



CONDITIONS FOR THE DEVELOPMENT OF THE PENSION SYSTEM IN POLAND

Dorota Gaudyn¹

¹Management Department, Cracow University of Economics, Poland

ABSTRACT

The article presents the economic foundations of the functioning of the pension system, changes in the structure of people receiving retirement benefits in the modern economy. The dynamically changing socio-economic situation has a significant impact on the pension system. Its construction is an important social issue. However, when introducing changes in the social insurance system as a result of changes in the environment, care should be taken to ensure the right proportions. Negative trends occurring in the demographic situation of the country, i.e. the aging of the society and the decline in fertility are the main challenges of the pension system. The burden-sharing between generations and the role of the state in this process were analyzed. The threats that the Polish pension system await are presented. I am talking about the uncertainty regarding the maintenance of financial solvency, the adequacy of social benefits. Factors influencing the situation of the Polish pension system, i.e. demographic changes, globalization process and transformations on the labor market were presented. The presented results of secondary research over the years were analyzed and summarized trends. Conditions for the functioning of the Polish social security system were indicated. A forecast was also made of development trends in the functioning of pension systems and their development for the coming years.

Keywords: Demography, Pension system, Pensioners, Reforms.

I.INTRODUCTION

In recent years, reforms of the pension systems have been observed in many countries. The main reason for these changes are demographic trends such as decreasing fertility of societies or extending the life of the population. These factors make it necessary to adapt pension systems to the prevailing socio-demographic changes. The problem of an aging society is particularly noticeable in European countries. This causes disproportions in the ratio of the number of people of working age and people who are not professionally active. The continuous increase in the number of pensioners means a significant burden in financing the consumption of pensioners by working people. National governments are taking measures in the field of pension policy to improve the situation. These activities are aimed at promoting voluntary programs or pension funds. Other factors affecting the need to reform pension systems are the fact that there are changes in the family model, where the only breadwinner was a man and the woman remained



inactive. It also affects changes on the labor market. Today, there are significant social changes and globalization of society. These factors can be identified as the reasons for the evolution of pension systems. The aims of the publication are:

1. Analysis of changes in the structure of persons receiving retirement benefits.
2. Indication of problems of modern pension systems and forecast for the coming years.

II. THEORETICAL BASIS – THEORETICAL ASPECTS OF THE FUNCTIONING OF THE PENSION SYSTEM

The pension system is to ensure that the material needs of people in retirement age are met. Thus, it performs two functions:

- minimizes the manifestations of scarcity by appropriately allocating funds,
- creates conditions to equalize the standard of living of the society and protects against a sudden decline in the level of well-being of the population [1].

In implementing the policy objectives of the state, pension systems redistribute financial resources allocated to social assistance. This redistribution is made by paying benefits to less wealthy people at a higher rate than their current earnings. There is also intergenerational redistribution of income in the economy. This situation occurs when the interest rate on pension contributions decreases. In this case, future generations will have to pay higher contributions or receive lower retirement benefits. This illustrates the shift of income of future generations to the present [2]. People strive to equalize consumption levels throughout their lives or maximize well-being. To this end, they accumulate savings for the years in which they will not work. The indicator measuring the degree of equalization of consumption throughout life is the replacement rate. It is the relation between the amount of the retirement benefit and the earnings generated in the course of professional activity. In addition to the basic goals of the pension policy, there are also social and economic goals indirectly related to the pension system. An example would be economic development [3].

Modern pension systems are particularly vulnerable to insolvency. For this reason, they should be adapted to changing conditions as much as possible. The conditions discussed are:

- increase in life expectancy - the problem is the uneven extension of life expectancy in different income groups, uncertainty about the pace at which life expectancy will increase. In order to adapt pension systems to changes in life expectancy, various tools are used, such as reductions in monthly benefits granted after reaching the minimum qualifying age, raising the retirement age or adjusting the amount of the increase in benefits in the event of later retirement:



- change in the workforce - a slower increase in labor resources has a negative impact on the financial situation of pension systems. The aging of the workforce is slowing down the pace of technical progress.
- changes in social risk - changes in social conditions and attitudes require appropriate adjustments in pension rights [4].

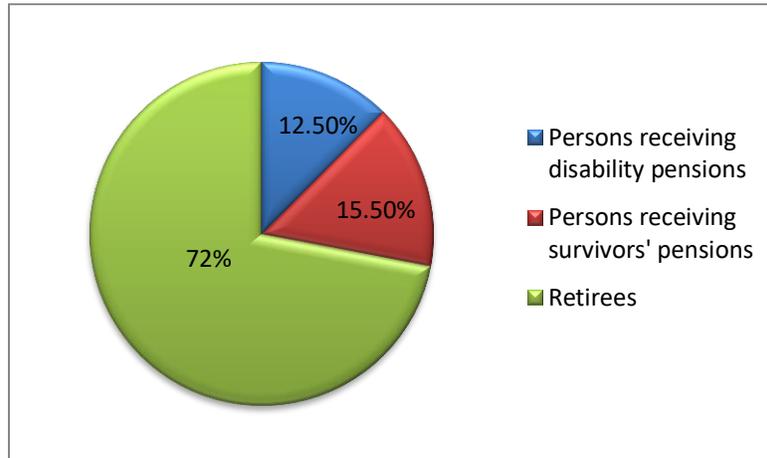
Structures of pension systems consists of main components. A distinction is made between the base and complementary parts. This illustrates the multi-level system that consists of pillars. The first pillar should be associated with the public part of the system, i.e. ensuring social security for already inactive people and providing them with retirement benefits that will allow them to maintain financial security in old age [5]. The fundamental feature is the obligatory participation of all professionally active people in this system. On the other hand, participation in additional pillars gives the possibility of greater security in old age. The second pillar is manifested by the employer's care for the employees to accumulate additional savings. The third pillar is the individual decision of each insured person, which should be considered at the household level. Proportionality and the combination of voluntary and mandatory elements of retirement security should ensure a good balance between these components. Determining the scope of these elements must be based on striving to maintain an adequate level of income of working persons, while maintaining state solvency and efficiency of the labor market and economy [6].

III. REVIEW OF CHANGES IN THE POLISH PENSION SYSTEM

In the current demographic situation, it is necessary to keep young, professionally active people in the country. Emigrants create an empty space in the social structure and intergenerational pension system. When they leave, they stop paying contributions to cover the benefits paid to pensioners. The solution to this problem would be to compensate for the number of emigrants with immigrants from less developed countries. By joining the European Union and as a result of opening borders within the community, Poland is still attractive to few immigrants. The arrival of immigrants is extremely beneficial because they do not have to bear the costs of their education, growing up and educating. At the same time, able and motivated to work are an extraordinary added value for the economy and the labor market [7]. Unfortunately, it is noticeable that Poland will not improve its attractiveness even in the long term. There will be no process of compensating for quantitative and qualitative shortcomings in the labor market due to the emigration of Polish citizens. Another problem for the pension system in Poland, which has been increasingly seen in recent years, is the widening gap in pay for work and capital in favor of the latter. This is due to a too rapid increase in wages compared to the unsustainable increase in labor productivity. An additional extension of the life expectancy of the elderly causes the

necessity to pay more and more retirement benefits. The number of people receiving various types of retirement benefits is presented in the chart below.

Chart. 1 Structure of retirees' and pensioners' population in 2017

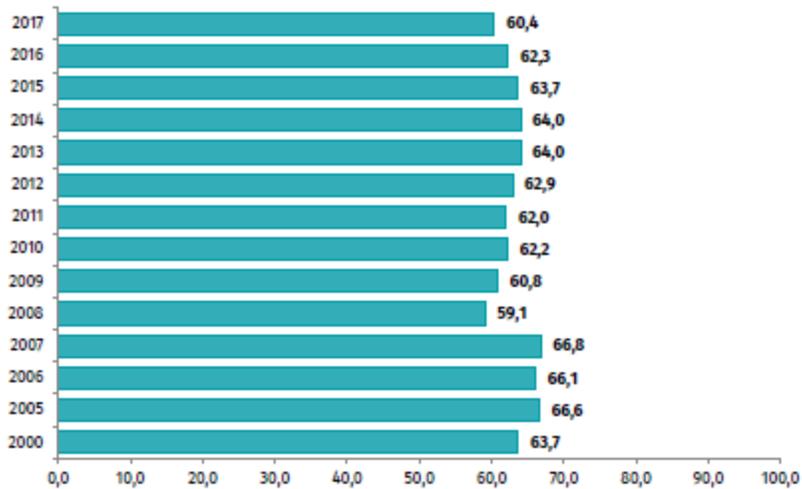


Source: Central Statistical Office

In 2017, the number of retirees and pensioners in Poland amounted to 8,935,200 people. The largest percentage of people are pensioners (72%), the remainder are persons receiving disability pensions (15.5%), and the smallest group are persons receiving disability pensions (12.5%).

Increasing wages and an inefficient increase in labor productivity are not the only problem for the efficiency of the Polish pension system. Increases in the amount of benefits paid can be seen on the example of pensions, as illustrated in the chart below.

Chart 2. Relation of the average monthly gross retirement pension from the non-agricultural social security system to monthly average gross wages and salaries in the national economy



Source: Central Statistical Office

In 2017, the ratio of the average gross monthly retirement pension from the non-agricultural social security system to the average wage in the national economy decreased to 60.4%. The most visible decrease of this relation from 66.8% to 59.1% occurred in 2008, in subsequent years a gradual increase up to 2013 could be seen. This ratio remained at the same level in 2014, and then gradually decreased until 2017.

An indicator that more accurately illustrates the future imbalance of the pension system in Poland is the system efficiency index. It shows how many percent of liabilities towards pensioners are covered by contributions of insured persons. In a perfectly balanced system it will be 100%. The value below indicates a deficit, the value above is a surplus. Below is the forecasted 2012 showing the efficiency of the pension system.

Table 1. Forecast efficiency of the pension system in Poland

Forecast for years:	Pension system efficiency (in percent)
2015	58
2030	65
2040	80
2050	82
2060	80

Source: Social Insurance Institution in Poland

It follows that the Social Insurance Institution provides for an improvement in the situation of the pension system in Poland (probably by replacing retirees with initial capital by those who from the beginning operated in the reformed first pillar). At the same time, the forecast does not predict a balance. According to the forecast, the system will be based on the decreasing ratio of



expenditure on paying out retirement benefits in relation to GDP. In economic reality, however, this will not be sustainable, especially in a society dominated by the elderly.

IV.CONCLUSION

In the modern economy, the functioning of the pension system is associated with the risk of insolvency and lack of liquidity. This risk depends on many factors, for example the structure of the pension system, the conditions in the socio-economic environment or the demographic situation. The dominant model in developed countries is the large involvement of the state in the operation of the pension system, this is done by setting the legal framework for its functioning, financial commitment to providing funds that help in current liquidity or long-term solvency. Sometimes the level of this involvement can be so significant that in a situation of high risk affecting the financial situation of the pension system, it may violate the sustainability of public finances. The consequence of such situations is the introduction of radical changes in the pension system. They aim to stabilize the situation. In the short term, however, this meant an increase in the system's deficit, which had to be financed more by the State. This involves the need for thorough reforms and financial stability of the pension system. In the face of demographic and economic challenges, the key is to base it on many generations, not just the current situation.

REFERENCES

- [1] Barr N., Diamond P.A., *Reformy systemu emerytalnego*, Polskie Towarzystwo Ekonomiczne, Warszawa, 2014.
- [2] Diamond P.A., Orszag P.R., *Saving Social Security: A Balanced Approach*, Brookings Institution, Washington, 2005.
- [3] Beetsma R., Romp W., Vos S., *Voluntary participation and intergenerational risk sparing in a funded pension system*, European Economic Review, 56(6), 2012.
- [4] Barr N., Diamond P.A., *Reforming Pensions: Principles and Policy Choices*, Oxford University Press, New York, 2008.
- [5] OECD, *Maintaining prosperity in an ageing society*, OECD Publishing, Paris, 1998.
- [6] Keynes J.M., *The General Theory of Employment, Interest and Money*, Macmillan, London, 1936.
- [7] Pestieau P., *The Welfare State in the European Union*, Oxford University Press, Oxford, 2006.