

## Poland: Pension system overhaul bond positive, but undermines pensioners trust

The government intends to transfer open pension funds' (OFE) assets (PLN162bn) to new private accounts (IKE), charging 15% for the conversion. This should result in PLN24bn lower government borrowing needs, and possibly lowering debt and deficit statistics



Source: iStock

The conversion/transfer is scheduled to take place in January 2020, but the 15% charge will be distributed over two years. There is some uncertainty whether ESA 2010 methodology will allow the government to recognise that as revenues, and reduce the deficit and debt. The government claims that this is compliant with Eurostat methodology. We estimate the rise of 2020 borrowing needs will be lower than we thought, as new revenues may offset some of the spending on PiS election pledges. As a result, net borrowing needs in 2020 and 2021 should each be lower by PLN12bn and rise from PLN30bn this year to PLN35-40bn in 2020 (not PLN50bn as we thought before). Effectively, the risk of hitting the 3% of GDP deficit limit declines considerably.

# 162

## PLNbn

Assets under OFE management

We expect the fee to be paid from deposits held by OFEs (PLN10bn) and non-PLN assets, particularly stocks (PLN10bn). According to Bloomberg, in 2020 funds operating the new IKEs will have to maintain a minimum 85% assets in shares. Given the current structure of OFE assets, funds managed under the new IKE system will mostly retain their asset structure. In the coming years, the minimum share of equities will be lowered, creating more demand for Polish government bonds (POLGBs). Money transferred from OFEs to IKE will not be redeemable before retirement. Current IKE accounts may be redeemed prior to retirement (at a substantial fee), so the new IKE accounts will be a distinct vehicle.

People are allowed to choose a different option, ie, transfer of money from OFEs to the public Social Insurance Institution (ZUS) rather than IKE, but this should only happen marginally. IKE transfer is the default option and the ZUS option is not enticing financially. People transferring to ZUS will not pay the 15% charge, but unlike IKE benefits from ZUS are taxed (currently the lowest personal income tax rate is 18%).

Consequently, we see the overhaul of the private pension system as POLGBs positive and likely neutral for domestic equities. But simultaneously we find this overhaul undermines the credibility of the pension system as a whole. It may limit participation in a new occupational pension scheme (it has an opt-out option), which was long prepared by the Polish Development Fund and will be launched in 2H19. We think this overhaul complicates the Polish pension system even more. According to our behavioural research, the more complicated and less transparent the system is the lower participation of employees, which is negative for Poland as it struggles to increase the saving rate and pension savings as a remedy to the expected drop in the replacement rate.

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