

**Microeconomics**

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**CIVIL SOCIETY IN THE FACE
OF THE REFORM OF THE SOCIAL
SECURITY SYSTEM IN POLAND****Abstract**

The article deals with the subject of the role of civil society in the process of reforms of the social security system in Poland compared to other countries. Over the past 25 years, some countries in Latin America and Central – Eastern Europe has made pension reforms. You can therefore make preliminary assessments reforms. The aim of these reforms was the rationalization of government expenditure allocated for the payment of retirement benefits. The practice of the last few years has shown (especially during the financial crisis), that one of the basic economic arguments justifying the implementation of the system of capital to social insurance (a mandatory and public) has been seriously weakened in terms of risk diversification. The practice proved that capital and joint contribution-based systems are similarly susceptible to political and macroeconomic factors. In addition, they affect the socio-economic situation of democratic states. Analyzing the role of civil society in the process of reforms of the social security system is worth considering the issue of the balance between individual responsibility for themselves and the public tasks in the field of pension rights. The design of the social security system should be characterized by a coherence of intergenerational solidarity with the personalistic vision of man.

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Introduction

In 2015, 16 years have passed since the launch of the open pension funds which started a breakthrough in the organization of the pension system in Poland. The joint contribution-based system was modified to a partially capital system. Private institutions were given the opportunity to manage part of the pension premiums on a competitive basis. In this structure it was possible to trace indirect privatization of the pension system in Poland. The source of this modification was the assumption that private operators are more efficient and more innovative than the state. The Management Board of private entities is generally more determined by budget constraints, there is a stronger correlation between remuneration of the Board and financial performance of the private entity, and competition between private entities enforces the efficiency of operations. However, after 15 years of operation of the reformed social security system there was another reform of the reform of the system in the direction towards before the reform.

The objectives which the author has set for himself in this article focus on the role of civil society in the process of reforms of the social security system in Poland. The creation of a competitive market for pension funds does not itself provide added value for the insured. A necessary condition, although not sufficient, should be the real quality and price competition. In the concentrated market of open pension funds regulated in detail by the legislature this rivalry is a facade. In this context, one of the most important issues are public consultations, since any reform of the social security system is a kind of «a change of the conditions of the game during the game».

Definitions and characteristics of the social security system

Insurance can be divided into economic and social (which is included in the public finance system). Social insurance dates from the late nineteenth century and has a purely personal character¹. It represents one of the forms of social security in the context of the social policy of the state. The majority of the reforms of pension systems carried out in the world, apart from countries that have young population, have been made due to the emerging financial problems. The reforms of pension systems, according to the World Bank, can be divided into total or partial. Total reforms consist in the introduction of a completely new pension system. There are three types of such reforms²:

- change of the redistributive system to a fully funded, capital system based on the principle of a defined premium,
- change of the redistributive system to a redistributive system with individual accounts for each participant,
- introduction of a completely new system.
- Partial reforms involve changes of parts of the pension system. They may take the following forms³:
 - change of the premium rate,
 - change of the basis for calculating the premium,
 - change of the formula for calculating the retirement pension,
 - change of the indexation of pensions,
 - change of the retirement age,
 - change of the replacement rate, etc.

In the group of countries which decided to completely change the pension system a dominant role is occupied by Latin American countries. The pioneer of these reforms was Chile, which in 1981 transformed a redistributive system to a system based on private capital pension funds. In the nineties of the last century,

¹ T. Cicirko, *Finanse ubezpieczeń gospodarczych*, [In:] J. Ostaszewski (ed.) *Finanse*, Wyd. Difin, Warszawa 2005, p. 245.

² Kurowski P, *Rozwój funduszy emerytalnych w wybranych krajach Europy Środkowej i Wschodniej: warunki startu i funkcjonowania*, Wyd. Instytut Pracy i Spraw Socjalnych, Warszawa 2006. p. 27.

³ *Ibidem*. p. 29.

more countries followed these reforms – Peru (1993), Colombia (1994), Argentina (1994), Uruguay (1996), Mexico (1997), El Salvador (1998). Mexico, Bolivia, El Salvador adopted capital pension schemes as the basis of their systems. Colombia and Peru gave employees the option of joining private funds, which form the basis of the system, or the system of redistribution. Argentina kept the system of redistribution as a fundamental part, but in the second pillar there is a choice between the redistributive system and joining a private fund. Uruguay also adopted a redistributive system as the basis, but the second capital pillar is mandatory for those with middle and higher incomes, while optional, subsidized for people with low-income⁴.

Another group of countries which have carried out a complete change in their pension systems are the countries of Central and Eastern Europe and countries created after the breakup of the former Soviet Union. Hungary (1997) introduced a system similar to that of Argentine. Kazakhstan (1997) completely got rid of the redistributive system, basing its system only on private pension funds, following the example of Chile. In addition, all the liabilities resulting from acquired rights under the previously existing redistributive system have been disbursed⁵. Poland (1999) and Latvia (1996) transformed their current system into the one that is funded just like a redistributive one, but every insured person has an individual account, on which paid premiums are recorded and indexed. Sweden (1999) also introduced a similar reform. Poland and Latvia also base their mandatory second pillar on private pension funds.

Partial pension reforms carried out in the world are designed to shift financial problems in time or correct the existing injustice. It is often a combination of several possible options. Countries also combine partial reforms with total reforms.

Partial reforms related mainly to changes in the conditions which must be fulfilled when receiving pension. In the majority these changes concern an increase in the retirement age for women and men. On average the retirement age was raised by 4.3 years⁶. However, there is a tendency to maintain the lower retirement age for women than for men, although the gap is decreasing, and many countries decide to establish the common retirement age for both sexes (e. g. the USA – 67 years for women and men⁷).

Each system is constructed on the basis on a system of assumptions which should be logical and consistent. With this type of approach to the system,

⁴ Kurowski P, *Rozwój funduszy emerytalnych w wybranych krajach Europy Środkowej i Wschodniej: warunki startu i funkcjonowania*, Wyd. Instytut Pracy i Spraw Socjalnych, Warszawa 2006. p. 31.

⁵ Ibidem. p. 32.

⁶ A. Schwarz, A. Demirguc-Kunt, *Taking stock of pension reforms around the world*. The World Bank 1999., p. 14

⁷ S.K. Chand, A. Jaeger, *Reform options for pay-as-you-go public pension systems*. The World Bank 2000, p. 9.

it can be described as a comprehensive and logically structured group of tasks associated with each other by specific logical relations, and in particular the relation of logical inference. It concerns the so-called scientific systems, that is theories characterized by the correct methodological design and pertaining to an extensive fragment of reality. As far as the reformed pension system in Poland is concerned there are doubts whether the proposal of January 1999 corresponded to the formal design requirements of the system. First of all, doubts arise in the areas most relevant to the assessment of the functioning of the correct structure, i.e. the definition and unambiguous identification of elements of different levels, and particularly the identification of the elements of the lowest level, i.e. the insured. It has turned out that the postulated national identification number is not a unique identifier and it has been necessary to look for confirmation in another document of identity. Doubts have also been raised in the sphere of solutions pertaining to information interconnection among units of the system (smooth flow of information between units of different levels and material flows – premiums).

A properly constructed pension system should operate on the basis of information supporting the tax system. It seems that what was happening before 1999 is being observed to date in pension insurance, cannot be called the functioning of the system. The necessary design and technical changes connected with its functioning were pushed aside, emphasizing the basic idea of this system, i.e. the programmatic departure from the philosophy of the joint contribution-based system in favour of the capital system. As a result a number of essential formal requirements pertaining to the correctness of the design of the system as an internally coordinated system of components were disregarded.

The Reform of the social security system reform in Poland

At the beginning of 2013 the acts⁸ reforming the pension reform in the direction of raising the retirement age and reducing the pension privileges of judges, prosecutors and officers of the uniformed services entered into force. The retirement age will be gradually raised up to 67 years for women and men. Starting from 1 January 2013 the retirement age is raised by one month every quarter, which means that in 2020 men and in 2040 women will work until they are for

⁸ The Act of 11 May 2012 amending the Act on pensions from the Social Insurance Fund and certain other acts (Dz. U. 2011, item 637), the Act of 11 May 2012 amending the law on retirement benefits for soldiers and their families, the law on retirement benefits for police officers, Internal Security Agency, Intelligence Agency, Central Anti-Corruption Bureau, Military Counterintelligence Service, Military Intelligence Service, Border Guards, Government Protection Bureau, State Fire Service and Prison Service and their families, and some other acts (Dz. U. 2011, item 664).

67 years old. The aim of the reform is the rationalization of government expenditure allocated for the payment of retirement benefits. The costs of pension disbursement grow dynamically primarily due to the increase in the number of pensioners. The changes in the Polish pension system stem from social and demographic changes. Raising the retirement age results from two factors: the macroeconomic situation of the country and the increased life expectancy of the population. In the first case, as a result of demographic changes we observe an increase in the economic dependency ratio, defined as the ratio of the number of people of working age to the number of people of non-working age. One of the goals of the pension reform is to stop this negative trend. In the other case, the increase in life expectancy, with a specific amount of gathered funds, would result in a real reduction of pension benefits, because the accumulated premiums would be divided by a greater number of years of their reception⁹.

On 1 February 2014, a new Act¹⁰ introducing further changes to the pension system entered into force. Under this Act, on 3 February 2014 open pension funds transferred to the sub-account of the Social Insurance Institution 51.5% of their assets which were written off. In particular these were Treasury bonds and bills, bonds issued (according to the principles defined in the Act of 27 October 1994 on toll motorways and the National Road Fund¹¹) by Bank Gospodarstwa Krajowego, other securities guaranteed by the Treasury. The written off funds were transferred to the Social Insurance Institution, which recorded them on the sub-account of the insured in the Social Insurance Fund. The amount of the premium transferred from the Social Insurance Institution to open pension fund also changed. This premium is divided into two parts. The first part, equal to 2.92% of the premium base is transferred to the open pension fund, while the other part, equal to 4.38% of the base is recorded on the sub-account by the Social Insurance Institution. The amount of fees charged by open pension funds was also limited to not more than 1.75% of the premium value. The transfer of part of the OPF to the Social Insurance Institution and failure to submit a statement on the transfer of premiums to the open pension fund does not mean that the insured person ceases to be a member of the open pension fund. The choice between OPF and the Social Insurance Institution can be made every four years in the period from 1 April to 31 July.

Unfortunately, the practice of the last few years has shown (especially during the financial crisis) that one of the main economic arguments justifying the implementation of the capital system to social insurance (mandatory and public) has been seriously weakened in terms of the risk diversification. The practice

⁹ More: J. Ostaszewski (ed.) *Finanse*, Wyd. Difin, Warszawa 2013, p. 316.

¹⁰ The Act of 6 December 2013 amending certain acts in connection with the determination of rules of pension payments from funds accumulated in open pension funds (Dz. U. 2013, item 1717).

¹¹ The Act of 27 October 1994 on toll motorways and the National Road Fund (Dz. U. 1994, No. 127, item 627, as amended)

proved that capital and joint contribution-based systems are similarly susceptible to political and macroeconomic factors. In addition, they affect the socio-economic situation of democratic states. Therefore, it is important to find such an optimum thanks to which these systems would not, on the one hand, destabilize the public finance system and, on the other hand, would ensure the financial security of pensioners.

The role of civil society in the reform of the social security system

Analyzing the role of civil society in the process of reforms of the social security system, it is worthwhile to consider the issue of the balance between individual responsibility for themselves and the public tasks (set out in the Constitution) pertaining to the right to a pension. The social security system should maintain a balance between current responsibilities in the course of economic activity and future pension rights. The design of the social security system should be characterized by a coherence of intergenerational solidarity with the personalistic vision of man. It results from the fact that the joint contribution-based social security system is based on solidarity between generations in the distribution of benefits from common sources. There is a change of roles with a relatively large difference in time between the participants of the system. The legislator imposes the obligation to pay pension contributions in exchange for the promise of payment of benefits after fulfilling certain conditions. However, this obligation is not imposed on its own behalf, and on behalf of future participants of the pension system. Future pensions are determined by the distribution of resources in time consisting in the renunciation of the current consumption in favour of future consumption opportunities. The function of pensions is the distribution of resources over time, because bringing a premium, the subject consumes today less than he/she produces, in order to ensure that consumption after the cessation of gainful employment. Intergenerational justice is dependent on the effectiveness of enforcing claims from future generations. Hence the important role of civil society, which is a community based on the commitment of individuals to act for the common good, a commitment arising from the collective self-awareness. It follows from this that the purpose of forming civil society is not only to enable the participants to meet their own needs, but also to notice that individual well-being depends also on others. This, in turn, leads to the formation of social solidarity¹². That is why, the relationship between civil society and state authorities is so important. The authority should be responsible to society (as the sovereign) and focused on the real public debate with the participation of all citizens concerned. Both the state and the citizens are obliged

¹² More: A. Antoszewski, *Spółeczeństwo obywatelskie a proces konsolidacji demokracji*, [in:] A. Czajkowski, L. Sobkowiak (ed.), *Studia z teorii polityki*, vol. 3, Wyd. Uniwersytet Wrocławski, Wrocław 2000, p. 10.

to cultivate the cooperation, because only then it is possible to realize the fundamental postulates of civil society as conscious society.

Conclusions

Public consultations on the implementation of the pension reform contained a number of irregularities. They did not include a proper review of the pension system. The issues of pension privileges and the Agricultural Social Insurance Fund were presented in an insufficient way and without recommendations, and contained unjustifiable substantive statements (i.e. comparing the indexation of the Social Insurance Institution with the rate of return in the Open Pension Funds (OPF), the impact of the funds on public debt with ratings of Poland). The most important recommendation, however, was the gradual increase in the retirement age to 67 years. Other recommendations focused mainly on the nationalization of savings accumulated in the Open Pension Funds and the marginalization of OPF functions in the pension system. The manner of proceeding for the review of the functioning of the pension system¹³ also raises doubts in the context of «Better Regulations 2015»¹⁴ and the workplace regulations of the Council of Ministers¹⁵. The document entitled: «A review of the functioning of the pension system – security by sustainability» was prepared by the Ministry of Labour and Social Policy and the Ministry of Finance. The «whole» Council of Ministers was obliged to make a review of the functioning of the pension system and to submit to the Parliament the information about the impact of its validity, together with proposals for amendments¹⁶. It is also worth stressing that «A review of the functioning of the pension system – security by sustainability» concentrates almost full attention on the analysis of the capital part of the pension system, but the most important part of the system (the joint contribution part) was treated in a fragmentary way. This makes the impression of the deception of the public consultations, restricting access to them, confusing them with other processes and the lack of faith in their sense. This impression is compounded by the fear of conflict and generating unrealistic expectations, the lack of coherent legislation, insufficient facilities for the articulation of voices of experts. As a consequence, citizens' awareness of their rights is suppressed and the level of culture of public debate is lowered.

¹³ In accordance with Art. 32 of the Act of 25 March 2011 amending certain acts related to the functioning of the social security system (Dz. U. 2011, no. 75, item 398).

¹⁴ Annex to Resolution No. 13/2013 of the Council of Ministers of 22 January 2013 (RM 111-8-13)

¹⁵ Resolution No 49 of the Council of Ministers of 19 March 2002 the Council of Ministers workplace regulations (MP 2002 no. 13, item 221 as amended).

¹⁶ The Act of 25 March 2011 amending ... op. cit., art. 32.

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