

## New pillar in Polish pension system will support bonds

The occupational pension funds from 2019 onwards should have a limited impact on the budget, and invest funds mainly in bonds. No decision was made with regard to the OFE system



### What has the government decided? The OPFs

The government has decided to introduce a new pillar to the Polish pension system, namely occupational pension funds (OPFs for short). Technically, the participation will be voluntary, but automatic enrolment (with an opt-out clause) will guarantee its broad reach (judging from the experience of the Netherlands, UK and Ireland). The funds will be financed by contributions of employers (min. 1.5% of wage) and employees (min. 2% of wage). The government will add PLN240 as a welcoming benefit and an additional PLN250 per year.

The reform will be introduced gradually in the following schedule:

- Enterprises employing 250+ employees (a total of 3.3m people) from January 2019
- Enterprises employing 50-250 employees (2m people) from July 2019
- Enterprises employing 20-50 people (1.1m people) from January 2020
- Others from July 2020

## What has the government not decided? The OFE

In Poland there still exists a second pillar of pension system, the once cherished OFE funds, later reduced and now in disfavour. Half of their assets was parcelled out by the previous government, but they still possess PLN189bn, mostly in stocks. Current Prime Minister M.Morawiecki has promised to liquidate this pillar and distribute 75% of their assets to insured people and the remaining 25% to the public wealth fund FRD. However, another influential minister in his government E.Rafalska opposes the whole idea and prefers to transfer the OFE assets to FUS – the pay-as-you-go part of the pension system. In any case, the impact on Polish financial markets will be profound, negative for stocks and positive for bonds, in our view. The government, however, has not addressed the issue of OFE today. It only promised to make up its mind by the end of 2019. Whatever the decision will be, it is unlikely that it will come into force before January 2020.

## Macroeconomic consequences

The fiscal cost of the new pillar will be relatively benign, PLN1.2bn in 2019 gradually rising to PLN3.1bn in 2022 per annum (~0.1% of GDP). There will, however, be an impact on the labour market as the tax wedge will rise significantly, from ~36% now (close to OECD average) to ~40%. As a result, Polish enterprises will either lose some of their international competitiveness or they will find some other competitive advantages from an inexpensive workforce. It is too early to say what would be the exact macroeconomic impact of the new pension funds.

## The impact on financial markets

It is safe to assume that the average rate of contribution to occupational pension funds will be close to the regulatory minimum and the enrolment rate will reach 75-80%. The new pension funds will therefore receive PLN5-6bn in 2019. What assets will they purchase? The annual costs of OPFs will be limited to 0.6% of collected assets per annum. This is a very small figure in Polish circumstances, where investment funds' fees according to Analizy Online (Polish funds rating site) are closer to 2.5-3.5% of assets. Only ETFs are able to keep their costs below regulatory thresholds. Therefore, the new OPFs will have a passive investments strategy as well. They will probably purchase Polish government debt and to some extent Warsaw stock exchange indices. This will support the prices of the aforementioned assets.