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**FUNCTIONING OF EMPLOYEE PENSION PROGRAMS
IN WARMIA AND MAZURY VOIVODSHIP**

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Key words: pension protection system, employee pension program, employee, employer, premium.

A b s t r a c t

The paper presents the market of employee pension programs (EPP) in Poland during the years 1999-2005, discusses the premises for participation in the program and presents qualitative assessment of insurance based employee pension programs functioning in Warmia and Mazury voivodship. The analysis was carried out on the basis of unrestricted interviews with employers operating employee pension programs, employees participating in them and representatives of insurance companies involved in establishment and servicing the EPPs as well as indirect questionnaire based interviews (using two questionnaire formats).

The conducted studies indicate that the insufficient level of pension benefits from social insurance is the main motivation for joining the EPP. Participation in the program is also determined by the fact that the basic premium is financed by the employer.

**FUNKCJONOWANIE PRACOWNICZYCH PROGRAMÓW EMERYTALNYCH
W WOJEWÓDZTWIE WARMIŃSKO-MAZURSKIM**

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Słowa kluczowe: system zabezpieczenia emerytalnego, pracowniczy program emerytalny, pracownik, pracodawca, składka.

A b s t r a c t

W pracy przedstawiono rynek pracowniczych programów emerytalnych (PPE) w Polsce w latach 1999-2005, omówiono przesłanki uczestnictwa w programie oraz dokonano jakościowej oceny funkcjonujących w województwie warmińsko-mazurskim pracowniczych programów emerytalnych

w formie ubezpieczeniowej. Analizy dokonano na podstawie wywiadów swobodnych z pracodawcami prowadzącymi pracowniczy program emerytalny, pracownikami w nich uczestniczącymi i przedstawicielami zakładów ubezpieczeń zajmujących się tworzeniem i obsługą PPE oraz na podstawie pośrednich wywiadów ankietowych (z wykorzystaniem dwóch kwestionariuszy ankiety).

Z przeprowadzonych badań wynika, że niedostateczny poziom świadczeń emerytalnych z ubezpieczenia społecznego jest najważniejszą motywacją przystąpienia do programu. Uczestnictwo w programie jest również zdeterminowane faktem, że składka podstawowa jest finansowana przez pracodawcę.

Introduction and goal of study

The Polish pension system consists of three pillars, which according to the slogan accompanying the pension system reform, “Security through diversity”, are to secure satisfactory level of pension benefit in the future. The basic assumption of the system is security and stability, which results from the fact that ultimately all pensioners will receive the pensions from at least two sources, i.e. the Social Insurance Fund (FUS) and the funds accrued in open pension programs (OFE) that represent the two initial pillars of the pension system characterized by compulsory membership and repartition-capital financing (STROIŃSKI 2003, pp. 465-466). People born up to the 31st of December 1948 and between the 1st of January 1949 and the 31st of December 1968 who did not join the open pension funds will receive their pension from the FUS only. In view of the projections that the pension from the first and second pillar will not suffice to secure the current material standard after retirement from professional activities the third pillar (based on capital financing) gains on importance. It is characterized by voluntary participation in the market of employee pension programs (EPP) or individual pension accounts (IKE) (Ustawa o Indywidualnych Kontach Emerytalnych z 20.04.2004 r.).

When the term “third pillar” is used it can be understood and used in two meanings. According to the “wide” meaning it includes all voluntary forms of saving for retirement (e.g. investments in securities, life insurance with capital fund) that do not benefit from any statutory privileges and not subjected to limitations, which in turn occur in case of supplementary pension products understood in the “narrow” meaning of the term. For instance the funds accrued on the individual pension account or at the employee pension program cannot be managed by the program member before reaching the age specified in the legal regulations and they cannot be borrowed for a specific time. The premium for participation in an employee pension program are not included in the base for calculation of the social insurance contributions while the funds accrued on individual account up to the amount specified in the Act are exempt from the capital gains tax (RUBEL 2006, pp. 199-200).

This paper aims at presenting the market of employee pension programs, characteristics of employers establishing an employee pension program in the form of insurance as the organizational and legal format, type of business and number of employees as well as showing the motivations for establishing and joining the employee pension program.

Methodology of study

Considering the nature of employee pension programs the task of which is accrual of funds by employers for the future pension of the employee the study covered both the members of the program and the program organizers (employers). The study covered all employers from Warmia and Mazury voivodship operating employee pension programs in the form of group life insurance with the insurance capital fund and the employees participating in those programs.

The study was carried out at 23 enterprises out of 27 (85,19%) operating employee pension programs in the insurance format¹ in the subject voivodship encompassing 396 employees participating in them (i.e. 0,36% of the EPP market in the form of the group life insurance with the insurance capital fund nationwide). The basic research method for data collection was questionnaire based interviews and unrestricted interviews with employers operating employee pension programs, employees participating in them and representatives of insurance companies involved in establishment and servicing the EPS that served development of two questionnaires. The questionnaire targeted at employees was filled by participants in 23 programs while the questionnaire targeted at the employers was returned by 22 employers.

Situation in the employee pension programs market

Any employer can organize and operate the employee pension program. Accumulation of savings within the EPP has been possible as of the 1st of April 1999 when the Ustawa o pracowniczych programach emerytalnych z 22.08.1997 r. (uniform text in DzU z 2001, nr 60, poz. 623 as amended) became effective. As of the 1st of June 2004 that Act was substituted by the Ustawa o pracowniczych programach emerytalnych z 20.04.2004 r. (DzU nr 116, poz. 1207 as amended). The development rate of employee pension

¹ The full name of that form of program is: "The Contract of group life insurance of employees in the form of group life insurance with the insurance capital fund".

programs as concerns the number of operating programs, their membership, value of premiums paid and the assets value accrued as at the end of the year in individual forms of employee pension programs (excluding foreign managed ones, i.e. the form that in practical terms does not function at all) is presented in Table 1.

Table 1
Selected data characterizing the market of employee pension programs during the years 1999-2005

Item	1999	2000	2001	2002	2003	2004	2005
Number of operating EPPs, including those in the form of:	3	29	150	182	207	342	906
– insurance	–	3	17	33	82	202	707
– contract with investment fund	3	25	56	70	74	94	174
– employee pension fund	–	1	77	79	51	46	25
Membership in EPPs ('000) including those in the form of:	0,03	5,39	55,27	81,22	96,48	129,09	260,25
– Insurance	–	0,41	6,07	8,22	13,63	26,06	109,82
– contract with investment fund	0,03	4,05	19,30	23,70	29,46	51,49	88,77
– employee pension fund	–	0,93	29,90	49,30	53,38	51,53	61,66
Value of premiums paid (in PLN million) including:	0,03	4,55	70,70	202,44	223,27	267,61	413,63
– basic premiums	0,03	4,50	68,68	195,93	211,08	255,95	397,80
– complementary premiums	–	0,05	2,02	6,51	12,19	11,66	15,83
Value of assets accrued by EPPs as at year end (in PLN million)	0,03	4,73	71,23	279,83	526,97	919,45	1695,47

Source: *Rynek pracowniczych programów emerytalnych (ppe) w 2005 roku*, 2006, p. 3.

As at the end of 2005, there were 906 employee pension programs, mainly in the insurance format (78,04%). The funds accrued were managed by 27 financial institutions of which 48,15% were investment fund companies, 33,33% – life insurance companies and 18,52% – employee pension companies (*Rynek pracowniczych*. 2006, p. 4). The increased interest in establishing employee pension programs as compared to the preceding years (increase by 164,91% as compared to 2004 and by 337,68% as compared to 2003) was influenced mainly by the required conversion of existing non-statutory forms of group saving for retirement into the EPPs because of the possibility of retaining the deduction from the contribution for the Social Insurance Fund in case of the basic premium. The basic premium is not included in the base amount for determination of the compulsory contributions to the social insurance. Initially, employers could file applications for conversion of saving plans into employee pension programs with the Supervision Commission by the end of 2004, however, the amendment of the Ustawa o pracowniczych

programach emerytalnych (Ustawa z 01.07.2005 r. o zmianie ustawy o organizacji i funkcjonowaniu funduszy emerytalnych oraz niektórych innych ustaw), effective as of the 17th of August 2005 extended that deadline until the end of 2005.

With the increase in number of functioning programs also the number of members in them increased to reach as at the end of 2005 260,250 (increase by 101,60% as compared to 2004). The largest number of employees was covered by programs in the form of the contract of group life insurance with insurance capital fund (42,20%) and in the form of contracts with investment funds (23,69%), while the lowest membership was recorded in programs of employee pension fund type (23,69%). On the other hand, in 2005 the largest share in PLN 413,63 million of premiums was that of the investment funds (42,34%), and the lowest that to life insurance companies (27,14%). Additionally, those were mainly the basic premiums, i.e. paid by the employer (96,17%) for 231,320 active members in employee pension programs (*Rynek pracowniczych...* 2006, pp. 3-4). The complementary premiums paid by employees the amount of which cannot exceed in a given year threefold the year limits of payments to the individual pension accounts (IKE) represented just 3,83% of the total value of premiums paid to the employee pension programs while only 19,000 people decided to pay them. As concerns the participation index that is the relation of employees for whom the basic premiums are paid to the overall employment by employers operating the employee pension programs, as at the end of 2005 it was 70,40% (73,57% in 2004), which means that in average seven out of ten employees who have such a possibility participate in the program. The highest level of participation index was achieved in case of membership in employee pension funds (81,95%), while in the other forms of employee pension programs it was 75,28% in case of the contract for payment by the employer of premiums for employees to investment funds and 63,97% in those in the form of insurance (*Rynek pracowniczych...* 2006, p. 6).

Characteristics of employers operating employee pension programs in the insurance form in Warmia and Mazury voivodship²

As at the 31st of December 2005 employee pension programs in Warmia and Mazury voivodship were operated by 29 employers³ (i.e. 0,03% of entities of

² Warmia and Mazury voivodship is situated in the northeastern part of Poland and has the area of 24 173 km² (i.e. 7,7% of the area of the country). It is populated by 1 428 601 people representing 3,7% of the national population. According to the data as at the end of 2005 the number of working people was 396,900 and the average month remuneration gross was PLN 2,015.99.

national economy operating in the analyzed voivodship) out of which 27 had the form of the contract of group life insurance with insurance capital fund and as a consequence that form of the EPP was the subject of studies conducted between June and December 2005. The largest number of programs was operated in Olsztyn county (9 EPPs) and Elbląg county (8 EPPs) while the smallest in Bartoszyce and Mrągowo counties (1 EPP in each). In 12 out of 19 counties of Warmia and Mazury voivodship not a single employee pension program was in operation.

Among the employee pension programs in the form of the contract of group life insurance with the insurance capital fund covered by the study programs established by capital companies that operated the total of 17 employee pension programs dominated. The division of employers according to their organizational-legal form is presented in Table 2.

Table 2
Entities of national economy and organizational-legal forms of entities operating EPPs in the insurance form in Warmia and Mazury voivodship in 2005

	Number of entities	Number of entities operating EPPs	Number of entities covered
Joint stock companies	147	7	6
Limited liability companies	4 174	14	12
Partnerships	719	3	2
Cooperatives	735	1	1
Foundations	174	1	1
Individuals operating business activity	82 447	1	1
Total	88 396	27	23*

* In case of one of the 23 enterprises in Warmia and Mazury voivodship covered that operate EPPs in the insurance form the questionnaire was completed by employees only and as a consequence the further presentations of characteristics of employers operating employee pension programs will cover just 22 enterprises.

Source: Own work based on *Zmiany strukturalne grup podmiotów w gospodarce narodowej w województwie warmińsko-mazurskim w 2005 r.*, (2006) and own studies.

³ In Warmia and Mazury voivodship only 3.06% of the total number of the EPPs in the Polish market was operated. The largest number of programs was operated in Mazowieckie (16.05%), Wielkopolskie (14.04%) and Silesian (12.99%) voivodships while the lowest numbers in Świętokrzyskie (1.80%) and Zachodniopomorskie (2.32%) voivodships. Such big differences in the number of registered programs between voivodships indicate a tight link between the situation in the local labor market and organization of the EPPs. The voivodships with the largest numbers of programs were characterized by much lower unemployment as compared to the other regions of Poland. In Mazowieckie voivodship the registered unemployment rate as at the end of 2005 was 13.8%, while in Warmia and Mazury voivodship it was 27.2% (150,900 registered unemployed).

As concerns the type of business, employee pension programs were established most frequently by enterprises producing and supplying electricity, gas and water (Tab. 3).

Table 3

Division of employers by type of business activity*

Section according to PKD	Item	Number of EPPs
E	production and supply of electricity, gas and water	8
G	wholesale and retail trade, repairs of automotive vehicles, motorcycles and personal and household goods	4
A	agriculture, hunting and forestry	2
D	industrial processing	2
F	Construction	1
J	financial services	1
Total**		18

* Based on the Rozporządzenie Rady Ministrów z 20.01.2004 r. w Sprawie Polskiej Klasyfikacji Działalności (PKD), (Dz.U. z 2004 Nr 33, poz. 289)

** Four employers did not define their business according to the PKD classification but they were employers providing plumbing services, scientific and technical advisory services related to engineering, laboratory services and environment protection.

Source: Own work based on own studies.

Characteristics of employers operating employee pension programs are also presented according to the employment level (Tab. 4).

Table 4

Division of employers operating EPPs according to employment

Enterprise size	Number of EPPs
Micro- (up to 10 employees)	1
Small (from 11 to 50 employees)	7
Medium (from 51 to 250 employees)	7
Large (over 250 employees)	7
Total	22

Source: Own work based on own studies.

The studies conducted indicate that establishment of employee pension program in the insurance form is chosen equally by small, medium and large enterprises. They are created the least frequently by micro-enterprises, i.e. enterprises employing no more than 10 employees, which is linked to high rotation of employees in them.

Analysis of motivations conditioning participation in the market of employee pension programs

Employee pension programs are characterized by voluntary nature of establishment and membership and freedom of form choice as well as the conditions of operation. The initiative of establishing a program is exclusively on the employer, which means that it is his sole decision whether the program is established in the enterprise or not. Establishment of employee pension programs involves three stages: making a company or inter-company contract (in case a number of employers want to establish the program on identical terms and conditions); making the contract with a financial institution or establishing an employee company and the pension fund; registration of the program with the Financial Supervision Commission. Accession of an employee to the EPP takes place by filing the so-called declaration of participation, which contains, among others, the data concerning the amount of basic premium declared by the employer and possible complementary premium paid by the employee, the option of premium investing scheme and the decision concerning disposal of funds in case of death of the member.

Employers, who were required to finance the so-called basic premium amounting no more than 7% of the gross remuneration of the employee are the main sponsors of employee pension programs. The premium can be defined as a percent or as the amount or as a percent with the premium cup (art. 24 section 1-3 of the *Ustawa o pracowniczych programach emerytalnych*). The employee can on the other hand make a voluntary declaration of payment of the so-called complementary premium. Its amount is defined as a percent or as the amount on the basis of the net remuneration of the employee, however, it cannot exceed 450% of the average month remuneration in national economy during a calendar year (art. 25 section 4 of the *Ustawa o pracowniczych programach emerytalnych*).

Each employer, indifferent of the number of employees and duration of operation can establish an EPP. EPPs are established by employers mainly because of their willingness to provide financial security for their employees during old age using the possibility of classifying the costs of operating the program for costs of obtaining revenues and not including the basic premium in the basic amount for calculation of the basic amount of social insurance contributions. According to art. 22 section 1b of the *Ustawa o podatku dochodowym od osób fizycznych* 26th of July 1991 (DzU nr 80, poz. 350 as amended) and art. 15 section 1d of the *Ustawa o podatku dochodowym od osób prawnych* of the 15th of February 1992 (DzU nr 2, poz. 86 as amended), the costs of generating revenues include expenditures incurred by the employer for assuring appropriate performance of employee pension program. The basic

premium, which is not included in the base for calculation of compulsory contributions to social insurance represents on the other hand the taxable income of the employee (art. 9 section 1 Ustawy o podatku dochodowym od osób fizycznych), meaning that the employee must pay tax on amounts paid for him to the program (JĘDRASIK-JANKOWSKA 2001, p. 325). Additionally the program is established for effective motivation of employees and encouraging the best of them to establish ties with the enterprise.

Results of the questionnaire study conducted also showed that accession to the employee pension program was motivated by various needs. The motivation indicated most frequently as the reason for joining the program was the fear of decreasing incomes after retirement from professional activity and the need for complementing the pension obtained from social insurance.

Analyzing the motivations for accession to employee pension programs certain differences can be noticed dependent on such demographic variables as member's gender and age (Tab. 5).

Table 5
Motivations for accession to employee pension programs depending on gender and age of the respondents* (%)

Item	Gender		Age (years)			
	K n = 202	M n = 191	up to 25 n = 9	26-35 n = 100	36-45 n = 143	over 45** n = 141
Fear of decreased income after retirement from professional activity	51,49	46,60	22,22	42,00	54,55	50,35
Need to complement pension benefits from the social insurance	38,61	48,17	22,22	33,00	47,55	47,52
Need to secure the material position of the family in case of death	31,19	45,03	44,44	44,00	34,27	36,88
Need to secure the period of inability to work in case of a disease, accident or disability	29,21	36,65	33,33	35,00	32,87	31,21
Obtaining insurance protection	22,77	27,23	55,56	20,00	26,57	24,82
Possibility of investing coupled with insurance protection in case of unfavorable events in life	11,88	10,47	11,11	14,00	10,49	9,93
Willingness to tighten the bonds with the employer	4,95	7,33	11,11	4,00	9,09	4,26
Hard to say	7,43	8,38	0,00	12,00	5,59	7,80
Other	0,00	0,52	0,00	0,00	0,70	0,00

* As only one member in the employee pension program was over 60 years old the respondents were grouped into age ranges of: 46-60 years and 61-70 lat, creating the group of respondents aged over 45 years

** The results do not add to 100% because a number of answers could be chosen.

Source: own work based on own studies.

The conclusions concerning differences or similarities should be drawn from the ranking of motivations chosen by the respondents. Accession to the employee pension program was motivated mainly by the fear of decrease in income on retirement from professional activities and disappointment with the level of pension benefits from social insurance. Family considerations, i.e. the need to secure the material standing of the family in case of death of program member, the need to secure the period of disability to work in case of a disease, accident or disability and the need of obtaining insurance coverage were chosen as motivation more frequently by men. Additionally it was noticed that both women and men have a similar level of appreciation for the capital aspect of the insurance format of the EPPs that is the possibility of investing coupled with insurance protection in case of un favorable life events. Indifferent of the gender the respondents showed minor perception of the employee pension program as the instrument that served strengthening the bonds with the employer.

Analyzing the respondents' age it should be noticed that people aged up to 25 years appreciated mainly the insurance coverage while the other age groups motivated accession to the employee pension program by the decrease of income during retirement period. Respondents aged up to 25 years, although mainly single and possessing no children, stressed also that in accession to the program they considered the need to secure the material status of the future family in case off their death, which indicates increasing awareness of the insurance and pension benefits among the young participants in the EPPs market.

Motivations for accession to employee pension programs were also determined by the level of education and net income generated. Undoubtedly awareness of retirement increases with age, which means that employees with tertiary education more frequently than other respondents motivated their participation in the program by the fear of limited income after retirement from professional career and the need of supplementing the pension benefits from social insurance. The situation is similar in case of net income, which is linked to the fact that a very significant dependence between education and net income of the respondents ($\chi^2 = 56.171, p = 0.000$) was confirmed meaning that best educated people generated the highest incomes.

The studies conducted also indicate (Fig. 1) that in addition to accumulation of funds for the future pension the employees considered the fact that the basic premium is paid by the employer was also important (57.58%). The studies conducted, however, indicate that the amount of basic premium in itself was important for 7.32% of the respondents meaning that satisfactory motivation for accession to the program is provided by the possibility of obtaining even small amounts of additional funds for the future pension, even

for the best educated employees (61,69%) and the highest income employees, which was indicated by 65.00% of respondents generating net income exceeding PLN 3,000.

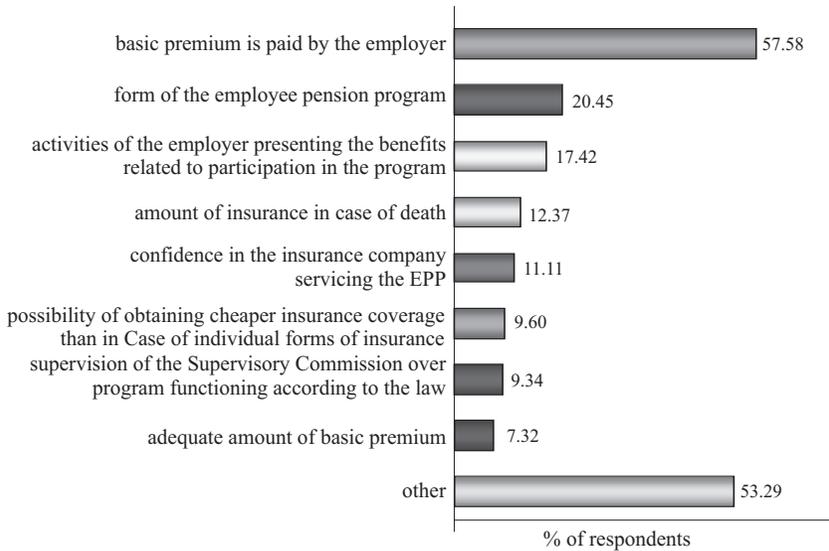


Fig. 1. Factors determining participation in employee pension programs (%)

Source: Own work based on own studies.

Analysis of the results of studies also showed that employees who decided to participate in the employee pension program initiated and financed by the employer in their majority rank it good (64,90%) and very good (16,67%). Only every eighth employee ranked the program as satisfactory and every eighteenth as poor or unsatisfactory. The χ -square test, however, did not confirm existence of a significant relation between the demographic characteristics of the respondent and the opinion on the implemented program. Certain differences between them, nevertheless, can be noticed (Tab. 6).

The data in table 6 shows that women ranked the employee pension program in their enterprise slightly higher than men and less frequently presented negative opinions on it. Also young people have a higher opinion on the program they participate in which is indicated by the fact that the percentage of people aged up to 25 years ranking it as very good was 33.33% while among the consecutive age groups it was, in average, twice lower. Considering the number of children we can notice that the programs are ranked the highest by respondents having no children.

Table 6
 Respondents' opinions on the employee pension program they participated in depending on the gender, age or number of children (%)

Rank	Gender		Age				Number of children			
	F n=204	M n=192	up to 25 n=9	26-35 n=101	36-45 n=144	over 45 n=142	none n=82	one n=120	two n=166	three and mor n=28
Very good	19,61	13,54	33,33	13,86	18,06	16,20	23,17	14,17	15,66	14,29
Good	63,73	66,15	55,56	68,32	62,50	65,49	62,20	61,67	68,67	64,29
Satisfactory	12,74	13,01	11,11	11,88	13,89	12,68	10,98	16,66	11,46	10,71
Poor	2,94	4,17	0,00	3,96	3,47	3,52	3,65	5,00	3,01	0,00
Unsatisfactory	0,98	3,13	0,00	1,98	2,08	2,11	0,00	2,50	1,20	10,71
	$\chi^2=5,063$, $p=0,281$		$\chi^2=3,569$, $p=0,990$				$\chi^2=17,013$, $p=0,149$			

Source: Own work based on own studies.

The studies also aimed at verifying whether employees participating in the program were willing to continue participation in that form of group saving of funds for the future pension. That willingness was expressed by 94.70% of the respondents and only 5.30% declared that they did not wish to participate in the program motivating their decisions mainly by limited knowledge on saving for the old age within the frameworks of the EPPs and the fact that premiums paid by the employers were too low to be sufficient for securing decent life during retirement.

Conclusion

Employee pension programs serve accumulation of funds for the period of limited incomes after retirement from professional activity. Fear of the decrease of income after reaching the retirement age and the need for supplementing the pension benefits from social insurance were the major motivations for accession to the employee pension program. According to the respondents they are a favorable and good form of saving for the times of the future retirement.

The fact that the basic premium is financed fully by the employer proved the factor determining participation in the program, next to the function of accruing funds for the future retirement although the amount of premium was of much less importance. Also the form of the employee pension program as the contract of group life insurance with the insurance capital fund is an important factor determining accession to the program. The insurance needs are, in view

of that, strongly felt by the employees, particularly the young ones for whom coverage within the program with life insurance and in many cases additional insurance coverage represented the determining motivations for accession to the program. A large role in the development of employee pension programs is also played by the employer, as the employee decision concerning participation in the program is strongly dependent on the employer's initiatives in promoting saving for the retirement within the frameworks of the EPP. The least importance was assigned by the employees to the number and types of capital funds offered by the insurer and the costs deducted from the basic premium, i.e. the cost of insurance coverage (the cost of the risk of death and the additional risks) and the costs of the insurance company.

The studies conducted indicate also that since the beginning of operation of the employee pension programs market no level of interest in establishing them matching the expectations at the time of implementation of the pension system reform has been met. This is confirmed by the fact that as at the end of 2005, i.e. over six years after creating the institution of employee pension program only 906 programs were operational with the membership of ca. 260,000 of employees. As concerns the individual pension accounts, during the period from the 1st of September 2004 until the end of 2005, their number reached over 425,000 of which over 62% was operated by insurance companies. As a consequence, the role of employee pension programs in providing financial security for future pensioners plays only a marginal role currently. The major reasons include insufficient tax motivations (the applied tax model tax-exemption-exemption in which the employee pays the income tax on the benefit that he is nor receiving directly), long and complex procedure for establishing the program, high unemployment level as well as insufficient educational and promotional activities concerning the EPP. Intensified information campaigns as well as changes in the tax and economic policies of the State are as a consequence necessary to increase the awareness of pension in the society and encourage saving for old age within the frameworks of employee pension programs. This is justified in particular by the fact that 68.43% of the respondents stated that employee pension programs were a good form of group saving for old age period. They motivated the opinion mainly by the possibility of accruing funds for the future pension, the fact that the basic premium was paid by the employer, exemption from the income tax of the revenues generated through the program and the possibility of continuation of saving in case of a change of the employer.

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