

## **THE FUNCTIONING OF THE PENSION SYSTEM IN THE OPINION OF ITS BENEFICIARIES**

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**Abstract.** The participants of the pension system should have some basic knowledge on its functioning. In Poland, when the new pension system was introduced, no public education was conducted in this area and the participants of the system gained the information on this issue on their own. Greater knowledge in this field would have led to proper functioning of the system. The results of the survey concerning opinion of the beneficiaries on functioning of the general pension system were discussed in the paper. The research proves that more than a half of the surveyed assessed the financial situation as insufficient. The most often indicated reason for this situation was financial management, number of beneficiaries and the level of benefits. The research proves that the beneficiaries have currently some knowledge on functioning of the pension system. However, “younger pensioners” have higher awareness in this area.

**Key words:** pension system, level of benefits, beneficiaries, pension level, retirement age

### **INTRODUCTION**

The transformation caused significant changes in the Polish pension system. Two fundamental stages of change are distinguished in the pension policy. The first one is a period of system reformation in the early 90’s, when it was aimed at liquidation of social problems<sup>1</sup>. In turn, the second one is related to attempts to cut off the system expenditures and to introduction of the system changes leading to reduce the social function of the state as well as implementation of the capital financing. This phase was ended with the pension reform. In 1999, the reform of the general social security system was carried out [Czepulis-Rutkowska, 2000]. The introduced changes were mainly related to the increasing expenditures of the pension system and simultaneously growing budgetary burdens.

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<sup>1</sup> The change of the pension formula and the method of calculation of the minimal benefit as well as introduction of retirement benefits indexation method and automatic indexing.

The reformation of the pension system meets a number of difficulties and obstacles, which result from huge strength of tradition and the impact of history [Żukowski, 2006]. Therefore, social acceptance has a huge meaning for reformation of the pension systems. So that the society would accept the introduced changes, they have to receive all the necessary information. However, as N. Barr [2005] stresses, the problem of the pension economics is poor knowledge of the system participants. M. Góra [2009] shares the same opinion and claims that the basis for the pension system safety is public education, which would help the system participants gain the fundamental information on its functioning. In Poland, since the introduction of the new system, there has not been conducted any public education in this area so far. Therefore there is a need for conducting research on social awareness relating to pension system functioning.

The aim of the paper is to discuss the results of the opinion survey concerning the general social security system.

## THE MATERIAL AND RESEARCH METHODS

The aim of the new pension system is to reduce the public expenditures on pensions and following this, financial burdens related to the ageing of the society. It makes the level of pension dependent on the amount of money accumulated on an individual account. In turn, this amount is related to the level of the paid premiums and number of years, in which the premiums were paid. The new system also liquidates many privileges and reduces the possibility of early retirement. Therefore, it should influence the increase of professional activity.

The assumptions of the reform were as follows: “*the old system should be reformed, so that it is possible to fulfil the obligations incurred by the system in the past, cost of the system reformation cannot surpass the possibilities of the economy and financing of the cost of transition must be distributed over time*” [Bezpieczeństwo dzięki różnorodności..., 1997, p. VII]. One should remember that the introduction of the new pension system is an element of the reform of public finances and contributes to the reduction of the cost of public debt servicing, which burdens the economy due to the ageing of society. The introduction of the new pension system, which automatically adjusts the incomes and expenditures, enables inhibition of the increasing outstanding debt, and after some adequate period, it allows the debt to return to the level near to the *steady state* (level of the premium rate equal 19.52%).

The growth of the outstanding part of the debt of the old system was stopped on January 31, 1998, and the debt of the new system growing since January 1, 1999 is safe for the economy. The premiums are booked on two types of individual pension account, and by that means commitments to participants of the pension system are created on them. The debt is a sum of commitments booked on all accounts. Therefore, the debt of the new system is also the initial capital of the people covered by both the new and the old system [Góra, 2003].

Between 2009 and 2010, a survey research was conducted in Wielkopolskie Voivodship among 350 beneficiaries of the pension system. The aim of the research was to recognise the opinion of the beneficiaries on the functioning of the pension system and

define if the pensioners' opinion depends on selected demographic variables, i.e. gender and age.

By selecting the beneficiaries, the method of purposive sampling was used. The research covered only the pensioners receiving benefits from the general pension system. The responders were divided into two groups: persons receiving benefits before the legally defined retirement age ("young pensioners") and persons receiving benefits after the legally defined retirement age. The first category comprises women not older 60 years and the men not older than 65 years, whereas the second one covers the women after 60 and men after 65.

The  $\chi^2$  independence test was used as a research instrument in the analysis of the empirical data. In each considered case, which was subjected to statistical verification, the level of significance  $\alpha = 0.05$  was accepted. All calculations were made in statistical package R with the use of the statistical function `chisq.test()`. The decision concerning rejection of the hypothesis about independence of the investigated attributes in favour of the alternative hypothesis saying that the dependence exists was made basing on comparison of the accepted significance level  $\alpha = 0.05$  with so-called p-value returned by the programme<sup>2</sup>. Therefore, the description of the verified issues does not comprise the statistical value  $\chi^2$ , number of degrees of freedom and critical value. The description contains only the p-value, which clearly enables making the decision on rejection of the hypothesis about independence or on lack of basis to its rejection.

## THE RESEARCH RESULTS

Women dominated among the surveyed (they constituted 60% of the investigated group). The preponderance of women results from the demographic structure of the society, in particular from the feminisation in the older age groups. The person receiving benefits before the legally defined retirement age constituted 47% of the responders and the persons receiving benefits after the legally defined retirement age – 53%.

The conducted research proved that the present pension system satisfied small share of the responders, i.e. 7% of the surveyed, among which women constituted 60% and men 40%. Almost 1 of the responders were not satisfied with the system. The men expressed reluctance more often than the women did. Over 71% of the men were not satisfied and 20% had no opinion on this issue (Figure 1). 67% of the surveyed women were not satisfied with the system, whereas 25% had no opinion on this issue.

About 72% of the persons who had not reach the retirement age were not satisfied with the system and 67% of the group of persons who had reached the retirement age were not satisfied with the system (Figure 2).

Every eleventh responder in the retirement age was satisfied with the system and every sixteenth before the retirement age. 24% of the surveyed in the first age group and 22% in the second age group did not have any opinion on the issue. Based on the  $\chi^2$  independence test any significant in a statistical sense, dependence between

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<sup>2</sup> P-value is the least level of significance, by which the tested hypothesis should be rejected.

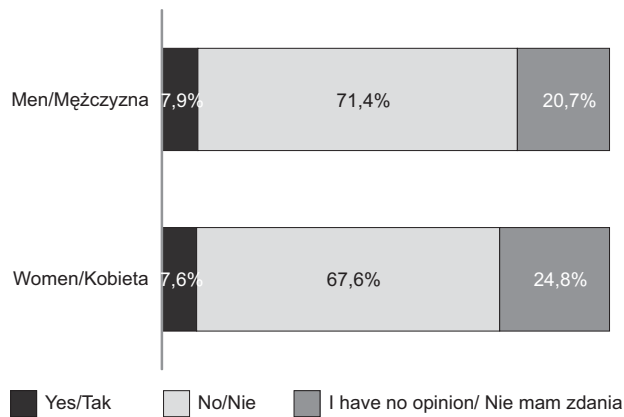


Fig. 1. Satisfaction with the pension system and the responders' gender

Rys. 1. Zadowolenie z systemu emerytalnego a płeć respondentów

Source: Authors' own research.

Źródło: Badanie własne.

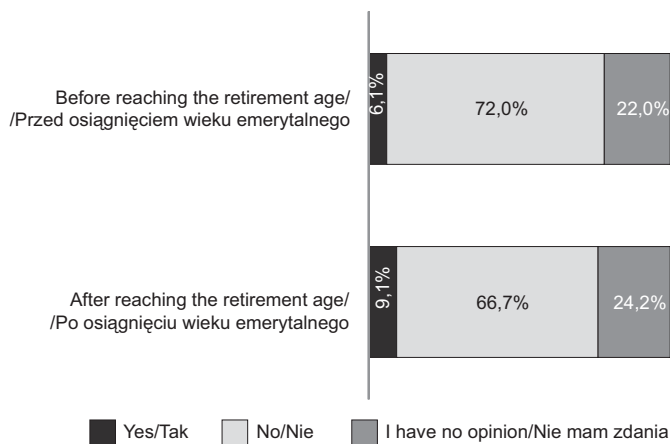


Fig. 2. Satisfaction with the pension system and the responders' age

Rys. 2. Zadowolenie z systemu emerytalnego a wiek badanych

Source: Authors' own research.

Źródło: Badanie własne.

pensioners' opinion on functioning of the pension system and gender and age of the surveyed was found (Table 1). It was a result of similar distribution of the responders' answers.

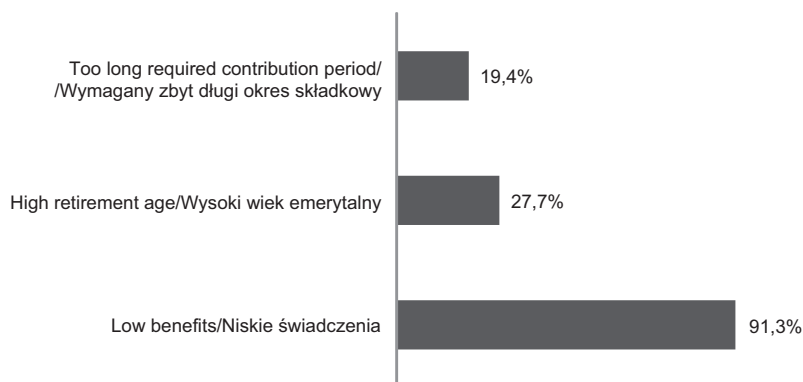
Too low benefit was the main reason for dissatisfaction with the pension system. This reason was indicated by 91% of the responders (Figure 3).

Table 1. P-values in the  $\chi^2$  independence test – satisfaction with the present pension system  
 Tabela 1. p-wartości w teście  $\chi^2$  niezależności – zadowolenie z obecnego systemu emerytalnego

Specification:	Gender	Age
Satisfaction with the present pension system	0.678	0.452

Source: Authors' own research.

Źródło: Badanie własne.



\*responders could indicate more than one option

\*respondenci mieli możliwość wyboru więcej niż jednej odpowiedzi

Fig. 3. Main reasons for dissatisfaction with the pension system

Rys. 3. Główne przyczyny niezadowolenia z systemu emerytalnego

Source: Authors' own research.

Źródło: Badanie własne.

Since the reform of the pension system was introduced, the average share of the average pension benefit in average wage has amounted to over 50% and the minimal wage to nearly 150%. The lowest pension was by about 50% lower than the average benefit. In turn, the relation between the lowest benefit and the lowest wage was more favourable. The lowest pension was more than 60% of the lowest wage. The share of the particular kinds of benefits and wages is related to their level and the dynamics of the economic growth. “The rate of decline of social benefits level in relation to average wages depends on economic growth. By high rate of economic growth and wages, the scale of relative decline in level of benefits compared to wages is very large. (...). In case of slower rate of economic development, the rate of decline of this relation is far slower” [Wydatki społeczne w latach..., 2003, s. 71]. It should be stressed that large part of the surveyed received benefits higher than the minimal wage and minimal benefit as well. The pension received by over 41% of the responders did not surpass 1000 PLN, and in case of the majority, i.e. 51% it amounted to 1001–2000 PLN. Almost 8% of the surveyed received the pension at the level of over 2000 PLN. The women received lower benefits than the men did. Benefit received by nearly 42% of the women did not surpass 1000 PLN, in 53% cases it amounted to 1001–2000 PLN and in 5% – over 2000 PLN. In turn, in case of the men, over 41% of them received the pension not surpassing 1000 PLN, 48% at the level of

1001–2000 PLN and 11% over 2000 PLN. Nevertheless, one should remember that the level of benefit is determined by a number of factors, i.e. the level of wage, length of contribution and non-contribution periods. The women gained lower pensions, because they had shorter contribution periods and longer non-contribution periods and they received lower wages in the period of professional activity.

Every fourth surveyed indicated the high retirement age as the reason of dissatisfaction with the pension system. The responders relatively earlier used the right to a pension. The average retirement age in the investigated group was 58.6 years. According to the ZUS data in the last 12 years the average retirement age of a person, whom the pension was granted, has been increasing from 57.6 years in 1999 to 59.7 in 2010. The average age of a man, who retired from the labour market was by about 3 years higher the average age of a woman, who gained the right to a pension. Despite that fact, the average age of both men and women, whom a pension was granted, was much lower respectively by 6 and 4 years. Longer professional activity of men results from traditional role of a man in family, who financially secures the family members. It is also a result of higher legal retirement age. Earlier deactivation of women is caused by playing defined social functions, which lead to worse situation on labour market caused not only by breaks in employment resulting from parenting, but also by limitations in the area of performing heavy works, which in turn excludes employment in certain positions. Simultaneously women relatively more often than men seek for a less absorbing job, nearer their home. They are also less mobile and disposable [Klimkiewicz, 2009].

Over 19% of the responders indicated “too long required contribution period” as a reason for dissatisfaction with pension system. It indicates a low awareness concerning the influence of this period on benefit level in the new pension system. The present system motivates to higher benefits and longer professional activity, which increases the length of contribution period. In case of 63% of the surveyed, the contribution period amounted to over 25 years. Every ninth responder had from 21 to 25 contribution years and very eleventh to 20 years. In case of 63% of the responders, by establishing the right to benefits, the non-contribution periods were taken into account and 49% of them had from 2 to 5 non-contribution years and 39% less than 1 year. The women indicated shorter contribution periods than the men did, which is related to less professional activity, and following that shorter length of service. Professional activity of men and women occurs in different intensity. In case of women, longer education and faster retirement from labour market have the important influence on this activity. Mainly women in working age due to family duties limit their professional activity.

The conducted research indicates a disquieting unfavourable assessment of the pension system financial situation. The majority of the investigated, i.e. 63% assessed it as insufficient and only 11% as good and 1% as very good. The assessments made by the men and women were very similar. 64% of men and 63% of women indicated the insufficient note and the good respectively: 10% and 12% (Figure 4).

Concerning age, better assessment of the financial situation of the pension system was expressed by the surveyed in retirement age. Almost 57% of the responders from this group assessed the financial situation as insufficient and 12% as good (Figure 5).

The negative assessment dominated in case of people who had not reached the retirement age and their share amounted to 70%. The domination of negative assessments

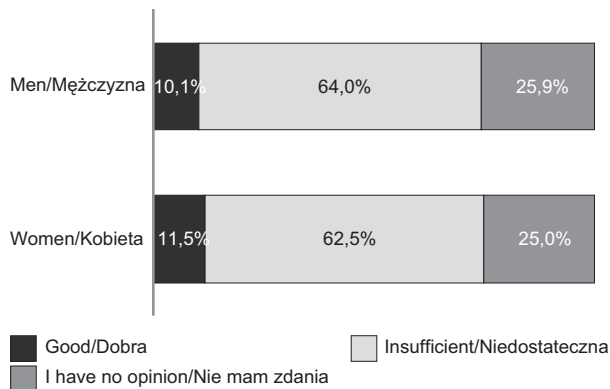


Fig. 4. The assessment of the financial situation of the pension system and the responders' gender

Rys. 4. Ocena sytuacji finansowej systemu emerytalnego a płeć respondentów

Source: Authors' own research.

Źródło: Opracowanie własne.

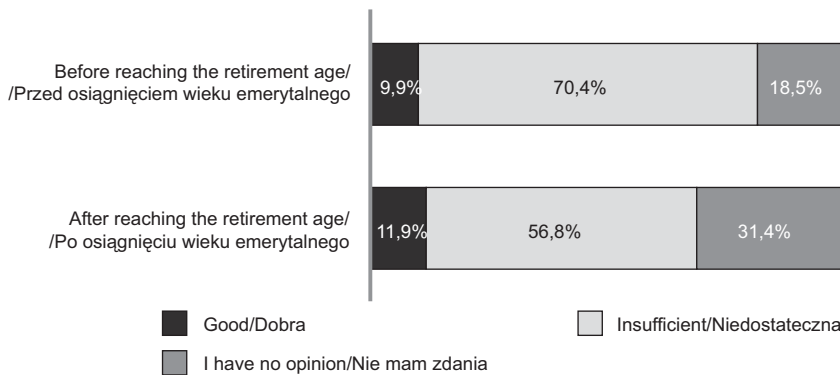


Fig. 5. The assessment of the financial situation of the pension system and the responders' age

Rys. 5. Ocena sytuacji finansowej systemu emerytalnego a wiek badanych

Source: Authors' own research.

Źródło: Opracowanie własne.

among the people, who had not reached the retirement age results from higher awareness of the investigated. Higher awareness of the investigated is related to their low age. It is highly probable that regarding to age (so-called “younger pensioners”), this group is more interested in financial situation of the pension system and may have larger knowledge on this issue than the group of the responders in the retirement age. It may indicate the existence of a greater concern about the future pension relating to the present system of their financing. The  $\chi^2$  independence test indicates that a significant in statistical sense dependence exists between the pensioners' opinion on this issue and their age (Table 2).

Financial management was the most often indicated reason for the unfavourable financial situation of the pension system (74%) (Figure 6). The surveyed took into account

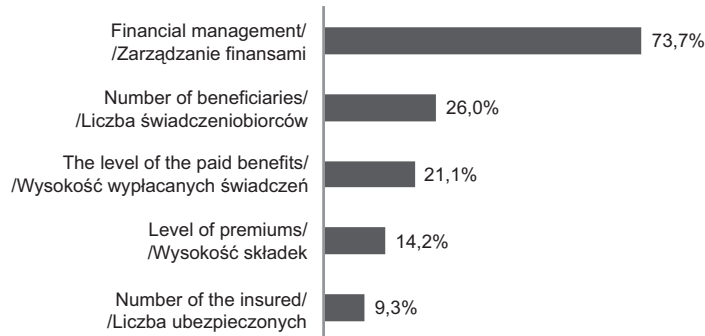
Table 2. P-values in  $\chi^2$  independence test – financial situation of the pension system  
 Tabela 2. p-wartości w teście  $\chi^2$  niezależności – sytuacja finansowa systemu emerytalnego

Specification:	Gender	Age
Financial situation of the present financial system	0.669	<b>0.013</b>

Source: Authors' own research.

Źródło: Opracowanie własne.

the fact that the pension system is financed by the state budget in large degree. One should also remember that FUS pays out many non-insurance benefits, i.e. pensions of the war veterans, the military men and combatants, energy allowances, additions for veterans. The benefits are granted for persons, who were not covered by the pension system and did not pay the premiums to FUS. The fund is not burdened by the cost of these benefits, because they are not financed from the current premiums but by purposeful dotation. Nevertheless, payment of the non-insurance benefits unfavourably influences the FUS. It causes the growth of the dotation from the state budget, which produces a wrong belief in worsening financial situation of the general social security system [Projekt budżetu oraz planów..., 2006]. The unfavourable financial situation, in the opinion of the investigated, is conditioned by systemic solutions, in particular the object and subject range. Since the new system was introduced, the regulations in this area have been changed a number of times.



\*responders could indicate more then one option

\*respondenci mieli możliwość wyboru więcej niż jednej odpowiedzi

Fig. 6. Main reasons for unfavourable financial situation of the pension system

Rys. 6. Główne przyczyny niekorzystnej sytuacji finansowej systemu emerytalnego

Source: Authors' own research.

Źródło: Opracowanie własne.

Every third responder indicated the number of beneficiaries as a reason for unfavourable financial situation of the system and every fourth the level of the paid benefits. Over 14% of the surveyed believed that the reason for unfavourable financial situation is the level of premiums, and 9% that the number of the insured. However, it should be stressed that from the beginning of the functioning of the reformed social insurance system, the pension premium has not been changed and amounts to 19.52% of the base. In turn, the



disability premium was gradually decreased and amounted to 13% between 01.01.1999 and 30.06.2007, 10% between 01.07.2007 and 31.12.2007 and 6% since 01.01.2008. The number of the people paying the premiums grew by 10.4%. The number of beneficiaries increased by about 3%, and the average benefit grew by 103%. The average ratio of expenditures coverage for transfers for people by incomes from premiums was at the level of about 70%. In the last 12 years, almost 2 insured has been per 1 beneficiary, while in the 90's – over 2.5 insured. The reason for such large pension expenditures is the fact that the benefits are received by a number of people in working age. The ratio of systemic dependence is higher than the ratio of demographic dependence by about 30 percentage points. Therefore, the number of beneficiaries is much higher than it should be. Relatively early retirement is mainly related to the regulations, which invite to earlier retirement from the professional activity.

## SUMMARY

The majority of the investigated was dissatisfied with the present pension system. Dissatisfaction was expressed by about 70% of the women and men and the people before the retirement age as well. Because of the similar distribution of the responders' answers, the significant in statistical sense dependence between pensioners' opinion on this issue and the gender and age of the investigated was not found. Although most insured received the pension higher than the minimal wage, the main reason for dissatisfaction was too low level of the pension benefit. This reason was indicated by almost 90% of the responders. The investigated are aware that increase in benefits level would cause the worsening of the financial situation of the system, but still they would like to receive a higher pension. Over 60% of the researched assessed the financial situation as insufficient. With the use of the  $\chi^2$  independence test, it was found that there exists a significant in statistical sense dependence between opinion of the pensioners on this issue and the age of the investigated. More people before reaching the retirement age assessed the financial situation of the pension system as unfavourable than the ones after that age did. The most often indicated reason was financial management, number of pensioners and the level of benefits. The conducted research proves that the beneficiaries have some knowledge on functioning of the pension system. In the group of the "young pensioners", this awareness is higher than among people, which reached the retirement age, which results from greater interest in this problem.

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## FUNKCJONOWANIE SYSTEMU EMERYTALNEGO W OPINII ŚWIADCZENIOBIORCÓW

**Streszczenie.** Uczestnicy systemu emerytalnego powinni posiadać podstawową wiedzę na temat jego funkcjonowania. W Polsce gdy wprowadzono nowy system emerytalny nie prowadzono akcji edukacji publicznej w tym zakresie, a uczestnicy systemu we własnym zakresie zdobywali informacje na ten temat. Posiadanie większej wiedzy w tym zakresie przyczyniłoby się do prawidłowego funkcjonowania systemu. W publikacji omówiono wyniki badań ankietowych dotyczących opinii świadczeniobiorców na temat funkcjonowania powszechnego systemu emerytalnego. Z badań wynika, że ponad połowa ankietowanych sytuację finansową systemu oceniła jako niedostateczną. Najczęściej wskazywanym powodem tej sytuacji było zarządzanie finansami, liczba świadczeniobiorców i wysokość świadczeń. Badania wskazują, że świadczeniobiorcy mają obecnie pewną wiedzę na temat funkcjonowania systemu emerytalnego. Jednak większą świadomość w tym zakresie posiadają „młodszy emeryci”.

**Słowa kluczowe:** system emerytalny, wysokość składek, świadczeniobiorcy, poziom emerytur, wiek przejścia na emeryturę

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