxes, and so the managing expenditure account for the operated enterprise as well. Insurance is also one of the tax-deductible expenses which significantly influence the amount of income of agricultural holdings. The review of the insurance system in the EU indicates that the premium calculation basis for farmers (even those subject to different insurance systems) is income from agricultural holdings and not their size in ha, as it is in the KRUS system. However, it must be remembered that this income may be calculated approximately or result from the accounting record of economic events.

Tightening up the system of KRUS

In the 1980s the farmers' social insurance system recorded 3 million evidenced agricultural holdings. Excluding (i.a.) double occupational persons from the insurance resulted in reducing this number to 2.5 million. Further changes to the regulations in the 1990s resulted in a further reduction in the number of the insured to approximately 1.4 million in 1996. Within the years 1996-2006 the number of the fully insured in KRUS grew by nearly 300 thousand (from 1,327,753 in 1996 to 1,615,272 in 2006) despite the reduction in the number of agricultural holdings. This situation was caused, i.a., by:

- the duty to enrol for insurance for persons who have initiated agricultural economic activity by purchasing an agricultural holding from farmers receiving EU structural pensions,
- the necessity of covering the beneficiaries of structural pensions with retirement and disability insurance until they reach retirement age,
- the loss of the right to periodic agricultural disability pensions,
- the loss of other sources of income except carrying out agricultural economic activity.

The largest inflow of the insured (17.6%) was observed in 2005, in the group of agricultural holdings up to 1 ha of agricultural land. It is worth noting, that after 2005, despite the reduction in the number of the insured in larger area groups (from 1 to 20 ha of agricultural land), in the smallest area holdings the number of the insured was still increasing (Table 12). Until 2006 the number of the insured with agricultural holdings of 1 to 2 ha of agricultural land was slightly increasing as well. As a whole, in the group of agricultural holdings from 0 to 2 ha of agricultural land, the number of the insured increased in 2004-2006 by 76 thousand. The number of persons in possession of holdings above 20 ha of agricultural land was also increasing, which may be explained by enlarging the acreage of the holding in order to ensure sufficient resources for the family. It is hard to explain the growth in the number of the insured in agricultural holdings up to 1 conversion ha or even to 2 ha; there is no rational explanation on analysing these changes from the perspective of received income. According to both Central Statistical Office and FADN data, these holdings generate the lowest income, which makes us wonder why people set up such small agricultural holdings. Jagła notices that not long ago this phenomenon was explained by the argument of unemployment, which after 1989 had a significant impact on agriculture and the so-called peasant workers.

Most of them were covered with the insurance for KRUS pursuant to the Act on social insurance, therefore they became farmers⁶⁸.

In order to enrol into KRUS one must only present the evidence of agricultural land ownership on the application card or submit information on operating the agricultural holding on the application form. The above analysis indicates that the introduction of additional regulations to the Act in 2004 covering farmers operating non-agricultural economic activities, aiming at tightening up the KRUS system, was not as effective as expected.

The fundamental drawback is the lack of obligation to provide documentation confirming the managing of agricultural holding, either in a form of accounting entries or declarations on obtained income from economic activity. In order to achieve this, obtaining insurance upon application would need to be eliminated first. A good solution could be introducing the obligation to submit a declaration by farmers about income obtained from agricultural economic activity, which would lead to defining the farmer and his agricultural economic activity.

Table 12. The changes in numbers of the insured in KRUS by area groups in the years 2004-2009

Area of a holding	Number of the insured in the years						Dynamics of changes in
	2004	2005	2006	2007	2008	2009	2009/2004
0-1	147,639	179,237	211,702	218,332	229,436	232,076	1.57
1-2	296,297	303,238	311,183	303,121	293,886	288,949	0.98
2-5	420,507	421,438	426,455	415,361	402,506	396,042	0.94
5-10	348,175	344,461	344,109	336,800	325,795	317,981	0.91
10-20	209,798	209,923	212,708	211,984	207,997	206,018	0.98
20-50	73,315	77,359	81,995	85,094	87,004	89,630	1.23
over 50	12,851	14,604	16,766	17,914	19,263	20,363	1.54
Special branches of agricultural production	31,576	31,669	10,354	9,591	8,507	7,760	0.24
TOTAL	1,540,158	1,581,929	1,615,272	1,598,197	1,574,394	1,558,819	1.01

Source: Own study based on KRUS data.

⁶⁸ Jagła W., Ubezpieczenia społeczne rolników – 30 lat systemu i co dalej? ... op.cit.

Introducing the obligation to present the necessary evidence for establishing the income of the agricultural holding

Profitability criteria in agriculture should be the main point of consideration concerning the directions of reforming KRUS. Profitability can be measured in a number of ways. It seems that the most appropriate of these is obtaining data using accounting books. Introducing the obligation to manage accounting books would allow the obtaining of data concerning the income generated by agricultural holdings, but, most of all, it would facilitate calculating the premiums paid to the KRUS system. Among the parafiscal burdens for companies, the greatest impact on labour costs is made by premiums for social insurance. These costs are to some extent reduced by lower taxes in the case of including the premiums into tax deductible expenses before establishing the income to be taxed. This condition, however, concerns only natural persons operating non-agricultural economic activity, taxed in the form of a lump sum. Moreover, the lack of records of events in agricultural holdings makes it impossible to calculate the costs of business enterprise (including also labour costs), which could significantly reduce the costs of managing agricultural holdings (this mainly concerns holdings making investments). However, such solutions may lead to broader reforms, possibly resulting in introducing income tax in agriculture.

Nevertheless, it should be borne in mind that the lack of obligation to manage accountancy leads to the development of a grey area in agriculture. The research indicates that this situation works to the advantage of other sectors (e.g. the processing industry), which make trade contracts with agricultural holdings. As a result the purchase of raw materials for production from agricultural holdings without the necessity of managing accounting records may lead to financial frauds (e.g. fictional cash-flow)⁶⁹. What is more, the lack of the accounting obligation puts Polish agricultural holdings in a privileged position compared to other EU holdings. Preferences in the form of no income tax duty, irrationally calculated, relatively low pension premiums and no premiums for health insurance violate the rules of competitiveness in agriculture.

With regard to the above, a number of suggestions have emerged concerning the question of farmers' income records. L. Goraj believes that the obligation to keep a record of the income from their agricultural holdings should concern farmers insured in KRUS and other owners of agricultural holdings,

⁶⁹ For further information see the article by E. Fladrowska, J. Pawłowska-Tyszko, Wykorzystywanie rachunkowości agresywnej przez menedżerów i ich konsekwencje dla wierzycieli na przykładzie spółki handlowej branży rolniczej, *Zeszyty Teoretyczne Rachunkowości* 58 (114), SK w Polsce Rada Naukowa, Warszawa 2010, s. 104-105.

excluded from KRUS insurance due to being subject to ZUS regulations. On the other hand, he also claims that there is no rational justification for introducing the obligation to keep such records for all functioning agricultural holdings, due to the large differentiation of Polish agricultural holdings regarding their economic power and capacity to generate income. Therefore, in the case of the smallest agricultural holdings, the parameters describing their income situation could be established according to the estimation norms and quantitative data concerning their productive activity (crop area, livestock). He proposes establishing a top limit marking collection of such holdings. Among the parameters he enumerates the agricultural land resources in the amount of 5 ha or 5 conversion units of livestock, or the economic size of the agricultural holding of 4 ESU, or the total sum of subsidies received from CAP. He proposes the adoption of one of the above top values⁷⁰. However, it rather seems that these parameters should be considered cumulatively and breaching of any of them should result in incurring the obligation to use the accounting method of establishing the income from the agricultural holding, as adopting only one top value could cause considerable flexibility in selecting the group excluded from the obligation for accountancy. As Goraj notes himself, according to GUS data this method would be applied to approximately 1.8 million agricultural holdings in the case of using the area criterion (up to 5 ha of agricultural land) or to approximately 1.9 million if the criterion would be the economic size of the holding (up to 4 ESU). According to Goraj, the record should be supervised by KRUS, which would greatly extend the range of competence and tasks implemented by this institution⁷¹. This proposal, however, would require the development of KRUS divisions by building new organisational sections, which would require a higher budgetary subsidy. This solution seems reasonable only if agricultural holdings would pay higher premiums, established on the basis of generated income.

The differentiation of premiums for social insurance on the basis of income of the insured persons

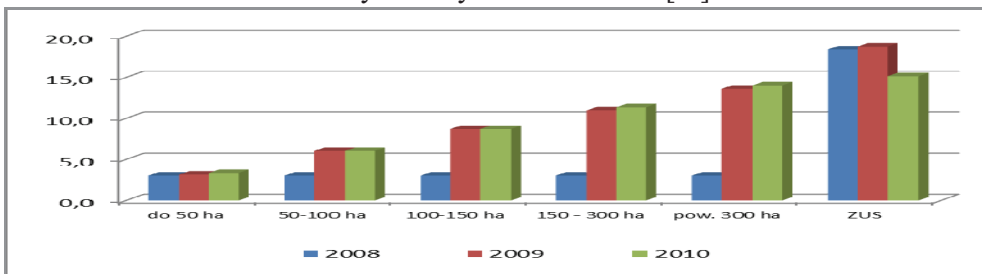
Many analyses conducted by research facilities indicate that the major drawback of the farmers' social insurance system is the amount of the insurance premium. This is also emphasised in the study "Report on KRUS" by the Business Centre Club. The authors of the study claim that the weakness of the

⁷⁰ Goraj L., *Możliwa rola KRUS we wspomaganii i implementacji działań reformujących system ubezpieczenia rolników, Ubezpieczenia w rolnictwie, Materiały i studia, KRUS, Warszawa 2010, s. 33.*

⁷¹ Goraj L., *Możliwa rola KRUS we wspomaganii ...*, s. 34.

agricultural social insurance system is most of all low premium rates in KRUS compared to the premiums in ZUS, which triggers a growing feeling of social injustice. This is confirmed by the data presented in Figure 31. Premiums paid by farmers to the KRUS system are more than six times lower than premiums paid by entrepreneurs to the ZUS system. Moreover, after the amendment of the Act in 2009 the situation slightly improved, yet premiums paid by the small (1%) group of farmers owning agricultural holdings with larger areas are still lower than premiums paid by entrepreneurs.

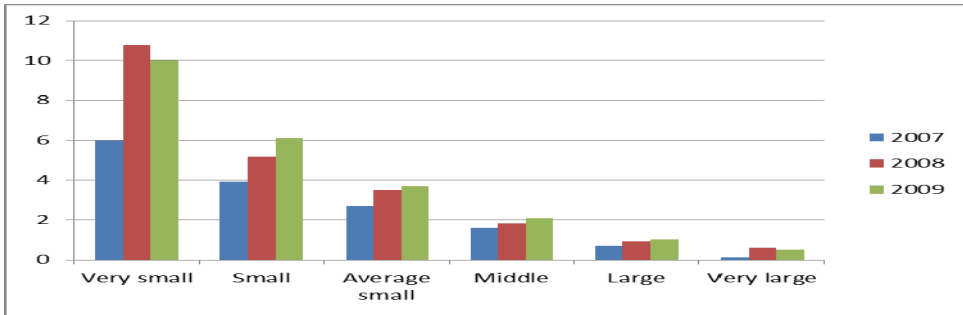
Figure 31. The proportion of premiums for social insurance for farmers (KRUS) and entrepreneurs (ZUS) in the average gross wage or salary in the national economy in the years 2008-2010 [%]



Source: Own study based on basic information from KRUS and ZUS concerning the level of insurance premiums and the GUS Statistical Yearbook of on average monthly wages and salaries in the national economy.

Taking a closer look at the contribution of premiums in farmers' income, the problem of social injustice looks even worse, as it is the smallest agricultural holdings which mostly participate in financing the system of KRUS (Figure 32). However, due to the lack of data for the year 2010 the proportion of premiums in farmer's income after the introduction of changes in 2009 cannot be established (these changes concern higher premium rates for agricultural holdings with an area larger than 50 ha of agricultural land). It can only be estimated that this contribution is still very small. The yearly premiums paid by the holdings with an area larger than 300 ha of agricultural land in the fourth quarter of 2009 amounted to PLN 5064, which in the light of their average income at the level of approximately PLN 600 thousand, constitutes approximately 1% of their income.

Figure 32. The contribution of premiums in the farmers' income in the years 2007-2009 [%]



Source: Own study based on FADN data.

In practice the level of premiums for social insurance depends on a given model of social policy, as well the public programme financed from these premiums, adopted in a given country. The traditional continental countries of Western Europe and the Nordic countries base their social policy on a model in which social security is financed from premiums for social insurance, which implies higher rates for these premiums. The second model is the social policy adopted in Anglo-Saxon countries, where social benefits are financed to a much greater extent from state budgets, and in Australia and New Zealand – only from state budgets. This usually means a much lower range of services. In Poland the system of social insurance for farmers is based on the model used in Anglo-Saxon countries. This model, as mentioned numerously in the above sections, is widely criticised, and raising premiums for farmers, as many believe, could bring an improvement in the situation of public finances. However, at the same time, the negative results of increasing social insurance premiums are noticed. The most significant are:

- a rise in the premium leading to a rise of production costs and – consequently – a price increase. If companies operate on a competitive market and cannot add the premium to the product price, they receive less profit and consequently lower their outlaid expenditures on investments, which limits their development capacities;
- high rates of premiums for social insurance, as an important element of labour costs, contribute to the downfall of the competitiveness of national production (especially in labour-consuming branches, part of which is indisputable agricultural production). This situation leads to a decrease in the competitiveness of Polish products through the inflow of cheap, imported ones;

- high premium rates are a material actor encouraging entrepreneurs to operate in a grey area, i.a. seeking opportunities to receive insurance in KRUS. Raising premium rates for farmers on the one hand may lead to the reduction of the inflow of so-called pseudo-farmers to the KRUS system, but on the other hand it may decrease the demand for work in agriculture.

Apart from low premiums for social insurance, other criticised elements are no connection between the premium rate and the profitability of agricultural holdings, and receiving low benefits for low contribution. Duczkowska-Małysz claims that KRUS in its current state hampers all possible changes in rural areas, especially those concerning legal forms of farming (e.g. establishing producer groups, farming cooperatives, etc.). The change in the legal form of agricultural holdings always results in a transition to a non-agricultural insurance system – ZUS as well as taxation system. Introducing less radical solutions, exclusive to farmers, in a form of increasing KRUS premiums and covering agricultural holdings with income tax, could facilitate structural changes in rural areas.

The problems of Polish agriculture need to be considered in the context of the above, i.e. high unemployment rate in this sector, and a relatively small income for agricultural producers. Unemployment results from the lack of balance on the labour market. Reports of the Ministry of Labour and Social Policy indicate that in 2009 registered unemployment in rural areas reached the level of approximately 1 million unemployed persons⁷². It is estimated, however, that the size of hidden unemployment in agriculture is twice as much⁷³.

Other factors limiting the growth of income from agricultural economic activity are the unfavourable area structure of agricultural holdings, the shortage of financial capital and the low level of investment, as well as the shortage of professional education of agricultural population.

The characteristics regarding the income situation of farmers usually involve average values, whilst farmers are a highly differentiated, as regards income, occupational group. Some of them receive very large incomes, whilst others need considerable support from the state (e.g. in the form of benefits from social insurance). Considering the above, only detailed, multi-criteria analyses of the financial situation of agricultural holdings can find their reflection in agricultural and social policy. While approaching the problem of state policy it

⁷² Stan i struktura rejestrowanego bezrobocia na wsi w 2009 roku, Ministerstwo Pracy i Polityki Socjalnej, http://obserwatorium.dwup.pl/download.php?file=sites/default/files/biblioteka/2009_bezrobocie_na_wsi.pdf.

⁷³ Duczkowska-Małysz K., Wiejski rynek pracy wobec integracji z UE [w:] Błędowski P. Między transformacją a integracją, Polityka społeczna wobec problemów współczesności, Wydawnictwo SGH, Warszawa 2004.

must be remembered that the main factor determining its shape is the condition of state finances, with the consideration that state expenditures, especially those of a fixed character, considerably limit range of possibilities for cutting budgetary expenditures. It results from the fact that they must be covered, pursuant to the statutory regulations or previously-made legally-binding obligations. Undoubtedly, the largest proportion in these expenditures is taken by subsidies to local governments. Another large part is expenses concerning the management of public debt and subsidies to ZUS and KRUS. In Poland the contribution of fixed expenditures in state expenditures is gradually increasing.

In 1999 they constituted 58.2% of the total, whilst in 2009 – approximately 70%. Their scale and structure are determined by the amount of total state expenditure. Among many categories influencing the level of fixed expenditures four major ones can be distinguished: subventions for local government units, subsidies to the Social Insurance Institution (ZUS) and the Agricultural Social Insurance Fund (KRUS), plus expenditures on the management of public debt. Other categories have a definitely smaller contribution to the structure of fixed expenditures. Regarding the above, it seems obvious that in order to permanently and effectively solve the problem of public finances, first of all a reform of fixed expenditures must be prepared and passed. Considering the fact that it is difficult to seek savings in expenditures for health protection, education, the judicial system, the management of public debt, safety and public order, the largest opportunities in 'cutting expenses' are connected with social welfare expenditures⁷⁴.

Introducing the obligation to pay health insurance premiums by farmers

Currently 1.554 million farmers pay premiums for the social insurance system. As a consequence NFZ (the National Health Fund) receives premiums on account of health insurance transferred by KRUS in the name of farmers. This is connected with relocations of budgetary subsidies obtained by KRUS, which are made every month. KRUS also deducts taxes in the amount of PLN 660 million. This amount is transferred to the account of tax offices in the name of farmers who receive pensions. On the side of KRUS it is an inclusive approach, which guarantees maximum efficiency from the point of view of NFZ and tax offices. Such a strategy is a perfect example of maximising the utilisation of the institution's resources for the benefit of all parties involved – farmers, KRUS and tax offices. The efficiency level of premium collection is 98%, which may be claimed as more than satisfactory. In Ireland, where

⁷⁴ Wernik A., *Finanse publiczne na rozstaju dróg* [w:] Kulawik J., Mazurkiewicz E.: *Polityka finansowa Polski wobec aktualnych i przyszłych wyzwań*, Tom II, WSE Warszawa 2005.

economic conditions are considered highly favourable, this value is equal to 93-94% on a national scale. In the neighbouring Ukraine this efficiency level reaches approximately 60%. Whilst analysing premium collectability level, one must consider current economic situation and how the collection system functions. In the name of employees their premiums for social insurance are paid by employers. On principle, the effectiveness of premium collection depends on employers' compliance with the rules of the social insurance system functioning. Shortage of financial means and no call of duty to pay premiums are the main reasons behind the low collectability in other countries.

The increase in the amount of benefits from KRUS.

An important issue concerning the reform of social insurance, which requires additional analyses, is the problem of the amount of retirement pays, which in the KRUS system are on a relatively low level. According to the life-cycle theory, consumption during retirement period should be the same as during the whole life. This does not mean, however, that the retirement pension should be as high as the income from work, because part of this income should be saved for the purposes of the retirement pension. The rate of saving for this purpose results from the length of the expected duration of retirement compared to the whole active life, not only the working life. In Poland this rate is 29%, which means that the average citizen should save one-third of his/her income from work in order to attain the same consumption level during retirement. In the case of a farmer, the savings transferred to KRUS should amount to PLN 700 monthly. The problem is that in the agricultural system the premium is not proportional to the remuneration for work, which is an income from the agricultural holding; moreover, revenue from such a premium is lower than the market rate of capital return.

The range of benefits offered by the insurance system for the agricultural population is close to the range existing in the employee system. The exceptions are only maternity, carer's, child and jobseeker's benefits, which are granted only in the employee system. The difference lies in the amount of some benefits, oscillating sometimes around a much lower level than in the general system. This concerns especially the level of retirement and disability pensions, as well as sickness benefits. Note, however, that these benefits are financed from relatively low premiums, which corresponds to high budgetary subsidies to retirement and disability pensions.

4.1. A comparative analysis of the functioning of the agricultural social insurance system within KRUS, and the employee system based on ZUS

The social insurance system in Poland covers four individual subsystems (the employee system, the farmers' insurance system, the entrepreneurs' insurance system and the insurance system for the uniformed services). These systems are financed by two separate funds. The first is the Social Insurance Fund (FUS), from which the entitled insured and their families obtain benefits guaranteed by the state (this concerns employees, entrepreneurs and uniformed services). This fund is held by the Social Insurance Institution (ZUS). The second one is the Retirement and Disability Pension Fund (FER), from which farmers and their families obtain benefits. The administrative unit which is responsible for the payment of these benefits is KRUS. The existence of these two options of funds concerning social insurance often leads to 'a temptation to abuse', which becomes the source of different schemes aimed at reducing the financial burden connected with insurance. As Ickiewicz points out, the temptation is huge, as ZUS premiums are much higher than those of KRUS⁷⁵.

4.1.1. The rights and obligations of the beneficiaries of KRUS and ZUS

According to the Act, the insurance in ZUS is obligatory for natural persons who act on the territory of the Republic of Poland as i.a. employers, non-agricultural entrepreneurs, outworkers, agents, contractors and persons performing other services covered by an agreement⁷⁶.

The insurance in KRUS is obligatory for farmers, their spouses and household members. A farmer who owns an agricultural holding with an area smaller than 50 ha of agricultural land pays premiums in the amount of 10% of the minimum basic state pension. Farmers and household members who additionally operate non-agricultural economic activities or cooperate in running such activities are subject to slightly different regulations from those who manage agricultural holdings. This regulation created the situation where the system of KRUS was accessed by other persons operating non-agricultural economic activities and insured in ZUS. Within the ZUS system a natural person operating non-agricultural economic activities is covered by obligatory premiums for social insurance, if this activity is the only source of their income or if their income from employment is lower than minimum base for premiums

⁷⁵ Ickiewicz J., *Obciążenia fiskalne przedsiębiorstw*, PWE, Warszawa 2009, s. 283.

⁷⁶ Ickiewicz J., *Obciążenia fiskalne ... op. cit.*, s. 286.

concerning non-agricultural economic activity. Those who initiate their economic activity for the first time have an opportunity of paying premiums from a much lower base for the period of two years. These premiums are nevertheless very high, especially for entrepreneurs who record a loss or very small income. Until 2003, the KRUS system offered similar opportunity of paying lower premiums for social insurance in regard to operating non-agricultural economic activity. The only requirement was to own an agricultural plot with an area up to 1 ha of agricultural land and for the period of one year pay premiums to KRUS in order to be exempted from paying premiums to FUS whilst operating non-agricultural economic activity. This led to the emergence of pseudo-farmers. In 2004 the agricultural social insurance system was tightened up by introducing several regulations, among which one can find i.a. the three-year period of continuous insurance and payment of premiums to KRUS, the continuous operation of an agricultural economic activity or a permanent job in agricultural holding with an area of 1 ha of agricultural land or in a special branch of agricultural production, prohibition on being employed or having employment relationships, possessing (and submitting to relevant bodies) a certificate confirming that (fully paid) income tax from the previous fiscal year concerning non-agricultural economic activity did not exceed a specified sum, which in 2009 amounted to PLN 2835, and in 2010 – PLN 2863. A farmer who exceeded the corporate income tax limit will have to transfer to ZUS or abandon his activity and still be covered with agricultural insurance in KRUS. In such a situation he will be allowed to undertake another additional economic activity after three years of managing the agricultural holding and paying premiums on this account. What is more, not every farmer operating economic activity can be insured in KRUS. It is the case when a farmer is a partner in a one-person limited liability company or general partnership, limited liability partnership or professional partnership. A natural person as a partner in such companies loses his status of an entrepreneur, as in such case the company is the entrepreneur. The exception is a partner of private partnership, who, managing agricultural holding and non-agricultural economic activity at the same time, is allowed to pay premiums to KRUS.

4.1.2. The sources of financing FUS and FER

The most important sources in generating the revenues of the insurance funds FUS and FER are premiums paid by the insured and employers and the state budget subsidy. The data presented in Table 11 indicate that it will be very difficult to reduce subsidising from the budget to both of these funds. The

revenues of FUS and FER from both these sources, together with their structure in the years 2007-2010, are presented in Table 13.

Both in KRUS and ZUS a growth in the revenues from premiums is observed within the analysed period. The revenues of FER from premiums in 2010 compared to 2007 grew by approximately 11%, whilst the revenues of FUS on this account increased only by approximately 1%. The increase in FER's revenues from premiums is most probably the result of the reform initiated in 2009, aimed at increasing the contribution of the insured in the revenues of FER.

The analysis of the revenues from premiums indicated that the contribution of subsidies to FUS within the analysed period almost doubled, whilst revenues from premiums to FER were growing to 2009 (increase by approximately 11%), and in 2010 they fell to the level recorded in 2008. Note, however, that this growth was much lower than in FUS. In 2009, compared to 2007, the subsidy to FUS increased by approximately 22% (the analysis did not include the amount of subsidy for covering the transfer to Open Pension Funds).

Table 13. A comparison of premiums and budgetary subsidies in PLN million within the revenues of FUS and FER in the years 2007-2009

Years	Revenues in PLN million				Proportion of the amount of subsidy to the amount of premiums	
	FUS (ZUS)		FER (KRUS)		ZUS	KRUS
	premiums	budgetary subsidy	premiums	budgetary subsidy		
2007	88,398	23,893	1,196	13,975	27.03	1168.48
2008	82,692	33,230	1,225	14,868	40.19	1,213.71
2009	86,538	30,503	1,299	15,805	35.25	1,216.71
2010	89,379	38,112	1,346	1,4936	42.64	1,109.66

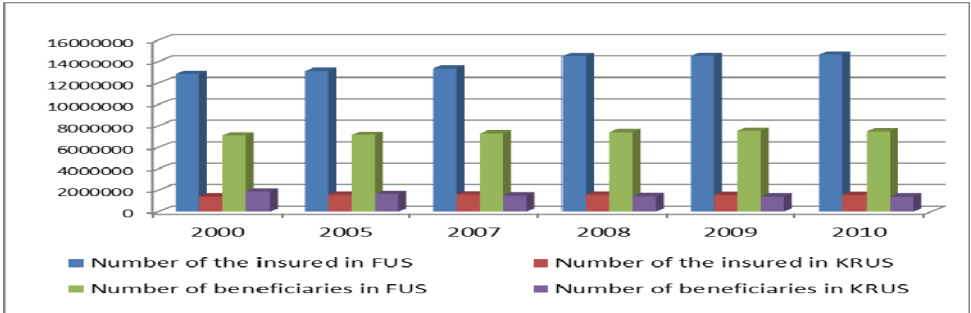
Source: Own study on the basis of financial reports of ZUS and KRUS in the years 2007-2010.

The proportion of subsidy to the premium amount of both funds is also very high. Its analysis shows that the revenues of the funds of FER mostly come from subsidies (subsidies nearly 12 times as high as the premiums from farmers). In this light, the level of subsidising FUS seems small indeed; nevertheless in 2010 the subsidy was equal to almost half the amount of premiums paid to this fund. Such a financing level is probably the result of reducing in 2008 the rate of disability pension premium paid both by employers and the insured. The analysis of the data in Table 13 indicates that it will be extremely difficult to relieve the budget from expenditures on FUS and FER, which means that attaining a self-financing system for social insurance is

a challenging path. The reason behind this is that one of the factors deepening the dependency of both funds on budgetary subsidies is the unfavourable ratio of the insured to the beneficiaries of retirement and disability pensions (Figure 33).

However, as KRUS emphasises, since 2006 the number of beneficiaries has successively fallen, whilst the number of the insured has risen, which means that this ratio is systematically improving. Unfortunately, this does not translate into the more favourable structure of KRUS revenues. It should also be noted that data presented by KRUS does not demonstrate the actual picture of insured farmers, because the statistics of this system combine the insured on account of the pension and those insured only within the contributory fund (accident, sickness and maternity insurance), which does not result in retirement or disability pension liabilities. This means that the ratio of the beneficiaries of KRUS to the number of the insured is even more unfavourable than it is presented by the statistics. Thus, it may be supposed that the main reason for the dependency of KRUS on subsidies is the amount of premium.

Figure 33. The ratio of the number of the insured to the number of beneficiaries of KRUS and FUS (ZUS) in the years 1991-2010



Source: Own study on the basis of financial reports of ZUS and KRUS in the years 2007-2010.

The correlation between the number of the insured and the number of beneficiaries is much more favourable in ZUS than in KRUS (Figure 33). The data indicate that the number of the payers of premiums for retirement and disability pensions in ZUS is twice as much as the number of pension beneficiaries. It should also be added that Figure 33 presents only statistics relating to FUS.

4.1.3. The analysis of premiums paid to FER and FUS

Within the ZUS system separate bases of insurance premium rates were established for different insurance groups. The largest group is workers, then

persons operating non-agricultural business activity, and then persons performing contract work and outworkers. The base for the premiums of the insured workers is their gross salary or wage, i.e. pursuant to the regulations of the Act on income tax from natural persons. The following premiums are paid to FUS:

- retirement pension premium in the amount of 19.5% (in the II pillar system 12.22% is transferred to FUS whilst 7.3% to Open Pension Funds),
- disability pension premium in the amount of 6%,
- sickness premium in the amount of 2.45%,
- injury premium in an amount from 0.67% to 3.33%.

In the system of ZUS the premium grows in parallel with the growth in remuneration, starting from the obligatory minimum value (PLN 559.49 monthly), then it stabilises at the maximum level (30 times higher than the average monthly pay – PLN 94,380 in 2010). This limit does not relate to sickness and injury premiums. The basis for calculating premiums for persons working on mandate contracts is established according to the rules applicable to employees.

Natural persons operating non-agricultural economic activity are subject to a different social insurance base from the above. While calculating premiums for themselves and their partners, they take the base for the premium not lower than 60% of the projected, average monthly pay adopted for determining the annual base limit for premiums. A fixed premium base through the whole calendar year is a great simplification for entrepreneurs. Nevertheless, these premiums have nothing in common with their income whatsoever. The premium base for social insurance for farmers is the amount of the minimum workers' retirement pension and (since 2009) the area of agricultural land in conversion hectares. Comparing the social insurance premium base of workers with the premium base applied by natural persons operating non-agricultural business activity and farmers, we observe that entrepreneurs and farmers calculate their premiums on much lower base than workers. It must be noted, however, that preferences in establishing the premium base may only be apparent, as natural persons operating business activity as well as farmers and farmers-entrepreneurs pay premiums regardless of their economic results, whether they record a profit or a loss, unless they suspend their economic activity. The difference between premiums paid to ZUS and KRUS is significant, which is presented in the Table 14. The lowest premiums are paid by farmers and farmer-entrepreneurs owning agricultural holdings with an area up to 50 ha of agricultural land. A little higher premiums are submitted by workers whose earnings reach below 60% of the

projected average pay in the national economy. Note, however, that workers whose income exceeds this limit may have to pay premiums even several times as high, until they reach the maximum annual premium amount. The highest premiums are paid by entrepreneurs (PLN 597 monthly) and farmers-entrepreneurs (min. PLN 230 monthly). Farmers-entrepreneurs insured in KRUS pay premiums at double the rate. Payment of this premium may be partially compensated by adding the amount exceeding the standard KRUS premium (i.e. half of the premium) to tax deductible expenses from non-agricultural business activity. The premiums of entrepreneurs paid to FUS were 2.5 times higher than the premiums paid to KRUS by farmers-entrepreneurs (assuming that accident premium was calculated according to the rate of 1.8%). Moreover, entrepreneurs pay an additional premium for the Labour Fund, which in 2011 amounted to PLN 49. Excluding healthcare premiums, entrepreneurs, on account of Social Insurance Fund and Labour Fund, paid monthly premiums at the amount of PLN 646, i.e. nearly 3 times as high as farmer-entrepreneurs contributing to KRUS. Considering the healthcare premium in the monthly amount of 243, the FUS premiums are nearly 4 times as high as KRUS premiums. Introducing additional premiums for farmers managing agricultural holdings with an area up to 50 ha of agricultural land did not solve the problem of large differences in social insurance system. A farmer whose holding covers an area larger than 300 ha of agricultural land, pays a monthly insurance premium lower by PLN 132 than a entrepreneur operating non-agricultural business activity, and after including premiums for the Labour Fund and health insurance, this difference grows to PLN 424.

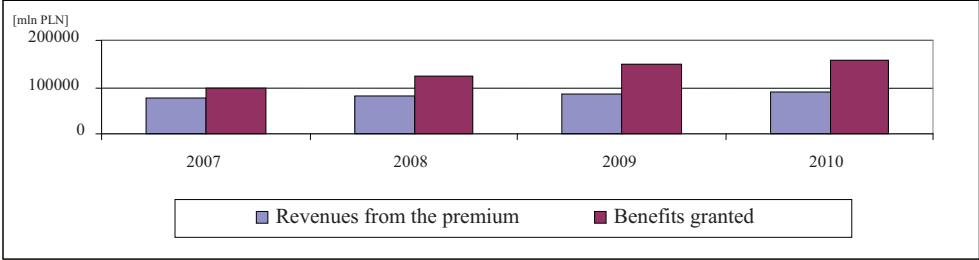
Table 14. A comparison of monthly premiums for different insurance groups in the ZUS and KRUS systems in 2011

Type of premium	Farmer (KRUS)	Farmer-Entrepreneur (KRUS)	Entrepreneur (ZUS)	Entrepreneur launching economic activity (ZUS)	Worker receiving min. pay in national economy (ZUS)	
					worker's cost	employer's cost
Social insurance						
agricultural holding to 50 ha	115	230				
agricultural holding 50-100 ha	202	404				
agricultural holding 100-150 ha	290	580	597	116	190	223
agricultural holding 150-300 ha	377	754				
agricultural holding above 300 ha	465	930				
health insurance	0	0	243	243	108	
Labour Fund	0	0	49			35

Source: own study based on information from ZUS and KRUS.

The analysis of the material presented in Figure 34 shows that within the analysed period the proportion between FUS and FER premiums is improving. In 2007 the total amount of FUS (ZUS) premiums was nearly 74 times higher than those paid to FER. In 2010 the amount of FER premiums was 65 times lower. However, despite this positive trend, the contribution of FER premiums compared to FUS premiums is very low and equals approx. 1.5%.

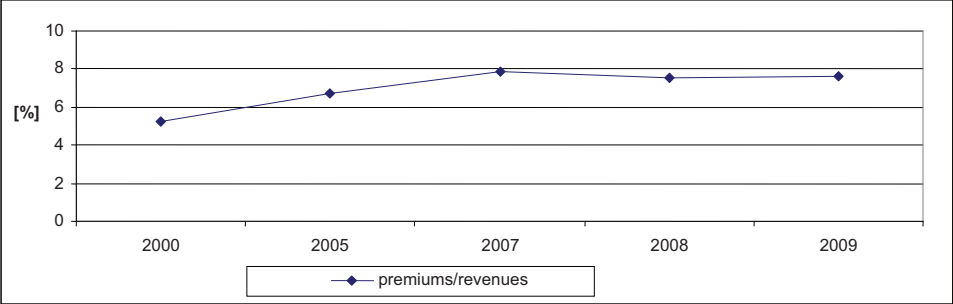
Figure 34. The ratio of ZUS premiums to KRUS premiums in the years 2007-2010 [%]



Source: own study based on the financial reports of ZUS and KRUS.

Since the foundation of KRUS, premiums have made a poor contribution to the revenues of the Retirement and Disability Pension Fund (Figure 35), and as a consequence they cover a very small part of the fund's expenditures. For this reason, the major part of FER's expenditures is covered by the subsidy from the state budget.

Figure 35. The correlation between revenues from obligatory premiums and total revenues of FER in %

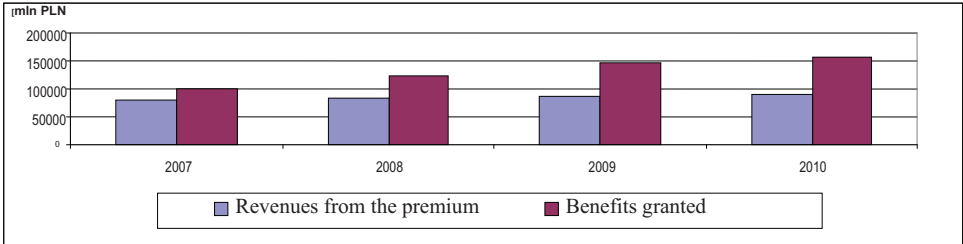


Source: own study based on the reports of the Ministry of Finance on the implementation of budgets for the years 2000-2009.

As regards the Social Insurance Fund, the situation looks slightly different. After the reform of the pension system in 1999 the difference between

the revenues from premiums to FUS and expenditures on retirement and disability pensions increased (Figure 36). It was the result of transferring part of the premium to Open Pension Funds and the reduction in the disability pension premium in 2007 and 2008. This difference is mostly covered by the state budgetary subsidy, which in 2009 amounted to PLN 30.5 billion, and combined with covering the transfer to OFE (Open Pension Funds) – PLN 51.6 billion. The other elements of the shortage ZUS has to cover by taking credits from banks and the state, or by using accumulated financial resources. Since 2008 we have observed a significant growth in the benefits from FUS. The largest growth took place in 2009, when the benefits increased, compared to 2008, by PLN 25.6 billion, in 2010 this growth was only PLN 9.0 billion. This situation was a result of the growth in payments in 2008, which obviously translated into the indexation of pensions. In contrast, the average nominal growth of such premium rates in 2007-2010 was PLN 3.5 billion.

Figure 36. The correlation between the premiums to FUS and the amount of the benefits in 2007-2010



Source: own calculations based on the reports of the Ministry of Finance on the implementation of the budget for the years 2007-2010.

The difference between the benefit growth rate and growth rate of premiums collected by ZUS indicates the growing role of the state budget in covering the expenditures of ZUS. In 2000 the revenues from premiums constituted 78% of the total revenues of the fund, whilst in 2009 only 61%. This results on the one hand from the double reduction of disability pension premium rate in 2007 and 2008 (by a total of 7 percentage points), and on the other from the nominal growth in the benefits' amount.

While comparing the functioning of social insurance funds FUS and FER, we should note that the amount of subsidies to agricultural retirement pensions in relation to subsidies to FUS is becoming smaller and smaller. This results from the growth rate of expenditures on retirement pensions from the ZUS system, especially from the faster growth of quantity and value of non-

agricultural retirement pensions compared to the benefits from FER. This correlation clearly indicates that, although no fundamental reform has been introduced which would create a balance between the revenues and expenditures of FER, KRUS is becoming a smaller burden on public finances compared to the subsidies to FUS.

Summary

The social insurance system in Polish agriculture has come through many positive changes, yet it still arouses many controversies. In public debates the opponents of this system indicate the range of benefits for farmers, the level of participation of agricultural producers in its expenditures, and the amount of costs that must be covered by all tax payers. Moreover, KRUS is a system which serves the role of insurance egalitarianism. This system invites not only farmers but also “pseudo-farmers” owning 1 conversion ha of land or owners of large holdings developed from the privatisation of state lands. The current crisis in public finances in the context of state budget burdened by agriculture may become a spur for a more thorough reform in the system of social insurance for farmers. The performed analyses indicated that in recent years there have been considerable changes in the agricultural insurance system. It seems that they should be carried on, especially in the light of the fact that insurance serves the role of minimising state budget expenditures, being an important factor shaping the position of Poland on the European market. The following elements indicate the necessity for further changes: the scale of subsidising retirement and disability pensions by the state budget, no connection between premium rate and the changeability of the potential of agricultural holding, as well as the living conditions of farming families and structural changes in agricultural holdings, which occurred after the accession of Poland to the EU.

Agricultural insurance in Poland, especially concerning retirement and disability pensions, are to a large extent subsidised by the state budget. This subsidising results from the objective conditions of native farming and is not an isolated phenomenon in the light of corresponding solutions in other countries. The problem to be regulated is the differentiation of premiums for retirement and disability insurance. Such changes as those introduced by the recent amendment to the Act on social insurance for farmers, which differentiates premium rates on the basis of area norm criteria, did not solve all the problems which the current system faces. They did not bring savings or satisfactorily implement rules of justice and equality among farmers alone, or between farmers and other part of society.

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