Funded pensions in Poland: Fee structure, disclosure and education

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Pension funds in Poland - basic facts

• Around 10 million members
  ⇒ mandatory participation for all workers born after 1968
  ⇒ voluntary participation for workers born between 1949 and 1968 (choice made in 1999)

• 18 pension funds operating on the market
  ⇒ three mergers completed in 2000 and 2001
Fee structure

- Fees defined in the Law on organisation and functioning of pension funds include:
  - up-front fee on contributions
    - not limited by the law
  - management fee on assets
    - maximum: 0.6% of assets annually

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<thead>
<tr>
<th>Type of fee</th>
<th>Main advantage</th>
<th>Main disadvantage</th>
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<tbody>
<tr>
<td>% on contributions</td>
<td>Direct relationship with collection fees</td>
<td>Lack of incentive for better investment</td>
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<tr>
<td>% on assets</td>
<td>Direct relationship with brokerage fees</td>
<td>Growing trend over time</td>
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</tbody>
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- exit-fee on early transfer between funds
Fees on contributions in Poland

- Average
- Maximum
- Minimum

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<th>Years of membership in a fund</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
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<tbody>
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<td>Years 1-5</td>
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<td>Years 6-10</td>
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<td>Years 11-15</td>
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<td>Years 16-20</td>
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<td>Years 21-25</td>
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<td>Years 26+</td>
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Impact of fees on pension size

- Reduction in yield: 0.88% (assuming gross rate of return at 6%)
- Reduction in pension size: 19%
Disclosure

- Pension funds are obliged by the law to send annual reports to pension fund members.

- Information includes:
  - Number of investment units on account
  - Value of investment unit
  - Achieved rate of return
  - Information on contributions received by fund

- Additionally, most of pension funds offer up-to-date information in the following forms:
  - On web sites
  - By telephone
  - In ATMs
  - By mail
Education

• Information and education on funded tier is provided by Superintendency of Pension Funds (UNFE)

• UNFE activities include:
  ⇒ organising ‘open days’
  ⇒ publications: monthly and quarterly bulletins, booklets
  ⇒ information is also available on web site (www.unfe.gov.pl)