***Ewa Tomaszewska* - Poland**
***Independent Selfgoverning Trade Union "Solidarity"***
**Bucharest, 1-2.09.2011**
***EZA seminar - Euromf***

Pension Reform in Poland

General problems

Until the end of 1998, Poland's pension system was based on generational solidarity; it was a „pay as you go" system. Contributions paid by insured workers were used to pay benefits to their contemporary eligible retirees. The financial conditions of such a system depends on the ratio of working population paying contributions to the population of people receiving benefits. The aging of the society and later also the unemployment rate resulted in a gradual rise of contribution from 15% to 45%. The process was accompanied by the society's growing dissatisfaction with the level of pension benefits. Demographic analyses were showing a rising threat of system insolvency.

Since 1989, the reproductive levels have not guaranteed net generation replacement. In 2003, the fertility rate was at 1.22, the lowest in over 50 years, now it is 1.4. Demographic security is guaranteed by a rate ranging from 2.1 to 2.15. Life expectancy is rising. The age median is increasing each year. The period after 2020 will be characterized by a rapid aging of the population.

In this situation, the need for a pension reform seemed unavoidable. Our Trade Union prepared one of proposals of pension reform. Most of our suggestions were taken into consideration by government. There was organized the Team of Social Insurance in Tripartite Commission. In 1997 after four meetings there was signed the agreement on pension reform. It was signed by organizations of Polish employers, nine trade unions on national level and government.

Major solutions of the reform were:

- distribution of insurance risks,
- creation of individual accounts for insured,
- with regard to the risk of work injury, contributions differentiation depending on hazard (mainly the number of fatal and serious accidents and the number of people working in hazardous conditions),
- with regard to the pension system, improvement of its financial condition through a mixed formula implemented in three pillars: 1 – solidarity between generations, general and obligatory, 2 – investment, general and obligatory, 3 – investment, optional (employee pension schemes),
- use of privatization revenues to finance the formation of the 2 pillar pension insurance,
- changing the defined pension benefit into defined contribution.

Our trade union prepared introduction of unemployment insurance. Government didn't accept this solution.

Why "Solidarity" supported that reform? It promised us not so high benefits, like the old system. So it can seem strange. The reason was: we were afraid of system insolvency.

In new insurance system contributions were divided into:

- 19,52% of payment to pension system,
- 13,00% of payment to disability pension system,
- 2,45% of payment to illness insurance,
- 0,40 % - 8,12% of payment – to professional diseases and industrial accidents insurance.

Employers and employees pay contributions for pension system and disability pension system in equal parts. Employees pay illness insurance contribution. Employers pay wages for the first 35 (later 33) days of illness. Employers pay full contribution for industrial accidents insurance.

Demographical Reserve Found was established to help in creating equal conditions for people receiving their benefits in a period of demographic picks and demographic bottoms. 1% of money from pension insurance system was directed to this found. Demographical Reserve Found is managed by ZUS, Social Insurance Institution in Poland. The same, which is leading "pay as you go" system. There were established Open Pension Founds. Contribution to pension system was divided into two parts. 7,3% was directed to Open Pension Founds. It made possible investing part of contributions on pension benefits. The rule on Open Pension Founds anticipate creating two types of that founds: more aggressive for younger people and balanced for older. Pension General Societies organized 21 Open Pension Founds. The rule on reformed pension system established Pension Founds Supervision Office. Its task was supervision on Open Pension Founds and employee pensions schemes. There was a Council, guaranteed supervision of social partners (representation of government, trade unions and employers organizations).

Earlier we haven't any experience with such big financial organizations like Open Pension Founds. So it was very difficult for us to foresee their power and their presser on politics. In a few years our rules, creating pension reform, were changed. Charges for managing pensions founds rise. The period, taking into consideration while evaluate pensions founds efficiency, stay two times longer. Pension Founds Supervision Office no longer exists. Its tasks are realized by consolidate Financial Supervision. The Council does not exist. It means, that there is no supervision by social partners. That, who pay contributions and that, who will receive benefits.

The goal of that reform was solvency of system. It's two parts, illness insurance and industrial accident insurance are solvent. Pension Disability Insurance was very near of solvency. In 2006 year Parliament decided to make contribution lower. It means, changed it from 13% to 6%. Decision was created by politics. Politics from finance but not social committee. Quickly it create a presser on making benefits lower. So it is a danger of rising poverty among disable people.

Economical crisis was the general reason of last changes in pension system. Decision was to make lower that part of contribution, which is directed to Open Pension Founds. It was change from 7,3% to 2.3%. Generally it means, that solvency of pension system in future will be threaten. Instead of real financial protection we will get only paper declarations. In detail investing system can't create two kinds of found, more aggressive and more save. It is a need to get contribution on the level of 4.5% - 5% to do it.

So after reform 1999 year next years I can name the years of disassembly of insurance reform, especially pension reform.

Pension reform, which started in 1999, was very expensive. Money, the country budget got thanks to privatization, were used on other goals, but not only on creating new pension system, like it was written in the rule. It was a reason, why during the financial crisis and budget problems Polish financiers looked at pensions founds with greed. Last change, making lower investing part of contribution, was done to rescue budget of the country, but not to have in consideration solvency of pension system in the future.

Opinions of social partners were ignored.

In my opinion politicians do not understand:

- importance of pension system solvency,
- importance of demographical problems in the future,
- a need of spending public money now for solvency of pension system in the future,
- a need of taking social partners opinions into consideration.

It is very danger for pension system solvency in a long period.