Poland Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

Contents

Introduction

Key Findings

- **Retirement associations are negative:** Polish respondents are more likely to associate retirement with negative words such as ‘ill health’ (46%) and ‘poverty’ (38%) than positive words such as ‘leisure’ (48%) and ‘dependant on others’ (17%).

- **Improvement is needed in retirement planning:** Two-fifths (38%) of workers have a plan for retirement, however for only 6% is this written down. Two-thirds do not have any retirement plan at all.

- **Employers are a useful but underutilised resource:** Where retirement services are offered in the workplace they are found to be very useful. However nearly half (47%) claim to not be offered any retirement services.

- **A flexible transition to retirement will be the new norm:** More workers (46%) expect to continue working in some capacity, whether part-time or on temporary contracts, after reaching retirement age than to immediately enter full retirement (33%).

- **Poland ranks twelfth in retirement readiness:** Poland scores 5.1 out of 10 on the Aegon Retirement Readiness Index and is placed twelfth in our global ranking. A ‘low’ score, this indicates that the typical Polish worker is underprepared for retirement.

Recommendations

- **Translate awareness of the need to save for retirement into action:** Poles are increasingly aware of the need to plan for retirement but this alone is not sufficient to initiate better savings habits. Governments and employers should provide individuals with concise and clear statement of projected benefits which the individual may expect in retirement, as well as tools and information that individuals can use to determine their own retirement savings goals.

- **Embrace active aging and working longer:** Workers envisage staying active longer in later life, including through work. Working longer, beyond mandated or expected retirement ages, can only help individuals to bridge gaps in retirement savings. Governments should make the required changes to labour laws and employers should adjust their workforce policies to this new reality. Making these changes will be vital for flexible retirement to become a success.

- **Plan for the unexpected:** To avoid depleting retirement savings, individuals should include in their retirement plans unexpected events such as job loss, caring for others, disability or illness. A back-up plan could include establishing a personal emergency fund or obtaining insurance for income replacement upon disability or unemployment where offered. This will help individuals weather short-term financial difficulties without sacrificing their retirement.

The Survey

The findings used in this report are based on the Polish responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In Poland 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the Polish survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in Poland

Poland is among the original group of 10 countries to participate in the Aegon Retirement Readiness Survey, a survey which now includes the responses of employees and retired people in 15 countries. A key component of the study is the Aegon Retirement Readiness Index (ARRI), which assesses employees' attitudes and behaviours with relation to planning for retirement. This year, with a score of 5.1 out of 10, Poland is placed twelfth in our global rankings, ahead of Spain, Hungary and Japan. These findings do little to reflect the enormous potential that is in store for Poland. Over the past two decades the economy has grown at the fastest rate in Europe to become the sixth-largest economy in the EU.[1] Political turmoil has given way to stability; and prosperity led by economic reform has resulted in a dramatic increase of living standards.

Yet a public distrust of the private pensions market is discernable and the cost of the post-reform pension system is spiralling. This has prompted the Government to controversially transfer a substantial portion of privately run pension assets back into state control. By shifting US$51bn of assets made up of government bonds into the state-run pension, the move is expected to help shore up the looming funding gap and allow Poland to run a budget surplus.[2] Critics point out that the reform may contravene the constitution and send a wrong signal to other European governments. Irrespective of outcome, the internal workings of the retirement landscape in Poland will change. This report sets out the views of Polish employees and retirees as to how the current economic climate is impacting on their level of retirement preparedness.

[1] *Orenstein, Mitchell A. Six Markets to Watch: Poland. Foreign Affairs, Dec. 6 2013. Web. Last accessed 06/05/14 http://www.foreignaffairs.com/articles/140336/mitchell-a-orenstein/six-markets-to-watch-poland*

[2] *Cohen, Norma and Jan Cienski, Poland pension reform reversal highlights public disillusion. Financial Times, Feb. 5 2014. Web. Last accessed 06/05/14 http://www.ft.com/cms/s/0/8ddeb5bc-6293-11e3-bba5-00144feabdc0.html#axzz2zcpuIor0*

2. Retirement aspirations and expectations

Expectations of the economy remain tepid despite the economy expanding at a faster pace than last year. After growing by just 1.6% in 2013,[3] Poland will see annual GDP growth reach 1.8% this year[4]– however many respondents' views do not reflect these gains. Almost half (45%) expect economic performance to stay the same over the next 12 months, and a much higher proportion expect it to worsen (40%) than improve (13%). Expectations of respondents' own financial situations present a more optimistic picture however. While half (48%) also expect no change regarding their own finances, the proportion of those expecting it to improve accounts for almost one-quarter (23%). Yet there are still more who expect their financial situation to worsen (25%) than improve (23%). Most respondents are also concerned over the retirement prospects of future generations. Two-thirds (67%) believe that future generations will be worse off in retirement than current retirees. [Q24]

Chart 1: Expectations of respondents' own financial situations are more optimistic than of the economy

Q. Thinking ahead over the next 12 months, do you expect the economy in Poland to...? (Base: All, n=1000)
Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All, n=1000)

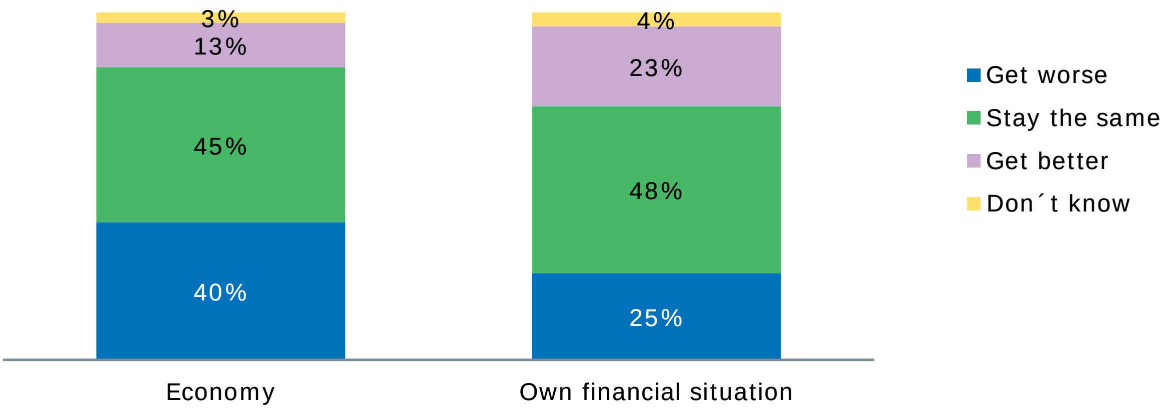
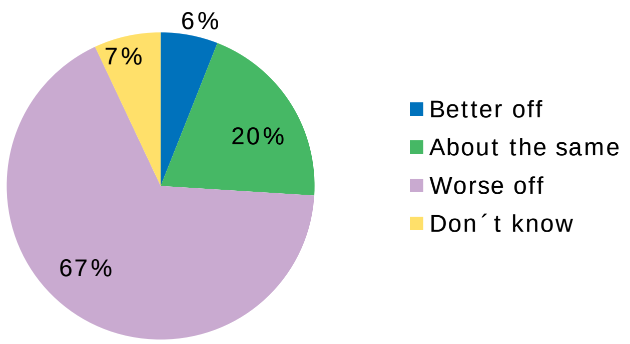


Chart 2: Future generations of retirees are expected to be worse off

Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement? (Base: All, n=1000)



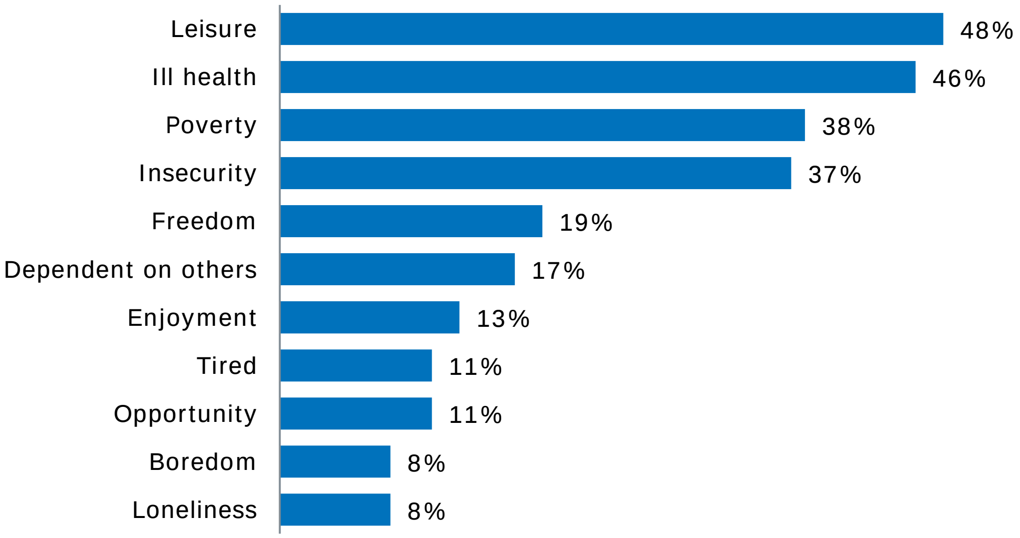
[3] *Bartyzel, Dorota. Polish 2013 GDP Growth Slows to 1.6% as Europe Crisis Hit Demand. Bloomberg, Jan. 30 2014. Web. Last accessed online 06/05/14* http://www.bloomberg.com/news/2014-01-30/polish-2013-gdp-growth-slows-to-1-6-as-europe-crisis-hit-demand.html

[4] *Zurawski et al. Polish PM says 2014 GDP growth to exceed 3 percent. Reuters, Feb. 15 2014. Web. Last accessed 06/05/14* http://www.reuters.com/article/2014/02/15/us-poland-gdp-idUSBREA1E0CE20140215

There are very mixed attitudes towards life in retirement in Poland. When asked to select words associated with retirement, half of respondents (48%) choose ‘leisure’ and one-fifth (19%) ‘freedom.’ Retirement aspirations reflect these generally positive associations: three-fifths (62%) hope to travel in retirement and a similar number (61%) want to spend more time with family and friends while slightly fewer aspire to pursue new hobbies (57%). Yet there are strong concerns over the negative elements of ageing and not being in work. Almost half (46%) associate retirement with ‘ill health’ and 38% with ‘poverty.’ Overall negative associations were far more common (net 77%) than positive associations (net 57%).

Chart 3: Retirement associations are mixed

Q. Which, if any, of the following words do you most associate with retirement? (Base: All, n=1000)



3. Planning for retirement

To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

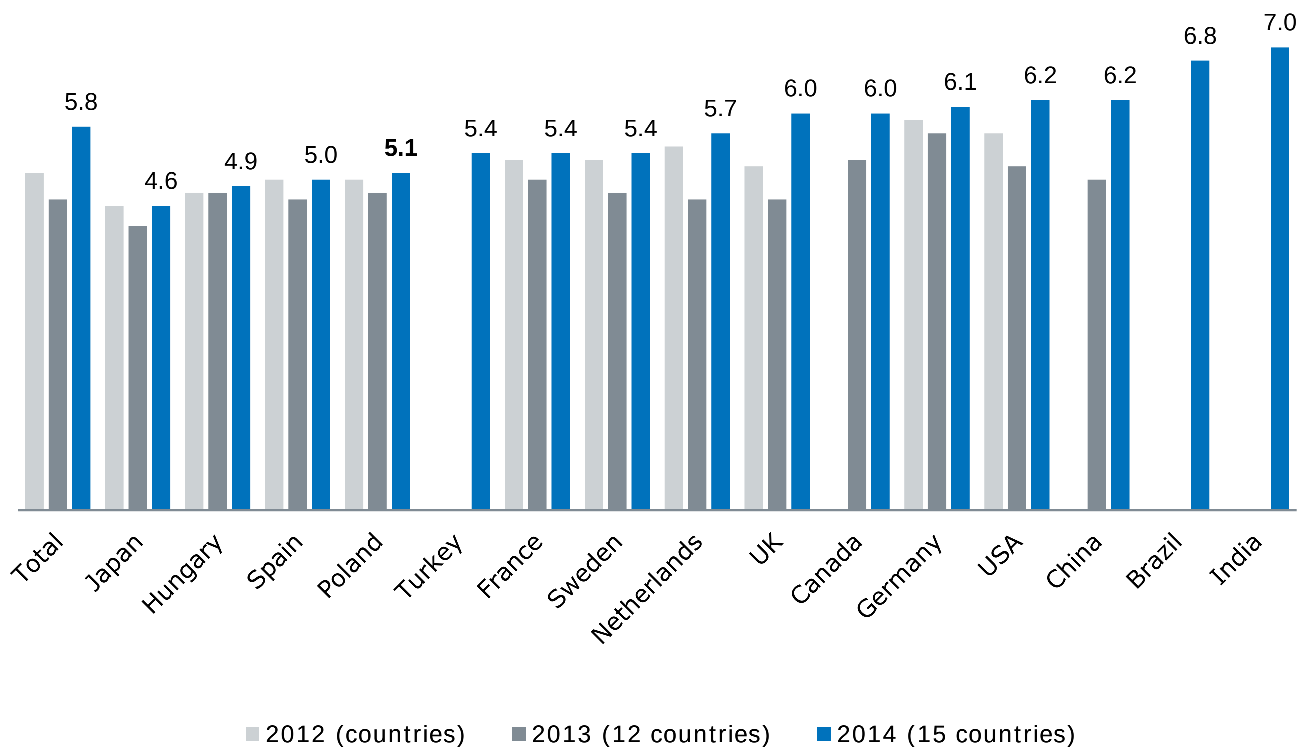
In order to create the index the six attitudinal and behavioural question responses are correlated with the dependent variable to obtain a measure of influence (known as an ‘R’ value). The mean scores of the six questions are computed and each mean score is multiplied by its ‘R’ value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

We are able to rate employees’ financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

With a score of just 5.13 out of 10 Poland is placed twelfth in our global rankings. While ahead of Japan, Hungary and Spain, countries which were also part of the original group of 10 survey countries , the country's performance is relatively poor. A positive finding is that Poland has improved on last year's score, although the index score has improved in all countries surveyed.

The 0.5 point increase between 2013 and this year can be attributed to gains in retirement planning and sentiment. Whereas last year 20% of workers felt that their retirement plans were somewhat or very well developed, this number has increased to 28% in 2014. Likewise those who feel somewhat or very aware on the need for financial planning has increased from 56% to 65%, while the number who feel personally responsible for having sufficient income in retirement has also increased, from 58% to 68%.

Chart 4: Poland ranks twelfth in retirement readiness in 2014



Yet while progress has been made in retirement planning, there still remains much improvement to be made. Nearly half (46%) of workers claim to not know if they are on course to achieving the income they expect to need in retirement. Over half (56%) do not currently save for retirement, and 12% have never saved and never intend to. -findings that directly impact Poland's low retirement readiness score. The trend is also seen in areas that are not included in the index calculation. For example, only 6% of workers have a written retirement plan compared to the global average of 12%, and nearly three fifths (57%) do not have any plan at all, whereas 40% globally do not. The large majority (83%) of Polish workers are not confident that they will be able to retire with a lifestyle that they consider comfortable. Of current retirees, half (50%) do not currently feel financially comfortable.

Chart 5: Nearly three-fifths of workers do not have a retirement plan

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

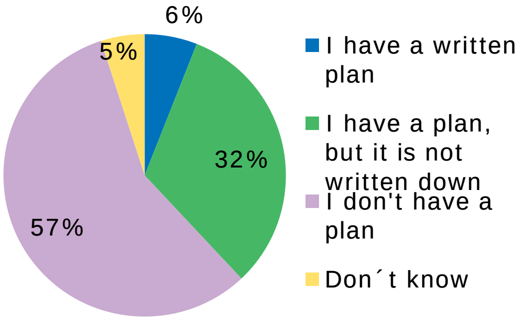
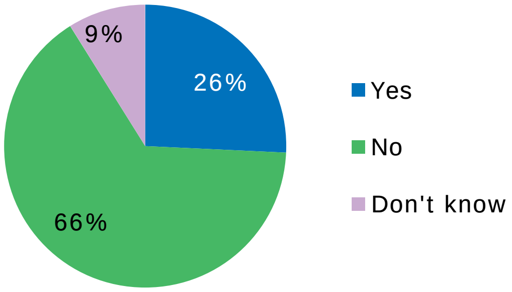


Chart 6: The majority of workers do not have a retirement back-up plan in the event that they are unable to continue working before their planned retirement age.

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'back-up plan' to provide you with an income? (Base: Not fully retired, n=900



4. Making saving easy

Most Polish workers (76%) say that a lack of money is an obstacle to saving for retirement. That said, 70% claim that a pay rise would encourage them to save more. Other incentives would include a more certain economic environment (45%), a better retirement plan match from their employer (39%) and more generous tax breaks on long-term savings (37%).

Chart 7: A lack of money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

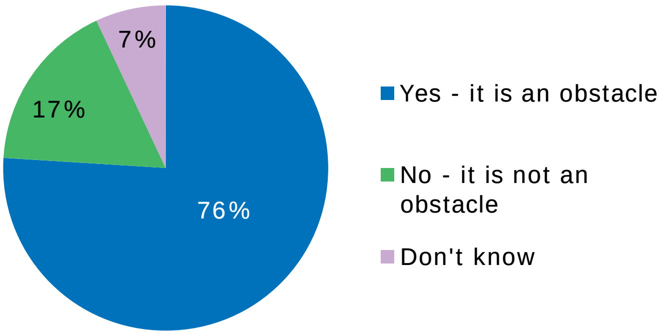
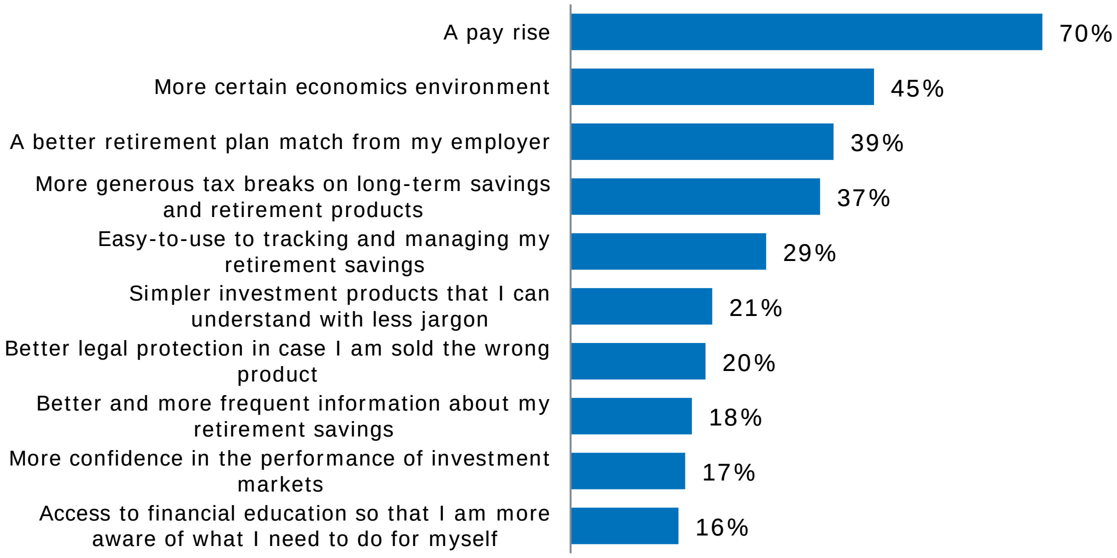


Chart 8: A pay raise, a more certain economic environment and tax breaks would encourage retirement saving

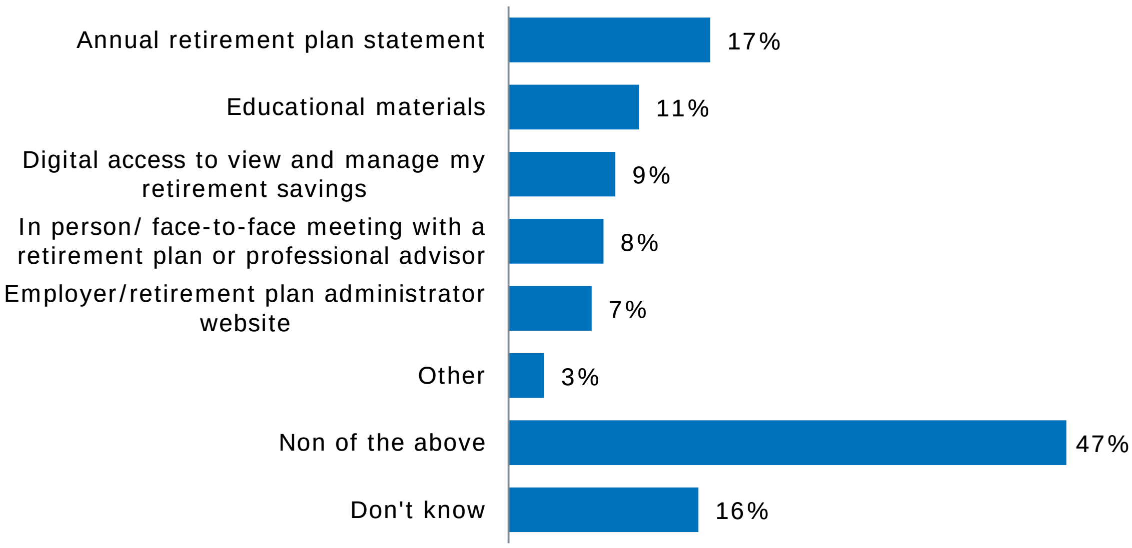
Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



Incentivising people to save for retirement will involve a strong role for both government and employers. Yet most employees in Poland feel that their employer could be doing more. When asked whether their employer offers specific retirement planning services, nearly half (47%) claim not to be offered any, and a further 16% do not know of any. The most commonly offered service is an annual retirement plan statement (17%) followed by the provision of educational materials (11%). However where employers do offer retirement services they are found to be very helpful. Three fifths (60%) of employees offered employer or retirement plan administrator websites find them very or extremely helpful, and even more (63%) have the same view regarding online modelling tools and digital access to view and manage retirement savings.

Chart 9: Almost half of employees claim their current employer does not offer any retirement preparation services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ? (Base: Not fully retired, n=900)



Public distrust and a lack of confidence in the Polish pension system present a significant obstacle to long-term saving. In February 2014, the Polish government transferred $51bn of assets, largely government bonds, from the second pillar pension system back into state control. The government intends to cancel the bonds, which will ensure a budget surplus in 2014 and result in stronger public finances. But Polish employers and trade unions view the pension system overhaul as controversial, and questions as to the constitutionality of the reforms have been raised.

Under the new rules, second pillar pension funds will be barred from investing in government securities from 2016 onwards. Pension funds will also be required to hold 75% of their assets in equities until the end of 2014, and this requirement will gradually shrink to 15% by 2017. These changes will effectively turn pension funds into equity funds, and the new requirements will mean pensioners will be unable to guard against the risks linked to equity volatility. Yet, a large proportion of Polish respondents (49%) indicated a strong interest in pension products with asset allocations that ensure no risk regarding their investment return. This suggests that Poles are unlikely to view these changes favourably, and means that second pillar pension funds are likely to play a peripheral role in the provision of retirement benefits. Polish citizens have been given until July to decide on whether they wish to continue saving in second pillar pension funds, or whether to transfer their assets into the first pillar system. During this transition period, pension funds will be banned from advertising. Yet almost three-fifths (58%)of workers claim that their employer does not provide enough information and support to help them with their retirement planning. There are worries that this ban could exacerbate the ability of employees to access information to help them make choices about their pensions.

Meanwhile, freedom of movement within the European Union after Polish accession in 2004 sparked large scale emigration of well-educated young people, creating a further burden for the first pillar pay-as-you-go system. As many as 2 million people have left Poland for Western Europe since 2004.[5] The wide prevalence of unfavourable fixed term employment contracts for young people in Poland –pejoratively termed 'trash contracts' – does little to encourage younger workers between the ages of 20 and 30 to stay. These contracts are often an unstable source of income and offer minimal social insurance and health insurance contributions, no sick leave, and no right of notice. Eurostat reports that 27.1 per cent of employees in Poland were on temporary contracts at the end of 2013 – the highest rate in the European Union.[6]

5. A flexible transition to retirement

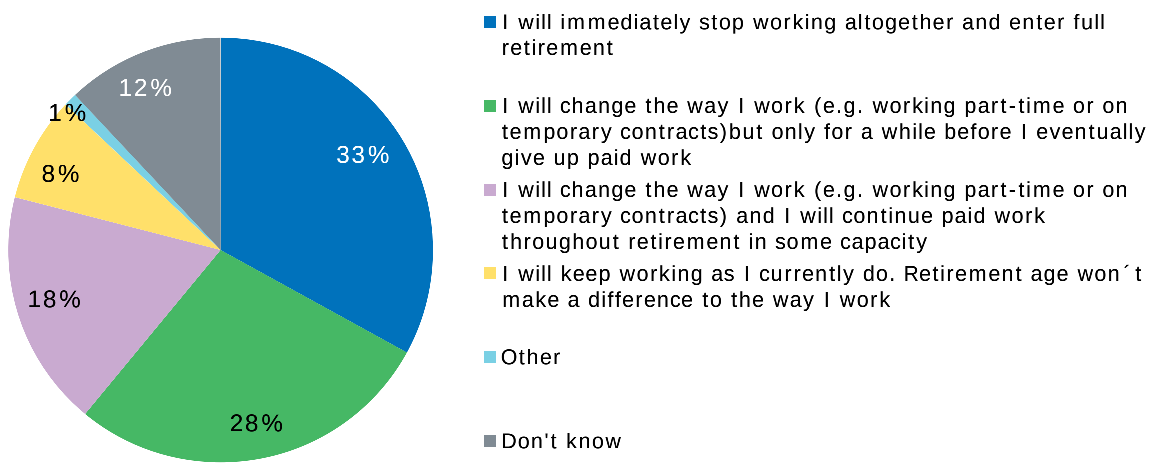
Most Polish workers do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is likely for over nearly half (46%) of people not already fully or semi-retired. Only one third (33%) expect to transition immediately into full retirement. Despite this trend towards phased retirement, many employers do not yet provide comprehensive retirement options suitable for easing down work in later life. Only one-fifth (19%) of workers claim that their employer allows them to move from full-time to part-time working and only 8% of employers allow workers to continue beyond the usual retirement age. Over two-fifths (44%) of employees claim not be offered any options, and a further 17% do not know of any.

[5] *Cohen, Norma and Jan Cienski, Poland pension reform reversal highlights public disillusion. Financial Times, Feb. 5 2014. Web. Last accessed 06/05/14 http://www.ft.com/cms/s/0/8ddeb5bc-6293-11e3-bba5-00144feabdc0.html#axzz2zcpuIor0*

[6] *Eurostat. Temporary employees as percentage of the total number of employees, by sex and age (%). Apr. 24 2014. Web. Last accessed 06/05/14 http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsq_etpga&lang=en*

Chart 10: Only one-third of those not yet fully or semi-retired expect to retire immediately

Q. How would you prefer to receive your retirement savings when you retire from all paid employment? (Base: Not fully retired, n=900)



For many, working into their 60s and maintaining the same occupation will not be an option. Those, for example, whose careers require physical labour may need to change positions or industries to accommodate working in later life. In order to ensure a successful transfer, retraining and re-skilling is an important step. However, we again see a provision gap in supporting these services. When employees were asked whether their employer offers retraining or re-skilling services, only 9% claim to have this option.

It is not surprising that workers feel more could be done to help them plan for retirement. Almost three-fifths (58%) feel that their employer does not provide them with enough information and support to help with retirement planning. Unfortunately this number does not appear to be increasing. Two-fifths (41%) of the workers surveyed claim their employer does 'about the same' as three years ago and almost one in ten (9%) have seen their employer doing less.

Chart 11: Only a quarter of employers offer workers the option to move from full to part time working

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? (Base: Not fully retired, n=900)

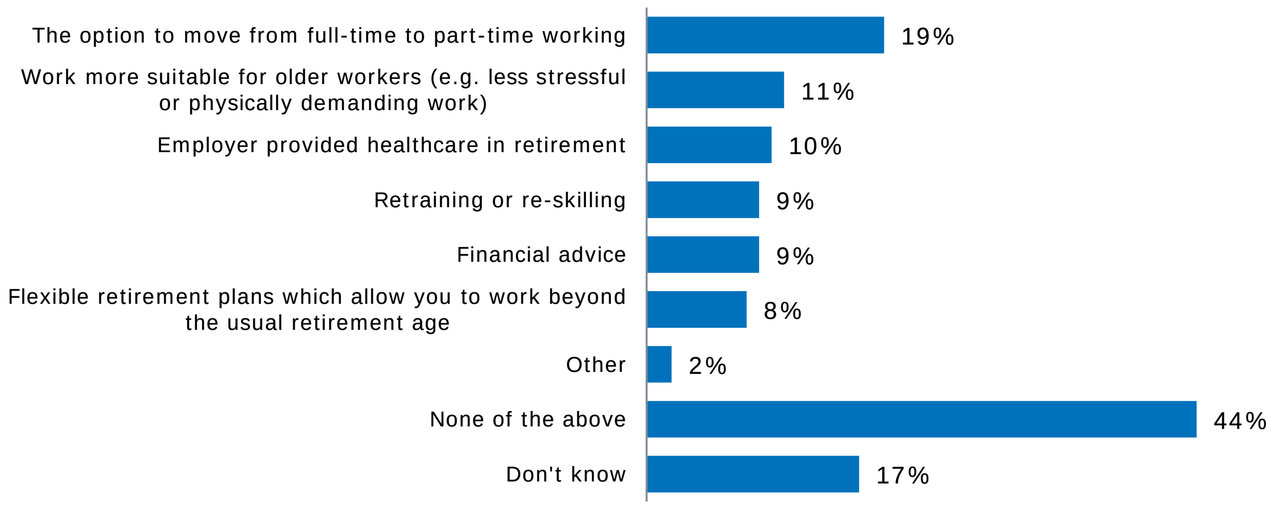
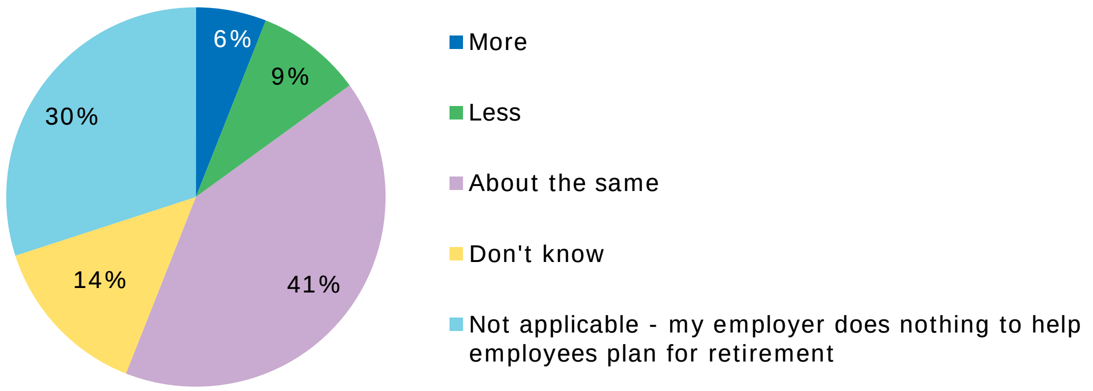


Chart 12: Retirement services offered by employers have not increased over the past three years

Q. *Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: not fully retired, n=900)*



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