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The losing streak of Employee Capital Plans in the pension fund market

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Abstract

The purpose of the article was to present the basic reasons for the lack of interest in the government pension scheme — the Employee Capital Plans, and to draw attention to the question of its profitability for future pensioners. The article sought to answer the question of what is the public's familiarity with the assumptions of this program and why is there so little interest in participating in it. To this end, attention was paid to the main obstacles undermining confidence in this program.

1. Introduction

There are currently 6 pension schemes in Poland: the state-run ZUS (Social Insurance Institution), the semi-state-run OFE (Open Pension Funds), the private IKE (Individual Retirement Account) and IKZE (Individual Retirement Security Account), the voluntary, workplace-based PPE (Employee Pension Plans) and the recently introduced private and universal PPK (Employee Capital Plans). None of the optional pension programs are very popular, despite the fact that the media has been reporting on the prospect of low pensions in the future for years. The biggest problem, however, will arise in 20–30 years, when the first people who have worked their entire professional lives in the new system will retire, according to the principle of "how much you save for old age, so much you will have."

The average pension in March 2022 was PLN 2545 gross (Kropiwiec, 1.06.2022). This amounts to around 41% of the average salary in Poland. The "replacement rate" is roughly half of the last salary. In a few years, it will be about 30% of the last salary, and perhaps as little as 20–25%. Future pensions will be lower, because in 1999 the government abandoned the principle according to which the amount of a pension did not depend on paid contributions, worked years or the sum of earnings accumulated during the entire working life. The introduction of the "how much you collect, so much you will have" principle might not have lowered pensions if the Open Pension Fund program had succeeded. It was supposed to be supported by revenues from the privatization of state-owned enterprises. As of today, the state ensures that if, after 20 years (for women) and 25 years (for men) of working and putting aside contributions to ZUS, a pensioner lacks the capital to receive the minimum pension, the state will make up the difference (Sudak, 6.05.2019), so that one can receive a benefit of PLN 1338.44 gross (Ministerstwo Rodziny i Polityki Społecznej, 18.10.2022), while the current minimum pension, as of March 2023 PLN, amounts to 1588.44 (ZUS, 2022). The minimum pension may be out of reach for many people.

This means that in order to receive a decent pension in the future, it is necessary to save 10–15% of one's salary in addition to the ZUS contribution. In turn, the investment of this salary is an individual matter. Statistics show that the public has no confidence in state programs, and as such many people choose to invest money in a bank, or in real estate, land or gold.

An Expander analysis shows that saving in PPK will not ensure a decent pension. The also study shows that men around the age of 35 need three times as much savings to get a pension equal to their final salary. Women, on the other hand, need nine times their current amount of savings. According to Expander's calculations, "a woman joining PPK at the age of 35 will save about PLN 105,000 in the scheme, assuming that she earns PLN 3,000 net and had basic contributions in the program. A man in the same situation will put aside 147,000" (KRO, 26.09.2019). According to Jarosław Sadowski, chief analyst at Expander, people retiring in 20–30 years will receive a ZUS benefit of 20–30% of their final salary. Maintaining the current pension system requires a large increase in ZUS contributions, otherwise the benefits paid will be very low. If future retirees want to maintain their current standard of living, they must start putting aside savings every month. However, for this to make sense, the savings must be "many times higher" than the money set aside in PPK. Sadowski believes that: "if a woman aged 35, earning a net income of 3,000 złotys, wanted to receive a pension of the same amount, she would have to save 969 thousand złotys by the age of 60. This is effectively nine times the amount she will save in PPK. A man in the same case should accumulate 488,000 złotys (three times more than in PPK) (KRO, 26.09.2019)."

The calculations of Expander's experts are based on the assumption that a person has not yet put aside anything in private retirement savings (not including ZUS and OFE contributions). It also assumes that salaries and pensions will grow by 2.8% each year, and that people will retire as soon as they reach retirement age

(60 or 65). It was assumed that the money set aside would yield interest at a gross rate of 3.5% (including tax), and that upon reaching retirement age the interest rate would drop to 2.75%, and, in addition, that the ZUS pension will account for 40% of the last salary and will grow by 2.8% per year (KRO, 26.09.2019).

According to senator Marek Borowski, PPK is a "rebranding of the previous OFE system," and "the size of the PPK pension in the pension calculator created by the government has been — manipulated, really — inflated by as much as six times." Assuming a net income of PLN 4,000 and contributions of PLN 160 paid over 40 years, the calculator calculates a pension of PLN 2,400. If we add the ZUS projection — PLN 2,000, it turns out that the future retiree will receive a pension higher than the salary he received during his working years. This means that 2% of the employee's salary plus 1.5% added by the employer and PLN 20 of monthly state support gives a higher pension than ZUS. It follows that 4% of the salary will give more than the 19.5% pension contribution to ZUS. The government's assumption is for a 3.5% annual return over the entire 40-year working life (which is unrealistic), with part of it invested in stocks and a majority in low-interest bonds, especially under conditions of repeated crises and hyperinflation. When such assumptions are verified in line with market indicators, this pension falls to PLN 1,100 (Lipiński, 20.12.2018).

In 40 years, wages will be at a different level than today. For this reason, comparing the amount of the future pension to today's salaries does not make sense. The projections of the calculator's authors indicate that in 40 years, salaries will be three times higher, i.e. they will account for PLN 12,000, not PLN 4,000. PPK offer a PLN 1,100 pension relative to a last salary of PLN 12,000. It is as if in the present day a salary of PLN 4,000 entitled one to receive a PLN 380 pension instead of the claimed PLN 2,400. The scheme, like OFE, promises high pensions and possibilities of travel to exotic countries, which is unrealistic. There is also the possibility that savings from PPK, like those from OFE, will be nationalized by ZUS (Lipiński, 20.12.2018).

The purpose of the presented research is to explain the reasons for the low interest and low participation in the PPK pension program, and to find the main reasons for the failure of this program. Starting from this premise, the article presents the results of research on the following issues:

1. Knowledge of the PPK scheme among the public;
2. Concerns about this scheme and the reasons for non-participation and resignation from PPK;
3. The main reasons for the failure of PPK.

The starting point of the research was to present the current situation of PPK participation and the public's perception of this program, as well concerns and expectations related to it. At the same time, it has been shown that, in addition to the difficult economic situation, these fears and the negative perception of PPK by citizens are not entirely unfounded.

Resolving these issues required the research to focus on the following problems: the political propaganda accompanying the introduction of PPK, the lack of confidence in government initiatives after the failure of the OFE scheme, as well as the associated political and regulatory risks, and the general lack of confidence in the capital market and the ever-increasing inflation.

2. The theoretical aspect of the research

The introduction of new pension solutions into the practice of social and economic life always requires consideration of their strengths and weaknesses, and should be preceded by a broad survey of public opinion regarding expectations for such a program, as well as factors that would encourage participation in it. Their results would allow appropriate adjustments to be made to the adopted solutions. They would ensure that their implementation would be better received and would not have negative socio-economic consequences.

3. Research methodology

The studies presented here used a qualitative research methodology, which made it possible to formulate theses, as well as general conclusions. The research took into account the economic and political factor affecting the perception of the attractiveness of PPK, while maintaining the objectivity of the research by using available techniques for collecting information. The research used source materials such as analyses of the PPK market, public opinion polls, expert opinions and literature related to the study problem undertaken.

4. Interest in PPK

At the end of August 2018, when submitting the bill on Employee Capital Plans to the Parliament, the Law and Justice government estimated the level of participation in PPK at 75%. In actuality, more than 70% of Poles have unsubscribed from the program (Kostrzewski, 21.12.2020).

According to the assumptions of the scheme's originators, PPK were aimed at 11.4 million employees. This assumption raises quite a few questions, as it is unclear what was the basis for such a claim.

Given the current experience of participation in PPE, which have been in operation for more than 20 years (the participation rate in PPE, calculated as the percentage of employees participating in PPE to the number of eligible employees, and the percentage of PPE participants paying a voluntary additional contribution), it was hoped that the scheme would be a success. According to data released by the Financial Supervision Commission, the percentage of participation in PPE was 60.8% at the end of 2016, while in previous years it had remained at around 70%. Therefore, the PPE originators' expectation of 75% participation may seem reasonable, if one takes into account that PPK would be based on automatic enrollment of the majority of the employed population (the "auto-enrollment" mechanism), and that the enrolled participant would have to show his own initiative to withdraw from PPK (the "opt-out" mechanism). Optimists claimed that the "opt-out" mechanism, which is a flagship application of the achievements of behavioral economics, would achieve the intended goal, a participation rate of 75% (Instytut Emerytalny, 2017, 38).

What has not been pointed out is that the design of PPK includes a factor that carries the risk of decreasing participation in the the program. This factor is the employee's mandatory basic contribution of a planned 2% of salary, the payment of which determines the ability to participate in PPK, and the receipt of a mandatory basic contribution of 1.5% of the participant's salary, financed by the employer. Such a structure may result in increased PPK churn among the lowest-paid people, for whom every couple of złotys is pre-determined for the necessary costs of living and who cannot afford to set aside additional resources for retirement. It also failed to take into account the situation that in practice some employers, motivated by the desire to minimize labor costs, will be in favor of opting out of PPK, despite the fact that the prepared draft includes punitive provisions to counteract employers' inducement of employees to opt out of PPK. Also, after what happened with OFE, no consideration was given to how many people will trust the state again, considering that it has so far given little convincing argument for the legitimacy of additional retirement savings (Instytut Emerytalny, 2017, 39).

According to the Act on Employee Capital Plans, this form of savings is open to all who meet the criteria of age, length of service and form of work. As of June 30, 2020, the number of PPK participants accounted for 1,074,847 people, resulting in a participation rate (the ratio of PPK participants to the number of people employed at entities operating PPK) of less than 40%. Since the deadline for the implementation of PPK for medium-sized companies was moved from spring 2020 to autumn 2020, the larger increase in the number of PPK participants was expected to occur in late 2020. Based on data obtained from financial institutions and employers, the number of PPK participants in the fourth quarter of 2020 in companies with 20 to 249 employees totaled about 1.65 million people. Taking into account the number of people eligible to participate in PPK, which the government estimated at about 6.4 million employed people, and the number of people who joined PPK, which the Pension Institute estimated at 1.65 million people, participation in PPK was about 24–26%. PPK participation among employers with 20 to 249 employees, is several percent lower than for larger employers (see Table 1).

Table 1. Number of employed people eligible to save in PPK (in millions of people)

more than 250 employees	more than 50 employees	more than 20 employees	at least 1 employee	public finance sector
3.3	2	1.1	2.9	2.2

Source: Instytut Emerytalny, 2020, 7.

Based on information obtained from employers and financial institutions, it was found that PPK management agreements were entered into by almost all obligated employers, however, in a large number of enterprises, 100% of people opted out of saving in PPK. A noticeable proportion of enterprises (one in five) did not conclude PPK management agreements. It was found that after the launch of PPK in companies with at least 20 employees, the initial level of participation in PPK was around 24–26%. It was also noted that there was no significant variation in the level of participation among the various financial institutions offering PPK.

Taking into account the obtained information, it was concluded that the current level of participation in PPK is unsatisfactory and requires effective measures to increase it (Instytut Emerytalny, 2020, 89).

In the second quarter of 2021, the fourth and final stage of PPK implementation was completed. According to Oskar Sobolewski of the Pension Institute, if all employed people (more than 11 million) are considered, the participation rate is low — at around 21%. The data shows the scale of participation and proves that about 80% of people have opted out of PPK. The legislator's assumption was for a 75% participation rate at the start of the program; in fact, as many people have opted out of PPK as were expected to remain in the program (Krzykowski, 16.06.2021).

A report published by the KNF (the Polish Financial Supervision Authority) at the end of Q2 2022 shows that the number of PPK participants was 2.79 million. This represents an increase of 2.9% q/q and 20.7% y/y. Net assets of PPK defined-date funds accounted for PLN 8.97 billion at the end of Q2 2022 (+2.5% q/q, + 69.2% y/y). Total PPK contributions in Q2 2022 accounted for PLN 1.33 billion (+2.1% q/q, + 25.2% y/y). The number of PPK withdrawals from refunds accounted for 63.3 thousand in Q2 (+ 8.4% q/q, + 125.3% y/y). The value of such disbursements accounted for PLN 139.34 million in Q2 2022 (+ 1.7% q/q, + 165.3% y/y) (KNF, 27.09.2022).

Data from the Polish Development Fund (PFR) shows that at the end of August 2022, the number of PPK participants was 2.44 million. This is comparable with 2.27 million participants in 2021 and 2.16 million as of June 30, 2021. This means that out of about 17 million working people, about 15% have joined PPK. According to the PFR, at the end of August 2022, the funds accumulated in PPK accounted for PLN 9.77 million. Compared to July, an increase of PLN 177.4 million was recorded. In contrast, the balance as of June 30, 2022 was PLN 9.03 billion. For comparison — 2021 closed with PLN 7.67 billion, and six months earlier it was by PLN 5.33 billion (Leśniak, 27.09.2022).

According to data from the PPK Registry, as of October 31, 2022, the total net asset value (WAN) of defined-date funds (FZD) accounted for PLN 10.19 billion. In the following month, the value of net assets increased by PLN 588.08 million. The number of active RPC accounts accounted for 2.80 million. Exactly 294.18 thousand enterprises allowed their employees to participate in PPK. So far only 2.48 million people have taken the opportunity to save in PPK. Total participation in PPK was 33.9% (PFR Portal PPK, 2022, 3–4, 6).

5. PPK in public opinion

In August 2020 Difference Spółka Komandytowa and PFR TFI conducted a survey entitled *Motivations for saving and participating in PPK* among respondents aged 18–55, working in companies employing more than 250 people, divided into current and former PPK participants. The survey was carried out using the technique of in-depth individual interviews and based on online surveys. The purpose of the survey was to learn about methods of saving for retirement, to discern the advantages and disadvantages of various methods of accumulating and investing funds (including PPK), as well as the motives for deciding whether to remain or unsubscribe from PPK (Difference Spółka Komandytowa, PFR TFI, 2020, 2, 5–7).

The survey found that setting aside additional funds for retirement (in addition to existing ZUS contributions) was declared by 3/4 of the people surveyed. However, despite the widespread conviction that persions received from ZUS will be low, respondents showed little interest in additional methods of saving, generally choosing well-known but inefficient financial products. PPK as a way to set aside for future retirement was chosen by 24% of people. One in four respondents (26%) relied exclusively on a ZUS pension. See Table 2.

Table 2. Used forms of saving for retirement (in %)

Form of retirement savings	%
I only deduct money from applicable ZUS contributions. [This answer excluded other forms of saving]	26%
I put money in the bank in a savings account or deposit	42%
I put away money within the framework of PPK 24%	24%
I put away money within the framework of a policy or pension insurance	16%
I put away money within the framework of PPE	16%
I contribute within the framework of additional pension programs (IKE, IKZE)	14%
I invest in the future of my children, and I am counting on their financial support	12%
I invest in real estate	10%
I invest in the stock market	8%
I invest in mutual funds	7%
Other	3%

Source: Difference Spółka Komandytowa, PFR TFI, 2020, 13.

The most popular forms of saving for future retirement according to respondents include: banking products (savings account and deposits) — 42%; pension programs (IKE, IKZE, PPK, PPE) — 41%; investments (stock market, real estate, funds) — 19%; pension insurance — 16%. Investing money in the stock market and real estate requires due funds and is less popular. This form of saving is more common among high earners (with incomes above 5,000 net). Those who put aside extra money for retirement do so regularly (Difference Spółka Komandytowa, PFR TFI, 2020, 12–14, 49).

According to respondents, the main advantages of PPK include: (1) automaticity and regularity of drawing funds without the need for one's own involvement; (2) external discipline — funds are deducted from an earlier paycheck, which effectively discourages picking up accumulated funds; (3) low financial burden, as a small amount is deducted from the salary; the employer's and the state's contribution constitutes additional revenue; (4) financial reserve, as funds accumulated in PPK can constitute money for the so-called "black hole" (or "black hour"), they can be withdrawn in a crisis situation (with deductions) and used; (5) flexibility, i.e. the possibility of modifying the amount of the employee's and employer's contributions; (6) transparency, i.e. access to information about the balance of the account and the ability to check contributions and investment earnings, which gives a sense of control over savings.

In contrast, the most frequently cited disadvantages include: (1) dependence on the government and lack of guarantees, as the majority of respondents have low trust in state institutions and fear that the current PPK rules may change (up to and including dismantling PPK altogether) as a result of political decisions; (2) the negative and ongoing experience of the dismantling of OFE as a result of political decisions causes skepticism about the promises of future profits and the inviolability of participants' private funds; (3) dependence on employer contributions, i.e. concerns about whether employers will conscientiously participate in the program and whether the legal mechanism enforcing contributions from them will be effective; (4) conditions for withdrawal of funds before age 60 — the inability to withdraw more than 25% of the funds without deductions in the event of serious illness, or at other unfortunate chance events, such as job loss; and (5) conditions for withdrawal after 60 years — no possibility to withdraw 100% of funds at once without profit tax deduction, the need to withdraw 75% of funds in installments (a minimum of 120 installments). Another problematic and related aspect of the scheme is the question of accumulation of PPK contributions in the event of job loss, as participants have no knowledge of how PPK works in the event of job loss, who will then pay the contributions, and whether they can be withdrawn. Yet another issue is the uncertainty of profits and the lack of confidence that the funds collected will be managed competently, and that possible profits will not be consumed by administrative costs (Difference Spółka Komandytowa, PFR TFI, 2020, 18–19).

The COVID-19 pandemic did not affect savings accumulation behavior in a significant way. The behavior of 87% of respondents did not change (they either continued or did not begin saving). Only a small number of respondents declared the need for financial security or increased savings. The pandemic motivated 5% of people to save, proving that it is impossible to predict everything and it is necessary to take care of financial security. On the other hand, it discouraged 8%, the drop in income prompted people to reduce spending, including setting aside contributions for retirement (Difference Spółka Komandytowa, PFR TFI, 2020, 24–25).

Familiarity with the PPK program among respondents is very high (89% are familiar with PPK), only one in ten people (11%) have not heard of PPK. Awareness of the program is lower among those aged 18–39 and those with primary and vocational education. They are most likely to be residents of rural areas and cities with a population of up to 20,000, as well as those in a better financial situation, earning more than 5,000 net (Difference Spółka Komandytowa, PFR TFI, 2020, 27–28, 50).

The primary source of information about PPK for the majority of respondents (61%) is most often the workplace and employer (training courses, flyers, posters, emails), information campaigns in the media (TV and radio) and the Internet (financial portals) were also of great importance — (40% and 37% respectively). Knowledge was supplemented by the opinions of trusted people: friends, colleagues, family (27%) (Difference Spółka Komandytowa, PFR TFI, 2020, 29–30). See Table 3.

Table 3. Sources of information about PPK

Source of information	%
Employer	61%
Television, radio	40%
Internet	37%
Press	18%
Co-workers	16%
Family, friends	11%
Advertising, leaflets	6%

Source: Difference Spółka Komandytowa, PFR TFI, 2020, 30.

PPK are treated by respondents more like a savings account or a deposit rather than an investment. Few people expect any profits from the investment of funds by managing institutions. Experience with OFE has made respondents skeptical of the promises of profit (Difference Spółka Komandytowa, PFR TFI, 2020, 31).

Regarding the various assumptions of the PPK, respondents evaluated positively: (1) the idea itself, believing it to be a valid, attractive proposition, even in the opinion of those who have unsubscribed from the program; (2) comprehensibility and transparency; (3) three sources of financing, especially the employer and state participation; (4) automatic enrollment and voluntary participation; (5) inheritance of funds; (6) limited access to funds, which mobilizes savings, also gives the opportunity to use funds in justified situations.

On the other hand, the following were viewed negatively: (1) dependence on political decisions, raising concern about the immutability of the program's rules; (2) limited access to funds before 60, not taking into account many emergency situations such as job loss; (3) taxation of a one-time withdrawal of 100% of funds after 60 is perceived as a restriction on the freedom to use the funds; (4) the low token and insufficient financial contribution from the state; (5) mandatory employer contributions to the PPK raising labor costs raise concern that employers will look for ways to reduce or compensate them; (6) the limited scope of contributions, as the maximum amount of contributions allowed, makes the PPK only an additional, unimportant source of income in retirement (Difference Spółka Komandytowa, PFR TFI, 2020, 36).

Despite high familiarity with the program and its principles, one in two respondents (50%) declared that they are not PPK participants. One in three respondents and one in two people knowingly did not join the program. As few as 5% of respondents had previously participated in PPK, and 30% still do. Only 4% of respondents were not aware of participation in the program (Difference Spółka Komandytowa, PFR TFI, 2020, 38). The level of knowledge about the key mechanisms of PPK is relatively high. There is a good awareness of the method of financing, the voluntariness of participation and the ability to opt out at any time. There is lower awareness of the terms of withdrawals, the availability of the funds collected, their heredity and the exemption of withdrawals from inheritance and gift tax (Difference Spółka Komandytowa, PFR TFI, 2020, 50).

PPK participants are aware of the benefits of participating in the program. The one most frequently mentioned is the lack of formalities that the employer has to undertake. Another advantage is the fact that contributions are levied automatically and regularly. In turn, the respondents were encouraged to participate in the program by the fact that the collected money belongs to the participant and is inherited by the persons indicated by him. Men and people aged 50–55 are more likely to stay in the program in the future.

In contrast, uncertainty about the future of accumulated funds is mainly caused by fears of legislative changes and negative experiences with OFE. See Table 4.

Table 4. Advantages and concerns of participation in PPK

Advantages of participation in PPK	%	Concerns about participation in PPK	%
Formalities are handled by my employer	53%	Risk of money being seized by the state, as in the case of OFE	52%
Money accumulated in PPK is my property	52%	Politicization of the program — PPK is a government program	39%
Regularity — the money is transferred every month	50%	Risk of inflation	35%
Automaticity — the money is put aside "by itself" and you don't have to do anything with it	48%	Lack of certainty about the amount of profits	34%

Advantages of participation in PPK	%	Concerns about participation in PPK	%
Money accumulated in PPK is inherited	48%	Limited access to money before age 60	31%
Voluntariness — I can resign from the program at any time	45%	Tax on earned profits when withdrawing the money early	27%
Under PPK I receive a surcharge on my savings from my employer and the state	41%	Loss of job, I am not sure how to make contributions if such circumstances arise	21%
Ability to withdraw money at any time	40%	Low rate of return due to low contribution	20%
Ability to survey the balance of accumulated funds and control the deposits made	39%	I have to wait a long time to set aside the right amount and access it	18%
Amount of deposit — a low amount does not burden the household budget too much	35%	Deduction of the deposit from my salary	18%
My monthly contribution is almost doubled by my employer	30%	Terms of withdrawal of money after 60 years of age	16%
The money accumulated is multiplied by specialized financial institutions	28%	Fear that the employer will not pay the contributions	15%
Freedom of choice — I decide the amount of my contribution	23%	Automatic enrollment	9%
Flexibility — you can increase/decrease the amount of additional contribution	23%	Pressure from the employer	6%
		I can't afford to save, every penny counts for me	6%
		I do not understand the assumptions, it is too complicated	4%

Source: Difference Spółka Komandytowa, PFR TFI, 2020, 39–40.

Public confidence in systemic saving initiatives organized by the state has been undermined by the OFE reform, which means that if any attractive formula for saving for retirement were to appear, it would arouse uncertainty. The functioning of the PPK scheme is associated with considerable concerns about the profitability of investments, future inflation, stability of employment, immutability of rules, etc., so the main attitude of respondents towards PPK is that of suspicion (Difference Spółka Komandytowa, PFR TFI, 2020, 41, 51).

The research showed that not all employees were effectively informed about joining the PPK. Every fifth of them (18%) found out about it after they had already been enrolled. However, the vast majority of participants (82%) were aware of joining PPK (Difference Spółka Komandytowa, PFR TFI, 2020, 42).

Participation in the program is limited to making a basic contribution (83% for employee contributions and 81% for employer contributions). Only a few respondents declared additional contributions (14% for employee contributions and 11% for employer contributions) (Difference Spółka Komandytowa, PFR TFI, 2020, 44).

The lack of participation in the scheme is the result of concerns about the security of the investments (savings) made. This applies especially to the possibility of a seizure of funds by the state (as in OFE), and uncertainty about earning future profits (Difference Spółka Komandytowa, PFR TFI, 2020, 51). See Table 5.

Table 5. Reasons for non-participation and withdrawal from PPK

Reason	%
Risk of state seizure of money, as in the case of OFE*	49%
Uncertainty about the amount of profits*	39%
Politicization of the program — PPK is a government program*	32%
Deduction of contributions from my salary*	27%
Low rate of return due to low contribution*	15%
Inflation risk*	14%
I can't afford to save, every penny counts for me*	12%
It takes a long time to set aside the right amount and access it	10%
Tax on the profits earned when withdrawing funds early	10%
Limited access to money before age 60*	10%
Automatic enrollment*	7%
Conditions for withdrawal of money after age 60*	6%
I do not understand the assumptions, it is too complicated	5%
Other	12%
Don't know/difficult to say	7%

*Also indicated as reasons for opting out

Source: Difference Spółka Komandytowa, PFR TFI, 2020, 46.

Those who are not currently participating in the PPK program are also not interested in joining it in the future. See Figure 1.

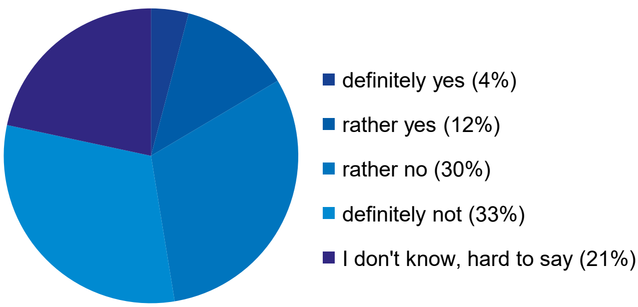

Figure 1. Willingness of non-participants to join PPK in the future

Source: Difference Spółka Komandytowa, PFR TFI, 2020, 47.

Respondents hinge their possible participation in the scheme on difficult to meet or impossible expectations. See Table 6.

Table 6. Respondents' expectations of PPK. Factors that would encourage them to participate

Expectations / encouraging factors	%
Certainty that the money will not be seized by the state, like in OFE	51%
Better job and higher wages	27%
Certainty of investment that the returns will actually be real	26%
No tax on profits on early withdrawal	24%
Possibility of early withdrawal of accumulated savings	21%
Higher welcome and annual surcharge from the state	16%
Higher employer contribution	15%
Job stability (no fear of losing your job)	15%
More favorable conditions for withdrawal of money before age 60	15%
More favorable withdrawal terms after age 60	13%
Operation and supervision by private institutions	8%
Higher employee contribution	6%
I don't know/ It's hard to say	9%
Nothing will convince me	13%

Source: Difference Spółka Komandytowa, PFR TFI, 2020, 47.

In summation, PPK are widely known, but the public still approaches them with great reserve. The idea and mechanisms of PPK are assessed as attractive, transparent and understandable. However, for many people the program's advantages do not offset the concerns associated with it. Negative experiences with OFE make people skeptical about the promises of future profits and the inviolability of accumulated funds. For this reason, a significant portion of eligible employees did not join the program. Those who remained in the program are reassured by the low level of contributions and the possibility to withdraw from the program (Difference Spółka Komandytowa, PFR TFI, 2020, 52).

Another survey was conducted on behalf of PFR Portal PPK on savings preferences and interest in PPK. The survey found that more than half of the respondents have some savings, while 47% do not put money aside. Among those with savings, 73% put aside money for current or retirement security. Respondents mainly use safe forms of saving, i.e. current accounts and deposits. Investing in real estate, stocks and bonds is also quite widespread. Saving in PPK is almost 10% more popular among those who already have previous savings. The willingness to join PPK was declared by one in six respondents. The greatest interest in PPK was noted among those aged 30 to 40 (34.7%) and 20 to 30 (29.7%). PPK are popular among employees of the largest companies (over 250 employees) —

28.7% and large companies (50–249 employees) — 24.8%. Interest in PPK is shown primarily by those with a master's degree (35.6%) and a high school education (38.6%). The largest number of PPK supporters lives in the Mazowieckie (22.8%) and Silesian (17.8%) provinces. According to the survey, almost half of Poles do not save and do not think about securing for the future (PFR Portal PPK, 5.01.2021).

6. Reasons for the failure of PPK

The PPK program failed, which was esentially quite predictable. PPK was launched immediately before the COVID-19 epidemic, but it was not the epidemic that brought about its failure. It was doomed to fail because of its political underpinnings. The main reasons include:

— The use of PPK by Deputy Prime Minister and later Prime Minister Mateusz Morawiecki as a tool of political propaganda. PPK should have been promoted by authorities in the field of economics and other people who enjoy general trust, and not by politicians who do not exactly inspire confidence. It is also hypocritical for the ruling party to convince entrepreneurs to pay high PPK contributions for their employees, while Law and Justice MPs themselves did not intend to pay these contributions for the clerks working in their offices, as they found a loophole in the law favorable to them and passed a provision in the Act that employees of their MPs' offices cannot enroll in PPK. With such a provision in place, MPs will save a lot, as the employer's base contribution is 1.5% of the employee's salary, while the additional contribution can be up to 2.5% of the salary (Kostrzewski, 19.01.2021).

— The lingering memory of the OFE debacle. The Civic Platform has badly damaged trust in the state and private pensions with its OFE reform. In 2014, Donald Tusk's government took away more than half of OFE assets. At the time, each OFE participant lost 51.5% of the value of his or her open pension fund account (Prusik, 9.03.2021). The dismantling of the OFE system destroyed public confidence in long-term forms of savings and promises made by the state. The reason for the lack of trust in PPK is that it is a government program, just as OFE was, from which the government took the money of future retirees.

— The loss of trust in government initiatives is also a problem, especially after the failure of the OFE scheme, after half of the funds from it were seized by the state budget. Only a portion of this money appeared in the form of entries in ZUS accounts, when the money collected in OFE was supposed to belong to the program's participants. Therefore, the seizure of this money was treated as an abuse. The funds in PPK are very modest compared to OFE. According to PFR, at the end of August 2022, the funds accumulated in PPK were PLN 9.77 billion. By comparison, at the time that half of the funds from OFE were taken over, there was about PLN 300 billion accumulated there (Leśniak, 27.09.2022). PPK are not as popular as the government assumed. After three phases of implementation, about 30% of employees remained in the program. The main reason people are opting out of PPK is a lack of trust in the state. Over the past 30 years, there have been a great many changes in pension systems. This limites trust resulted from the dismantling of OFE, which resulted in a loss of wealth. In addition, the current economic situation is difficult. Looking through the lens of the ongoing crisis, both workers and employers that are struggling to survive will be reluctant to reduce their salaries. The political narrative attached the scheme, both by the government and the opposition, might also hinder PPK. The Law and Justice government's brandishing of yet another "pension revolution" is discouraging some citizens. Criticism from the other side of the political spectrum may reinforce this message (Ciszak, 9.01.2021).

— Treating employers as a source of PPK funding. Adherence to the PPK scheme also largely depends on employers. Workplaces in which employers encouraged employees to save produce higher shares of PPK participation. However, PPK is a heavy burden on companies, so there is no reason for employers to encourage employees to participate in PPK when the state treats it as the main source of funding for the program. The employer pays contributions, while the government takes credit by telling the public how significantly the state subsidizes the program. If companies received some tax breaks, or other benefits for employees' participation in PPK, they would have an interest in supporting PPK. In the current situation, they do not have any incentive to do so (Samcik, 15.12.2020). The employer has the right to differentiate the voluntary contribution, tying it to, for example, the period of employment, and can also waive it. Therefore PPK increase the cost of operating companies (Iwuć, 1.10.2019).

— Lack of confidence in the capital market. For the past 20 years, saving has not made sense due to nationalization, hyperinflation, currency change, and now war. The capital market in Poland is underdeveloped. The state does not support savings investment or investing dividends. For a long time, investment funds were unsupervised, allowing them to charge exorbitant commissions. It was the same with insurance companies offering unfavorable policies with insurance capital funds (UFK). If the government does not have a policy to develop the capital market, there is no reason for the public to suddenly take an interest in the market just because Prime Minister Morawiecki came up with a new retirement savings scheme, especially since he could have developed the existing PPE, IKE and IKZE instead (Samcik, 15.12.2020).

— The real value of financial assets accumulated in PPK will also decrease as a result of inflation. According to CSO calculations, inflation in August 2022 accounted for 16.1%. Inflation is an unfavorable phenomenon for all savers, especially for those depositing funds in PPK, which diminishes their purchasing power. In the event of a slump lasting several months (or even weeks) PPK automatically achieve worse results (Karpiuk, 20.08.2022). Unlike ZUS pensions, the PPK benefit is not subject to any valorization. Even a slight inflation occurring over the long term is capable of reducing savings invested in financial assets, especially government bonds. ZUS pensions are paid for life and are subject to statutory valorization. Private pensions from the financial market do not share those boons.

— Political and regulatory risk related to the maintenance of the principle of an annual surcharge of PLN 240 over the next few decades, as well as the exemption of earned profit from capital gains tax. Private ownership of accumulated savings in PPK does not mean that the legislature cannot change the rules on financial incentives and taxation of accumulated capital (Matejuk, 7.02.2019).

— The size of PPK savings depends on: (1) the amount of contributions on the part of the employee and the employer (from 3% to 8%, except for the lowest earners), (2) the amount of gross salary and its growth during the time of saving in PPK, (3) the length of the employment history during which PPK contributions were paid, (4) the number of annual subsidies received from the state, and (5) the real growth rates achieved by the defined-date fund managed by the financial institution. While the employee can only set aside contributions, he or she has no influence on the other factors, especially the achievable rates of return on the financial market.

— It is also important to answer the question: what is the realistic achievable annual rate of return on the invested capital? In this case, we can only determine the factors that will positively or negatively affect the achievable return. We can only predict it on the basis of the projected real GDP growth rate and the level of interest rates in Poland and EU or OECD countries in the long term, as well as the condition of the financial market in Poland and the law on PPK defining the investment policy of defined date funds. Since part of the capital is invested in foreign markets, the amount of profits from investing savings in PPK also depends on the condition of the economies there and the global financial markets (Matejuk, 7.02.2019).

— Stock market downturns and fluctuations cause money to run out. PPK is actually not a pension program, but a commercial savings program, money accumulated in which can be used after the age of 60. A ZUS pension is paid for life, while in the case of PPK the payment period is 10 years (a shorter period means loss of benefits received from the state). PPK as such bear no responsibility for the amount of the future pension benefit, and a such, it is unpredictable. Companies dealing with money from contributions do not give any guarantee regarding the effect.

— Education related on the inner workings of the PPK program is given little attention in TV programs. Most of easily accessible information on it comes from commercials encouraging participation in PPK. If a TV program on PPK does appear, it almost exlusively features representatives of the government or the banks, insurance companies and other institutions or organizations interested in not revealing the true assessment of PPK. That's the main reason why the opinions displayed in TV commercials are exclusively favorable, as the advertisments were commissioned by government institutions.

— Positive opinions about PPK come from “experts” paid by insurance companies and banks, i.e. one-sided experts. The money will be pumped into the global financial market through the Polish financial market, which arouses the worst associations, i.e. with the state’s taking of savings from the Open Pension Funds, the GetBack and SKOK scandals. The money that goes into PPK is invested in and by the same market. If PPK is managed like OFE, future retirees will be left without any money. The monthly premium put aside will be pumped into an uncertain financial market, which is managed by incompetent, malfunctioning institutions. In addition, the insurance market in Poland offers insurance that is expensive, poor and uncertain. The Polish government has introduced a product designed to resemble the British solution. PPK, however, will be managed by the Polish financial market, which is in a very poor state (DobryRuch, 1.07.2022).

7. Conclusion.

In a few decades, ZUS pensions will be historically low. Estimates by the European Commission point to the so-called replacement rate, i.e. the ratio of the first pension to the last salary, being as low as 25% in Poland in 2070. In 2016, it accounted for 55%. The current state of Poland’s public pension system is the result of a reform carried out in 1999 supported by international financial institutions. At the time, rules that reduced ZUS pensions by more than half were introduced. The purpose of the reform was to make room for OFE and other forms of private pensions. It was decided to reduce public pensions in order to transfer part of the pension contributions to the financial market. Initially, ZUS pensions were drastically reduced, and then low pensions were given as an justification for privatizing pensions. However, it is naive to believe that financial institutions will take care of future pensions in a way public institutions would, as their main purpose is generate income.

According to Act on Employee Capital Plans, upon reaching age 60, a quarter of the funds are to be paid out to the contributor at once, and the other 75% should be over the next 10 years, which means that PPK payments will end when the pensioner is 70. There is also no guarantee of future payouts; as they depend on the economy. What is more, calculations showing how the so-called replacement rate can increase thanks to PPK are unreasonably optimistic. Such promises are reminiscent of those from the days of OFE. Putting contributions into a risky financial market game for an extended period of time is dangerous. There is no guarantee that this money will not be lost in part, or even in whole. The institutions operating in the financial market and the economic and political elites associated with them are the biggest beneficiaries of PPK. For them, they are a source of profit, since thanks to PPK, a huge (PLN 10–15 billion), stream of money from workers' salaries and public funds will enter the financial market every year (Dybicz, 20.04.2018).

Pensions derived from investments in the financial market do not provide any security in old age. It is a lottery from which only one party benefits, while the other party, i.e. the future pensioner, will bear the costs and losses.

Currently, the effect of the downturn in the financial markets is causing declines in the accounts of PPK participants. War, inflation, rising interest rates and high uncertainty are affecting discounts in financial markets. Stocks and bonds are losing value, which means worse results for various types of financial investments, and especially for PPK participants.

PPK investments were supposed to be subject solely to economics, and it turns out that politics has come on top yet again. In theory, the capital market is a place where the rules of the game are clear and fair and obeyed by everyone — which is ensured by trading participants, financial supervision and the state. If someone breaks them, they face the consequences. In practice, it is quite different. Many market participants (e.g. stock exchanges) exploit weaknesses in the law and problems with its enforcement for their own benefit. In contrast, the public is told what a wonderful thing the market is while being assured that the stock market means, among other things, transparency, verifiable data and documents, and equal access to information and potential profits.

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