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Alternative forms of saving versus compulsory pension system

Karol Kraiński

Faculty of Economics and Management, Nicolaus Copernicus University in Torun, Poland

E-mail address: karolkrainski@o2.pl

ABSTRACT

Mandatory and voluntary pillars are components of the pension system in Poland. The optional third pillar of the conscious part of society is appreciated solution. It consists out of many products, some of them are offered along with guaranteed tax credits by the state, another by investment companies, insurance companies, and other entities on the financial market. Investment platforms are an innovative form of additional security. These are long-term retirement security products which are very popular both among Polish society and others citizens of European Union. This situation is caused extendable retirement age, life expectancy, insecurity capacity of state pension systems. Platforms are an opportunity to create their own savings for the future, enabling simultaneous diversification of investments and the independence of the local market and currency. Popularity of products remains at a high level, and this is so despite certain deficiencies and imperfections that also these products. Black shadow on the activities of these institutions put a charge liquidation, which deprived parts of resigning participants collected funds. The purpose of this article is to review the literature topic, as well as the current situation of an aging population, the pension system, as well as additional and alternative forms of security in old age. In this paper we attempt was made to determine the factors of the real situation, the conditions, the advantages and disadvantages of current solutions, as well as the conclusion of present situation with the issuance of diagnosis for the future.

Keywords**:** investment platforms, pension system, alternative savings, long term investing

JEL classification: G22, G23

1. INTRODUCTION

Historically, there were informal methods of pension security, which in ancient times had a picture of family support. Through the centuries much has changed, only richer, as well as religious associations have joined up to help. For the first germs of the social assistance system is considered to Elizabeth Poor Law of 1601. Then gradually build up mutual aid societies, which have been sanctioned by English law in 1793. Such forms only pay out benefits for sickness, accident to the work involving certain inability to her, as well as old age, but much less frequently. The first pension funds were created by voluntary contributions and were a form of collecting funds allocated for the payment of benefits. It is worth mentioning that the first pension plan was established already in 1375 for artisans from the UK affiliated to the different characteristics

2. THE PENSION SYSTEM IN POLAND

Retirement money transfer is paid periodically, regularly, at a specified time later in life, until death of beneficiary / insured person. Retirement security is a security specific level of financial security in old age. The classic structure of pension provision consists of three pillars, which include public security, company and individual. The pension system in Poland also consists of the third pillar, the opinion prevails in Poland. The prototype for the Polish pension system was a model of Bismarck. However, nowadays dominated by mixed models, there is no system according to the original concept. You can now distinguish market's Bismarck model and market's Beveridge model. Polish reform and the current shape of the pension system is unique in the world and it's hard to match it to a specific classification. The first main member is the Social Insurance Institution, in short known as the ZUS.

Participation in this pillar is mandatory for citizens after a few exceptions, ie:

- farmers who belong to the Agricultural Social Insurance Fund (KRUS),
- uniformed services, judges, prosecutors, who receive payments from the pillar, but pay nothing into this system.

The second pillar is created by Open Pension Funds (OFE). They were established in 1999, as an extra retirement precaution of Poles. Initially, individual accounts getting 7.3% of premiums. This pillar in relation to the link with the capital market generates a rate of return resulting from the transactions carried out in the financial market. The actions of previous rulers reduced the scale of operations of OFE to 2.3% of premiums and push through at express pace act expropriating each of the OFE participants about the value of 51.5% of collected premiums there. At the moment, people became witnesses to seek money by the government in private pockets future retirees. Observe sudden diminution of the role of OFE pension component, since before retiring all means participants are being relocated to ZUS. The second pillar is characterized by advantages and disadvantages, however, dwell on them makes no sense in the current situation of the pillar.

These two pillars although it should be the most important component of future pension. ZUS as a state institution should be the surest guarantee of payment of the pension. Meanwhile, at all costs the government tries to patch a hole formed in the institution of individual and private contributions each participant funds. The Supreme Court found that the contributions paid to pension funds are not owned by the payer, only a form of tax. In addition, very dull is the current demographic situation, aiming for an aging population. Nail in the coffin is ailing pro-family policy, the lack of housing solutions for young couples, who often can not afford your own apartment, or can not cope with the increasingly inflated conditions mortgage lending. This leads to loops hopeless situation both pillars.

3. ALTERNATIVE FORMS OF FUTURE PENSION

The only one not at risk of harmful activities of the State and hence excessive costs of distribution, in addition to lacking understandable and not susceptible to change the law, even the safest of the components of the pension system is the third pillar. Otherwise known as individual financial security. Pillar despite the biggest benefits has a low popularity among the citizens, which can be explained by an understandable reluctance stemming from alienating the mandatory system, low financial knowledge and a lack of sufficient resources. Participants of this pillar can make any method of investing their funds, or participation in several solutions at once. However, taking into account the criterion of a retirement pension is correct seems to be divided into four pillars: ZUS, OPF, EPP and individual initiative.

Individual retirement security capabilities:

- Individual Retirement Account (IRA)
- Individual Retirement Account Protection (IKZE)
- Employee Pension Plans (EPP)
- Agreements insurance and savings
- Platforms investment
- Real Estate,
- Images,
- Precious metals,
- Old car,
- Treasury bonds, commercial,
- Savings in an envelope,
- and others that savers considers to be good security pension.

After a IKE IKZE, EPP and Treasury bonds participant is independent of the activities of the State in addition to not be subject to greater rigours on deposit limit, as is the case in the EPP, IRA and IKZE. In the last two participant can benefit from tax relief.

Deliberately in the table above have been omitted funds, as a contributor achieved far greater benefits from participation in the investment platform which can benefit from more than one fund. Investment platform, by definition, relate to long-term programs of investment / savings, which include investment funds represented, or insurance capital funds.

The funds are concentrated in one place (the Management Entity) with a very easy and fast access (Internet). Within the platform, investors can diversify your investments by focusing on the investment funds belonging to different groups, ie. Equity, bond, balanced, or to various industries, for example. Precious metals, raw materials and renewable energy sources.

Investment hybrids can be created by insurance companies, banks, joint-stock companies and companies zoo, acting as financial intermediaries. In connection with the youth market in the third pillar, you should see how such products look like and what are popular abroad. The world's largest insurance companies like MetLife, AXA, Aegon, Skandia, which also operate in the market pension security products can boast achievements in this field. Just look at how thinking about retirement just outside the western boundary. In Germany, every young person entering the labor market itself presupposes yourself extra pension plan, as did her father and grandfather. In this way the pension is paid to the third pillar is comparable to the mandatory pension received by the state, and in some cases even higher. Looking at the example of Germany every Pole should own such a product due to the unstable state pension system (ZUS), reducing the role of the second pillar (OFE), the demographic low. These factors affect the increasing importance of the third pillar in the future to have a decent pension. In addition, each participant investment platform can count on the care of a financial adviser, personal finance plan in detail and to meet part of the burden of credit, without lecturing or spending extra cash from the wallet.

Excessive optimism featuring participants in the mandatory pension system, which guaranteed to benefit from the provision, in the extreme pessimism to voluntarily protect and financial institutions is extremely incomprehensible for any economist. Now, the guarantor for compulsory pension system is the state, which as history shows may go bankrupt, announce the inability to repay a portion of such a commitment. Bonds, expropriate citizens, so there is nothing to prevent that such a situation has inefficient pension system. However, the voluntary third pillar is not only financial products, insurance, or combinations thereof, are other forms of capital investment that can yield extraordinary returns to the investor. They include collectibles market, which operates on a different basis, and the most important is "the subject is worth as much as someone is able to pay for it." Collectors' items among the investment for the long term and the strategy of "buy and hold".

The list of collectibles is relatively long, and the most important are: old coins, stamps, paintings and sculptures of famous painters and sculptors, old furniture, trinkets, Chinese porcelain, precious stones, rare books, comic books, baseball cards, photographs, postcards, autographs of famous celebrities, elegant wine.

Extract should be some rules, existing markets collector:

- gains achieved by investing in long-term horizons,
- market is characterized by poor liquidity it means that the buying - selling occurs rarely, websites or auction houses.
- the value of depends on how much the buyer wants to pay for it. Sellers often do not receive the expected price, they are forced to sell good or abstain from selling a few months or years.

The main benefits of collectors' items include the fact that their value depends on the upside, with the increase in inflation their value increases. Memorabilia market is closely linked to the Gift of famous people, athletes, poets, writers, painters, stars of showbiz and celebrity.

Even trivial little things in the life of famous people are much worth, the person is more known that the higher the price. Market stamps should include the time horizon of 5 to 10 years. There are 20% rate of return for a period of 14 months for the price volatility. SG100 index, tracking changes in the market price of stamps is based on current retail prices or auctions 100 stamps high value, they are trafficked around the world. In contrast, pure postcard from the 20 XX. It can cost 30 PLN, but saved by Jozef Pilsudski even 2000.

For years the price of Arabian horses in Janow Podlaski auctions no longer beat records. The highest prices of Arabian horses reached in the first half of the 80s then for Polish horses were paid sums in excess of $ 1 million. Market antique cars, and turn on the collector car market is due to sentiment. Old cars are bought because collectors like childhood. Collectors appreciate cars from the 50s and 60s.

The market cigars from year to year a growing number of connoisseurs of cigars. Their smoking became popular after the change of regime in 1989. These trace of other non-financial investment alternatives collector - is just an attempt to show the spectrum of possibilities for supplementary pensions, both for people who value collector, and those who perceive a given subject only investment object and purpose of funds for future retirement.

4. COMPARISON OF OPPORTUNITIES

Quite interesting is the observation that the funds collected in ZUS are only accounting records on individual accounts holders, which means that in reality, those measures are not there and never will. However, you can make tracing the three variants of future pension through the prism of the pillars. Assume that each citizen has a 180 000 dollars and will live in retirement for 15 years. In the former participant has accumulated capital in the Social Insurance, which will be divided by the statistical life expectancy and ends with payment of $ 1,000 a month pension. In the case of the congregation of the same amount in the OPF, the situation would be similar, but the measures were inherited. After the changes made they will go to ZUS and widen retire in our example twice.

However, in the third pillar participant can choose to pay the accumulated amount in whole or in part at any time, which is a disadvantage and an advantage. Retirement may start earlier than in the case of a mandatory system. In addition, the participant additional pension security agreement may partially or totally exist with accumulated capital. Reaching a 7% annual rate of return on capital in this example, would receive 1,050 PLN a month, without depleting the collected funds, which also are hereditary. I should also mention that if the participant could choose to pay the total of each pillar is the pension amount would be satisfactory for the average Pole and is only obtained with interest. In the case of placing the entire capital for the bank deposit and deduction of income tax, would receive 1093.50 per month from interest, which is providing higher than the lowest paid from the Social Insurance Institution.

Above it should be noted that the funds collected in the Social Insurance Institution shall not bear interest, thus it can be concluded that this institution also usurps can be achieved in this manner, what might be called a quasi fee. In this example, it had been charged in advance equal to 20% or 36 000 dollars. Of course ZUS evaluating the annual revaluation of benefits at least the rate of inflation. However, the system compulsory is not so simple to concluding, as in the example above, and the average Pole should have gathered there for much higher capital, which only shows the scale of this phenomenon and the cost of distribution of pension benefits. Everyone should participate in voluntary pension products, as the replacement rate is lower than the income earned before retirement. It should be emphasized that the replacement rate decreases with age and it is expected that now people entering the labor market in the future will be able to count only for the provision of only 30% of their last salary. Definitely only those products long-term savings / investments that allow for the disbursement of funds until the age of retirement, or about retirement may be considered typical third pillar of the pension system.

5. CONCLUSIONS

Unfortunately, it is impossible to create one wonderful pension system that would be resistant to all risks. A small propensity to savings results from poverty, or too low wages Poles compared to the prices of basic foodstuffs, media, and other services that are able to acquire for the received wage. The purchasing power of money is also an important issue of creating retirement savings. In addition, low financial literacy of Poles cast a shadow on the appropriate management of personal finances. The main problem is the lack of education in this field at the school level children and youth. Another limitation arises from claim society rooted by the previous communist system that provided work, pay, protect and emptiness on shop shelves.

Poles still believe that the State should provide them with proper retirement, in part, of course, they are right, because paying pension contributions are expected, but the high cost of maintenance and distribution of the entire apparatus of the mandatory pension system show that utopia is a boundless faith in the false security. Statistical data are published regularly not favorable for the continued functioning of the system and therefore made extinguishing the second pillar. The only legitimate form of protection is the third pillar, because it does not expose participants to the forfeiture of accumulated capital prior to the expected length of life, while allowing his inheritance, and also allows the use of interest, or a whole at any time. However, caution should be compulsory pension system with the gradual phasing out of its dominant role, until one day the Polish people will be able to move from a system repartition-capital to capital.

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