

**When Finance Captures Labor's Capital: Dominant Personal Pensions, Resurgent  
Occupational Provision in Central and Eastern Europe**

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## **Abstract**

While in Western Europe occupational plans dominate private pension provision, coverage of such plans is marginal in Central and Eastern Europe (CEE). Previous literature has shown the World Bank's instrumental role in persuading CEE countries to divert part of their social security contributions towards mandatory personal pensions. The dominance of the Bank's model of pension privatization from the mid-1990s largely explains the marginalization of occupational plans. However, as this model has been challenged since the late 2000s, occupational pensions have re-appeared on the agenda. To shed light on the changing politics of occupational pensions, this paper focuses on the role of organized interests – namely employers' associations, trade unions and financial groups – that are key players in Western Europe, but whose role has been understudied in CEE. The paper follows these actors' activities in the last three decades of pension politics in Poland, i.e. one of the few CEE countries to have promoted occupational provision. It shows that, although organized interests had limited policy expertise and mainly mobilized social consent for – or opposition to – reform in the early phases of post-communist pension reform, the growing organizational resources of business groups – in contrast with unions – make them increasingly influential actors in reshaping the contours of CEE private pension provision.

**Keywords:** Occupational pensions; personal pensions; Central and Eastern Europe; Poland; finance; capital

## **Introduction**

The past few decades of old-age pension policy have been characterized as an age of privatization (Orenstein 2013; Ebbinghaus 2015; Pavolini and Seeleib-Kaiser this issue). Throughout Europe, governments have cut public pay-as-you-go pensions and promoted private fully funded plans. The term “privatization” encompasses a variety of policy outcomes not only in public pension provision, but also in private arrangements (OECD 2015; OECD 2016). One crucial distinction is between occupational and personal schemes (cf. OECD 2005: 12-3). In occupational pension (OP) plans, access always results from an employment relationship between the plan member and an employer. Moreover, whether the plans’ details are collectively agreed with a trade union or not, employers – or their associations – are directly involved in the choice of a pension provider. In personal plans, access is usually not linked to an employment relationship. Importantly, even if employers pay contributions into them, it is always individuals who select the pension provider.

Occupational and personal pension plans play very different roles in the West and the East of Europe. In Western Europe, OPs have a long tradition and, despite being significantly challenged by the rise of personal pensions and a shift from defined benefits to defined contributions, they make up the bulk of private pension provision both in countries – e.g. Britain, Ireland, the Netherlands and Switzerland – where they became well entrenched on top of basic statutory schemes during the post-war period and in continental countries that historically had more generous social insurance schemes and only started promoting private plans in the 1990s (Trampusch 2007; Ebbinghaus 2011).

Central and Eastern European (CEE) countries' relationship with OPs has been much rockier. Communism gave states a monopoly over pension provision (Inglot 2008). When CEE governments privatized their systems from the 1990s, they followed a very different approach from that adopted in the West. While West European countries cut public pensions incrementally and promoted private – overwhelmingly occupational – pensions through tax incentives, ten out of the eleven CEE countries that had joined the European Union by 2013 cut their public systems more radically and diverted part of their social security contributions towards mandatory personal pension accounts – called “second pillars” in the region (Müller 1999; 2002; Orenstein 2008a; Guardiancich 2013; Adascalitei and Domonkos 2015). In doing so, CEE policy-makers followed a reform approach advocated by the World Bank and largely “out-liberalized” other EU member states (World Bank 1994; Orenstein 2008b).

#### INSERT TABLE 1

As the Great Recession helped reveal the enormous budgetary shortfalls resulting from the diversion of social security contributions – normally needed to pay for the unreformed pay-as-you-go benefits of existing pensioners – towards mandatory personal pension accounts, CEE governments began scaling these personal second pillars down and restoring the role of public “first pillar” provision (Drahokoupil and Domonkos 2012; Orenstein 2013; Inglot 2016; Naczyk and Domonkos 2016). This reversal of earlier reforms could create an opportunity for OPs to expand. Yet, so far, they have remained marginal. With the exception of Slovenia where a strong trade union movement blocked

the introduction of mandatory personal pensions and has negotiated encompassing collective agreements over OPs (Müller 2002; Crowley and Stanojević 2011), CEE countries either have very low coverage of OPs or, more frequently, do not even have “occupational” pensions in a strict sense (OECD 2005: 12-3; OECD 2016: 11). In the Czech Republic, Hungary, Romania, Slovakia and the three Baltic countries, what comes closest to occupational provision is when employers pay contributions into voluntary *personal* plans in which *individuals* directly choose the financial firms that manage their retirement savings (see Table 1). Such employer contributions are frequently the result of collective agreements negotiated with trade unions. However, only Bulgaria, Croatia, Poland and Slovenia have traditional OPs where *employers* – often in agreement with unions – choose the pension provider. Why have OPs in this traditional sense been so underdeveloped in CEE countries?

The political economy literature has already shown how the World Bank – and allies such as economists and finance ministries – championed a “multi-pillar” model that promoted the expansion of personal pensions (Müller 1999; Orenstein 2008a). The dominance of this model is undoubtedly the most powerful explanation of the long-time marginalization of OPs in CEE. Rather than challenging this conventional wisdom, this paper proposes to focus on the role of organized interests – employers, trade unions and financial firms – that are considered as the key players in West European private pension provision, but whose role has remained neglected in the CEE-focused literature. The paper adopts a largely exploratory approach and follows these actors’ involvement in the politics of pension privatization in Poland between the 1990s and the late 2010s. Among the CEE countries that adopted mandatory personal pensions, Poland has seen OPs in the

accepted sense develop the most both in terms of coverage and accumulated assets (cf. Table 1). Exploratory studies of such “extreme” cases are useful for building theories on phenomena that have received little attention in the literature (Seawright and Gerring 2008).

The paper argues that the role of Polish organized interests has strongly evolved over time. It distinguishes between three phases. First, following the collapse of communism, employers and financial firms – and Poland’s Solidarity union – all advocated the creation of private – mainly occupational – schemes. Once the World Bank’s model of reform dominated the agenda, these organized interests became important sources of political support for it. However, their relative lack of organizational resources and policy expertise in the years following democratization prevented them from significantly influencing the technical design of private pension plans. Second, once mandatory personal pensions were being implemented in the early 2000s, a new politics of regulation of these plans dominated the political agenda. This phase saw financial firms emerge as an increasingly powerful group. Third, as the 2008 global financial crisis revealed the weaknesses of the World Bank’s model, financial firms, employers and trade unions have all promoted OPs as an alternative to mandatory personal accounts. However, with an eroded membership base, trade unions are too weak to influence outcomes in the political arena or through collective bargaining. By contrast, much better organized business groups now play a crucial role in setting the reform agenda.

The rest of the paper is structured as follows: The next section builds the theoretical framework based on existing literature. The main section presents the Polish case study. The last section discusses the findings of the paper.

## **Organized interests and the political economy of pension privatization**

Because of the immense importance of this phenomenon in the region, the literature on CEE pension reform has primarily focused on the rise – and, more recently, decline – of mandatory personal pensions. Müller (1999) and Orenstein (2008) have shown how a transnational campaign led by the World Bank helped diffuse a specific model of pension privatization in CEE. The Bank published in 1994 a high-profile report suggesting that governments should radically cut public pensions and partly replace them with mandatory personal accounts. It argued that such reforms were the best way of addressing the financial imbalances caused by population ageing. It also provided an important positive argument for expanding private pension funds by presenting them as “an instrument of growth” that would “stimulate a demand for (and eventually supply of) long-term financial instruments – a boon to development” (World Bank 1994: 9; 13).

Arguments about capital market development struck a chord with policy-makers – particularly finance ministers – in countries whose development had been traditionally state-led and where private capital was typically scarce (Brooks 2009; Trampusch 2017). They also dovetailed with plans by economists involved in post-communist structural reforms to use private pension funds as a vehicle for the privatization of state-owned enterprises through the issuance of common stock of such companies on equity markets (Lipton and Sachs 1990; Fischer 1991). Despite occupational schemes’ and personal plans’ equally “positive implications for the operations of capital markets”, the World Bank preferred the latter to the former because of its belief that OPs hampered labor

mobility and redistributed income in accordance with employer rather than social objectives (World Bank 1994: 172-3). Since the World Bank did not push for an expansion of OPs, which other actors could be interested in this form of pension provision?

In affluent democracies, employers and trade unions are generally considered as the main actors involved in the politics of occupational welfare because of their role both in collective bargaining and in the political arena. Even if firms – particularly small ones – have often been concerned about the costs of OPs and have been characterized by cross-national variation in their preferences regarding the specific regulation of – e.g. the vesting and portability of rights acquired in – such plans (Haverland 2007; Guardiancich 2016), employers have historically been the driving force behind the creation of OPs as this type of plans has allowed them to retain valued employees and to cultivate more peaceful labor relations (Swenson 2002; Mares 2003; Bridgen and Meyer 2005).

Organized labor's attitudes towards the very principle of occupational pension provision have traditionally been more ambiguous and have varied according to their ideological orientation and skill composition: Compromise-oriented unions and those representing skilled segments of labor have often backed the creation of such plans whereas socialist unions and those representing less privileged workers have favored public provision (Mares 2003; Oude Nijhuis 2013). However, because of their inability to block retrenchment of public pensions, unions with all types of ideological and skill profiles have increasingly sought to expand OPs through collective bargaining so as to prevent an excessive individualization and marketization of pensions (Trampusch 2007; Ebbinghaus 2015; Naczyk and Seeleib-Kaiser 2015; see also Keune this issue).



A growing strand of literature on the “welfare-finance nexus” has shown that employers’ and trade unions’ preferences with regard to private – including occupational – pension provision have been driven not only by concerns over the generosity and costs of pensions *qua* social policy, but also by concerns over the regulation of pensions *qua* financial institutions (Estévez-Abe 2001). Indeed, employers and trade unions have tried to influence pension funds’ asset allocation and the time horizon of their investments (Wiß 2015; McCarthy *et al.* 2016; Naczyk 2016; see also Natali and Sabato, this issue). The literature on the welfare-finance nexus has also highlighted the hugely important – although long-neglected – role of the financial services industry. Financial companies are potential suppliers of private – personal *and* occupational – retirement savings products and thus have a strong interest in the development of pension markets. Existing literature has devoted the most attention to the role of life insurance companies, which have been involved in retirement provision since the late 19<sup>th</sup> century (Leimgruber 2008; Naczyk 2013). However, mutual funds and banks have also started providing pension products in recent decades.

What role can one expect these socio-economic actors and their associations to play in the CEE politics of OPs? While the abovementioned literature certainly helps inform the *preferences* that they may develop, their potential *influence* needs to be contextualized both geographically and temporally. The comparative political economy literature on affluent democracies has tended to see organized interests as very powerful actors (Korpi 2006; Martin and Swank 2013), but research on the first decade of post-communist economic transformation considered unions and employers’ associations as weak players (Ost 2000). With some exceptions, these interest groups’ fragmentation and

limited organizational resources prevented them from providing credible technical expertise in economic and social policy-making at a time when economists had much greater prestige (Bockman and Eyal 2002; McMenemy 2002). Organized interests' – particularly trade unions' – functioned more frequently in the mobilization of social support for – or opposition to – reforms (Avdagić 2005; Ost 2006). This was notably the case in pension policy-making (Müller 1999; 2002; Vanhuysse 2006).

However, structural reforms adopted in the 1990s and early 2000s reshaped the institutions governing CEE political economies and, indirectly, the power resources of organized capital and labor. Notably, the creation of mandatory second pillars led to the rise of sizable pension industries with their own trade associations (Guardiancich 2013). A broader change affecting the very nature of CEE capitalisms has been their increased dependence on foreign capital. As they lacked capital for the modernization of their economies, CEE governments massively attracted foreign direct investment (FDI) from the late 1990s thereby leading Western multinational companies to control many leading manufacturing and financial firms in the region (Bandelj 2008). Nölke and Vliegenthart (2009) have consequently characterized CEE countries – particularly the Visegrád Four (Hungary, Slovakia, the Czech Republic and Poland) – as “dependent market economies” with a comparative advantage in the assembly of goods such as cars or consumer electronics. While in Western Europe manufacturing industries have historically provided fertile grounds for the rise of industrial unions and employers' associations that would support centralized and/or coordinated collective bargaining (Thelen 2014), the FDI-led reindustrialization of CEE economies did not stimulate the development of similar organized interests and did not stop trade union density from declining dramatically in

the 2000s. With “corporatist” Slovenia constituting an exception, collective bargaining – that can be instrumental in the expansion of OPs – is largely decentralized and uncoordinated in the “neo-liberal” Baltic and south-eastern European states and in the “embedded neoliberal” Visegrád countries (Bohle and Greskovits 2012; Bernaciak 2015).

Finally, the Great Recession has ushered in a new phase for pension policy-making in CEE. As already mentioned, the crisis highlighted the negative fiscal consequences of the World Bank’s model of a diversion of social security contributions towards mandatory personal pension accounts and led governments to partly or fully reverse earlier pension reforms (Drahokoupil and Domonkos 2012; Orenstein 2013; Naczyk and Domonkos 2016). This new policy dynamic is likely to push some actors – especially the large pension fund industries that emerged with earlier reforms – to search for alternative models of pension privatization. OPs and a new model of auto-enrolment of workers in workplace pension schemes provide such alternatives (Orenstein 2013). The development of private – personal or occupational – pension plans is also likely to remain on the agenda because of growing criticisms – not only by nationalist politicians, but also by domestic business elites – of the excessive reliance of CEE economies on foreign capital (Epstein 2014; Barnes and Johnson 2015). Private pension funds still constitute a potential source of domestic capital.

### **The politics of occupational pension provision in Poland**

The previous section has argued that, although the preferences of CEE employers’ associations, trade unions and financial firms with regard to the creation of OPs should be

driven by similar labor market, financial and ideological motives as those identified in Western Europe, their capacity to influence the policy-making process should show much greater cross-temporal variation in recent decades. This section presents a case study of these actors' involvement in the politics of OPs in Poland.

Inspired by the World Bank (Müller 1999; Orenstein 2008a), a reform implemented from 1999 forced all Polish workers born after 1968 to pay contributions of 7.3 per cent of their gross wages into personal second pillar “open pension funds” (OFE – *otwarte fundusze emerytalne*). All those born between 1949 and 1968 could voluntarily join an OFE. The reform also created “third pillar” firm-level or multi-company “employee pension programs” (PPE – *pracownicze programy emerytalne*). Contrary to West European countries where OPs are typically supported by exemptions of contributions from personal income tax (PIT) and where retirement benefits are taxed, PPE plans exempt benefits from PIT but subject contributions to it. In 2004, PPE were complemented by third pillar voluntary “individual retirement accounts” (IKE – *indywidualne konta emerytalne*) that grant no tax relief from PIT except for the returns generated by the plans. The tax framework governing PPE and IKE plans has been one important reason for the relatively low coverage of occupational and voluntary personal pensions in Poland (see Figure 1).

#### INSERT FIGURE 1

In 2011, the liberal-conservative Tusk government decided to partly reverse the 1999 reform by cutting second pillar contributions to 2.3 per cent of gross wages and

redirecting them towards the public pension system. Simultaneously, it created new voluntary “individual accounts of retirement protection” (IKZE – *indywidualne konta zabezpieczenia emerytalnego*) with tax-deductible contributions. In 2013, the same government scaled mandatory OFE plans back even more by making participation in them voluntary and by seizing all the Polish sovereign bonds that they held. Despite this partial nationalization, OFE plans’ assets (7.81 per cent of GDP in 2015) continued dwarfing those of PPE (0.59 per cent), IKE (0.32 per cent) and IKZE plans (0.03 per cent – cf. Figure 1). These changes in the public-private mix were accompanied by increases in the statutory retirement age. In 2012, the Tusk government decided to gradually increase it from 60 years for women and 65 for men to 67 years by 2020, but Beata Szydło’s Christian-Conservative government fully reversed this reform in 2017. The rest of this section adopts a chronological structure.

#### *1990s: Marginalization of occupational pensions by the World Bank’s 1994 proposals*

Before the World Bank suggested introducing mandatory personal pensions in the mid-1990s, Poland’s nascent organized interests already showed a lot of interest in private – especially occupational – provision. Although only a handful of foreign-owned insurance companies had started competing with Polish-state-controlled PZU, insurers created a Polish Insurance Association (PIU – *Polska Izba Ubezpieczeń*) in 1990 and advocated both a retrenchment of public pensions and the creation of tax incentives for group insurance plans (East European Insurance Report 1993; Business Insurance 1994; op-ed by Commercial Union’s head – Miziołek 1994). In the early 1990s, employers’

associations such as the *Business Centre Club* (BCC) and the Confederation of Polish Employers (KPP – *Konfederacja Pracodawców Polskich*) repeatedly called for similar reforms (BCC 2005: 20-21; 37; 42; 72-74). In early 1995, the BCC primarily favored the development of OPs – to be set up “in collaboration with life insurance companies” – because these would “accelerate capital accumulation” and help companies “stabilize their workforce... and adapt non-wage labor costs to [their] financial situation” (BCC 2005: 55).

As the public pay-as-you-go system incurred major deficits in the early 1990s, the Solidarity union (*NSZZ Solidarność*) also became increasingly critical of statutory pensions and started considering different options for reform. Around 1993-4, the union invited Dutch pension experts for a series of seminars on foreign systems and became especially interested in Dutch sector-wide OP schemes with quasi-universal coverage (Author interview with former *Solidarność* official, Warsaw, 16/02/2010). In 1993, a government led by the former – largely *Solidarność*-led – opposition to the communist regime proposed developing voluntary occupational and personal provision by creating a social security contribution ceiling (MPiPS 1993), but early parliamentary elections prevented the proposal from being enacted. In January 1995, a government dominated by the post-communist left approved the introduction of deductions of employer contributions to group insurance products from corporate income tax.

Political dynamics radically changed after – at the behest of economists working in Ministry of Finance (Kołodko 1994) – the same post-communist government suggested creating mandatory personal accounts. In order to neutralize the opposition of its trade union ally – the post-communist OPZZ – to such a reform, the government

appointed a Solidarność official, Andrzej Bączkowski, as “government plenipotentiary for the reform of the social security system” in 1996. Bączkowski set up a task force – headed by World Bank economist Michał Rutkowski and comprised of Polish academic economists – that prepared a reform inspired by the World Bank’s 1994 report (Chłoń et al. 1999). Remarkably, the creation of a mandatory second pillar benefited from cross-party support: The different pieces of legislation allowing the reform to happen were passed both by a post-communist majority in 1997 and an anti-communist majority – with close links to Solidarność – in 1998.

A “Forum for Dialogue” jointly launched in 1996 by employers’ BCC and Solidarność unionists mobilized even more social support for the reform. What triggered this initiative was not only these two organizations’ earlier backing for the development of private – though, actually, occupational – pension plans. Both organizations also came to see the creation of mandatory pension accounts as the best way of facilitating the privatization of state-owned enterprises and of spreading private property more widely among Poles (BCC 2005: 106; NSZZ Solidarność 1996). In the mid-1990s, Solidarność advocated a “mass privatization” program in which all Polish citizens – i.e. in the union’s view, the legitimate owners of Polish companies – would freely receive vouchers that would allow them to invest in “national investment funds” which would themselves hold shares in privatized companies (Stark and Bruszt 1998: 94-96). After a referendum Solidarność organized on this issue in early 1996 was declared invalid due to low turnout, the union considered the creation of a mandatory second pillar as an alternative way of spreading share ownership. One of the three pieces of legislation constituting the 1997-8

reform package was a law linking pension privatization with the privatization of state-owned companies.

Despite their official support for the reform, neither employers' associations nor Solidarność – but not even the OPZZ – actively participated in discussions on the technical design of the mandatory second-pillar OFE “open pension funds” or the third-pillar PPE “employee pension programs”. Solidarność abandoned plans to set up *sector-wide occupational* plans (NSZZ Solidarność 1996: 15) and focused its lobbying efforts on the reform of public pay-as-you-go schemes. The very low density of Polish trade unions and employers' associations – and the lack of sector-level collective bargaining – would have made the creation of such Dutch-style collective OPs largely impossible. Among employers, state-controlled copper producer *KGHM* and *Bank Handlowy* individually lobbied for regulations that would allow newly created occupational PPE plans to become recipients of their own shares that their employees would receive as part of a soon-to-be-conducted partial privatization of these companies (Reuters 1997; Sejm 1997a). KGHM's and Bank Handlowy's managers feared that, without having their shares frozen in PPE plans, employees would sell them next to nothing on the stock exchange and make their firms vulnerable to a foreign takeover.

Although there is no evidence suggesting that they independently lobbied for the creation of *mandatory* personal accounts, financial firms supported the 1999 reform. As they anticipated that the tax framework of PPE plans would harm take-up of occupational pensions, insurance companies and mutual funds tried to have contributions to such plans – rather than benefits – exempted from PIT, but their demands were resisted on the grounds that they would cause too high revenue losses for the state budget (Sejm 1997b).



### *2000s: Mandatory personal pensions triumphant*

Massive public relations campaigns launched by state authorities and by newly created OFE pension funds gave the 1999 reform tremendous momentum. Although policy-makers expected that 6-7 million people would initially join the second pillar (Hausner 2002: 355), the number actually reached about 10 million (approximately 58 per cent of the active population<sup>1</sup>) by early 2000, and increased to 14 million by 2009 (81 per cent of the active population) following the gradual entry of younger cohorts into the system. Any type of non-state organization could apply for state licenses to manage an OFE. Non-financial entities such as the Polish Episcopate and Solidarność initially participated in the creation of some funds, but they eventually withdrew from a market that was rapidly dominated by insurance companies. In 1998, OFE funds created a Polish Chamber of Pension Funds (IGTE – *Izba Gospodarcza Towarzystw Emerytalnych*). As debates on the regulation of OFE were recurrent during the 2000s, the IGTE regularly collaborated with former members of the Plenipotentiary's task force in preparing expert opinions (Author interviews with IGTE representatives, Warsaw, 23/06/2006 and 16/02/2010). Trade unions were increasingly marginalized in these new politics of pension fund regulation. IGTE even recruited Solidarność's former chief pension expert, Ewa Lewicka, as its director-general in 2002.

For about a decade, mandatory personal pensions dominated the pension policy agenda. After it turned out that OFE managers imposed excessive charges on contributions paid by the insured, a center-left government tried to cap them at 2.5 per

cent through a 2004 reform, but the IGTE managed to have the cap limited to 7 per cent (Author interview with former Minister of Labour, Warsaw, 19/02/2010). As contributions towards the OFE represented a direct loss for the social security system (1.4 per cent of GDP in 2000 – cf. Chłóń-Domińczak 2002: 168), the state had to growingly subsidize it. Economists and employers' associations unsuccessfully proposed compensating these state subsidies with cuts in the unreformed – but heavily state-subsidized – statutory pensions of farmers and uniformed services (e.g. BCC 2005: 270). The privatization of state-owned enterprises partly helped finance social security's funding gap (Naczyk and Domonkos 2016). As OFE were forbidden from investing more than 5 per cent of their assets in foreign denominated securities, pension fund managers warned that a lack of supply of securities on domestic capital markets could result in a “market bubble” (Parkiet 2002). The IGTE and the Warsaw Stock Exchange (WSE) regularly – and successfully – pressed the state to privatize state-owned enterprises through equity markets (Author interview with top WSE official, Warsaw, 11/08/2014). The WSE eventually described the creation of OFE as the “greatest event in the history of the [Polish] capital market” apart from the creation of the exchange itself (Rzeczpospolita 2009).

While OFE were in the limelight, occupational provision was relegated to the background. Employers had some incentives to sponsor PPE plans: Employer contributions – which could be up to 7 per cent of an employee's gross salary were exempt from social security contributions and corporate income tax. However, employees had no possibility of paying employee contributions and employer contributions they received were not exempt from PIT. Coverage of PPE reached 1.54 per cent of the active

population in 2005 and 2 per cent only by 2010 (cf. Figure 1). State authorities did not want to change PPEs' tax framework because the Ministry of Finance considered any additional tax expenditure to be unsustainable at a time when the state had to plug the social security system's revenue gap resulting from the introduction of OFE plans (Parkiet 2000). A 2004 amendment to PPE regulations made it possible for employees to pay their own contributions into the plans, but without tax relief. In Poland's decentralized system of collective bargaining, no sector-wide PPE plans were established. The largest schemes have been created in foreign multinationals such as Arcelor Mittal, Nestlé, Orange Polska and Unilever as well as in state-controlled – and typically more unionized – enterprises such as KGHM or energy groups PGE and Enea. The dominant provider of PPE is state-controlled insurance company PZU, which manages several hundreds of plans covering about half of all PPE participants (PZU 2017).

#### *2010s: The resurgence of occupational pensions?*

During the Great Recession, CEE governments became increasingly concerned about the fiscal impact of the diversion of social security contributions towards mandatory second pillars (Drahokoupil and Domonkos 2012). In Poland, the Tusk government decided to scale OFE back in 2011 and 2013. Employers' associations, the IGTE and even some high-profile Solidarność officials unsuccessfully tried to prevent these reforms. However, contrary to Hungary's decision to fully nationalize its second pillar, Poland only seized the Polish sovereign bonds held by OFE because nationalizing their portfolio of equities would have excessively increased the state's stakes in firms

listed on the WSE (Naczyk and Domonkos 2016).

As mandatory personal pensions were being called into question, occupational provision came back on the political agenda. Private pension providers, employers' associations, but also the OPZZ trade union all called for the introduction of tax deductions for employer and employee contributions made into PPE (Rzeczpospolita 2010; Malinowski 2011; BCC 2012; OPZZ 2013). The OPZZ argued that PPE should be supported because they charged much lower fees than personal pension schemes and were therefore "the cheapest form of supplementary retirement savings" (Rzeczpospolita 2013). Despite this seeming unanimity, years of neglect prevented OPs from quickly gaining momentum. In 2011, the Tusk government created a new vehicle for voluntary personal pensions (IKZE accounts) with tax-deductible contributions, but it did not budge on PPE plans' tax framework. OPs started receiving much greater attention from policy-makers as a series of reports written by economists – but commissioned by the Chancellery of the President (Rutecka et al. 2014), the IGTE (Kawalec et al. 2015) and the PZU Foundation (Wojciechowski et al. 2016) – recommended to auto-enroll workers in workplace pension plans.

A government led by the Christian-conservative Law and Justice (PiS) party took up this approach inspired, among others, by recent British pension reforms (e.g. Orenstein 2013: 273-4). As part of a "Responsible Development Strategy" it adopted in February 2017 as its official strategy for economic reform until 2020 (Republic of Poland 2017: 5, 41-2), Beata Szydło's government committed itself drastically to overhaul Poland's public-private pension mix. First, it suggested phasing out OFE plans by transferring 75 per cent of their assets – mainly invested in Polish equities – into third-

pillar IKZE accounts. The remaining 25 per cent – excluding shares of Polish companies – were to be transferred into a Demographic Reserve Fund that helps plug deficits in the social security system. This part of the reform was to be enacted by the end of 2017.

Second, the government announced plans to introduce auto-enrolment of workers in – with a possibility to opt out of – newly created “employee capital plans” (PPK – *pracownicze programy kapitalowe*) that would top up – and not partly replace – statutory pensions. While public sector employees would not have to participate in such plans, all private-sector workers aged 19-55 would have to pay between 2 and 4 per cent of their gross salaries into such PPK plans while employers would pay between 2 and 3 per cent and the state would offer a welcome bonus of 250 Polish zlotys and, potentially, a 1 per cent subsidy. Workers aged 55 years or more could voluntarily join the plans. Employers and employees would jointly choose the pension provider, but, should they fail to do so, PPK would be managed by default by a low-cost state investment fund (PFR TFI S.A.) administered by Poland’s national development bank, the Polish Development Fund (PFR – *Polski Fundusz Rozwoju*).

This blueprint for reform was well received by the business community. The IGTE declared that “as a sector, but also as a constituent of the Polish financial center” it assessed the plans positively (IGTE 2016). However, while the government initially tabled for a rapid implementation by 2018, the IGTE demanded that it be postponed because market players needed more time to adapt to new regulations. Employers’ associations welcomed the proposal on the whole, but pointed out the significant increase in non-wage labor costs that reform would represent – especially for small firms – and warned against too important an involvement of state-controlled institutions in the market

(Starczewska-Krzysztozek 2016). By contrast, unions were conspicuously absent from debates over the reform.

The reform was in fact prepared in close cooperation with business. The “Responsible Development Strategy” was spearheaded by the Minister of Development and Finance, Mateusz Morawiecki, who had been long-time chief executive officer (CEO) of Bank Zachodni WBK Group – one of Poland’s largest banks – before joining the Szydło government in 2015. The idea of introducing auto-enrolment was presented for the first time in July 2016 as part of a “capital accumulation program” he co-authored with the CEO of the Polish Development Fund, Paweł Borys (Ministry of Development 2016). Borys – whose career had spanned the private-sector banking, mutual fund and insurance industries – insisted that the PFR had “no imperial ambitions” and that its role would be as “small as small as possible in the long term” (Wyborcza.biz 2016). He even described the government’s plans as “de facto nothing else than a program for the development of Polish financial markets” since auto-enrolment would allow the WSE to have a stable base of domestic institutional investors (IGTE 2017). Morawiecki himself had a much broader ambition of increasing Poland’s domestic savings – and, thus indirectly, domestic ownership of companies – in order to help the country escape its status as “dependent market economy, in which foreign capital controls key areas of economy” because “this ownership structure does not create incentives to invest in innovation” and could throw Poland into the “middle-income trap” (Morawiecki 2016).

## **Conclusion**

The Polish case study has highlighted how organized interests' involvement in the "hidden" politics of OPs has changed over time. In the early 1990s, financial firms, employers' associations and the Solidarność union all mobilized for the expansion of occupational schemes. Although this early mobilization was an important factor in the creation of "third pillar" OPs as part of Poland's 1999 pension reform, these schemes became the Cinderella of the country's pension system once the World Bank's 1994 report convinced state actors, but also business groups themselves – and even Solidarność – that mandatory personal pensions should be a more important "second" pillar of Polish pension provision. Solidarność's and business groups' support for this new conception also had to do with plans to use pension funds as vehicles for the privatization of state-owned enterprises (SOEs) and the promotion of wider share ownership in the population. This link between pension privatization and SOE privatization helped to turn the mandatory second pillar into a true engine of capital market development throughout the 2000s. Despite becoming increasingly powerful actors, financial firms were unable to stop the reversal of the 1999 reform in the 2010s. However, with the expertise they acquired in the pensions area, financial firms – and, to a somewhat lesser extent, employers' associations – became protagonists of efforts to introduce a new model of auto-enrolment in OPs that a Christian-conservative government officially endorsed in the late 2010s. Trade unions appeared to be a secondary actor in this resurgence of occupational provision.

Can one expect organized interests' role in OP politics to have been similar across CEE? Solidarność's strong interest in private pensions – and its willingness to proactively build coalitions with business groups to support their expansion – may be exceptional for

a trade union and helps explain why Poland was one of the few CEE countries that created “traditional” OPs alongside mandatory personal accounts. Clearly, the non-existence of such traditional occupational plans in many countries in the region and the importance of a functional equivalent in the form of employer contributions paid into personal plans suggest that political dynamics have been characterized by significant cross-national variation. Did organized business or labor fail to even develop a preference for the creation of traditional OPs in some countries? Or rather – as would be expected by this paper’s theoretical framework – were they organizationally too weak in the first years of democratization in order to prevail against other actors – e.g. economists, political parties, think tanks or international organizations – that provided alternative blueprints for reform? Comparative research will have to shed light on these so far neglected dimensions of pension politics in CEE.



## Notes

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<sup>1</sup> Own calculation based on KNF (Polish Financial Supervisory Authority) and Eurostat data.

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**Table 1 - Voluntary pension plans allowing employer contributions in Eastern European EU member states at the end of 2015**

Country	Name	Type	Coverage (participants as % of active pop. aged 15-64)	% of participants receiving employer contributions	% of employer contributions as part of total contributions	Total assets (as % of country GDP)
<i>Estonia</i>	3 <sup>rd</sup> pillar voluntary pension funds	Personal	6.8%	n/a, but insignificant <sup>a</sup>	n/a, but insignificant <sup>a</sup>	0.6%
<i>Latvia</i>	3 <sup>rd</sup> pillar private voluntary pension funds	Personal	22.6%	n/a	14.3%	1.4%
<i>Lithuania</i>	3 <sup>rd</sup> pillar suppl. voluntary pension funds	Personal	3.3%	n/a	±10% <sup>a</sup>	0.2%
<i>Poland</i>	3 <sup>rd</sup> pillar employee pension plans	Occupational	2.3%	100%	96.9%	0.6%
<i>Czech Republic</i>	Suppl. pension savings	Personal	69.4% <sup>c</sup>	29.3%	±49% <sup>b</sup>	7.7%
<i>Slovakia</i>	3 <sup>rd</sup> pillar suppl. pension savings	Personal	25.1% <sup>d</sup>	65.2% <sup>d</sup>	n/a	1.9% <sup>d</sup>
<i>Hungary</i>	Autonomous pension funds	Personal	25.5%	n/a	41.1%	3.4%
<i>Slovenia</i>	Suppl. pension savings	Occupational <sup>e</sup> or personal	50.6% <sup>e</sup>	96.4% <sup>f</sup> (cf. members of occupational plans)	n/a	5.2%
<i>Croatia</i>	3 <sup>rd</sup> pillar closed-ended voluntary	Occupational	1.6%	n/a	n/a	0.2%

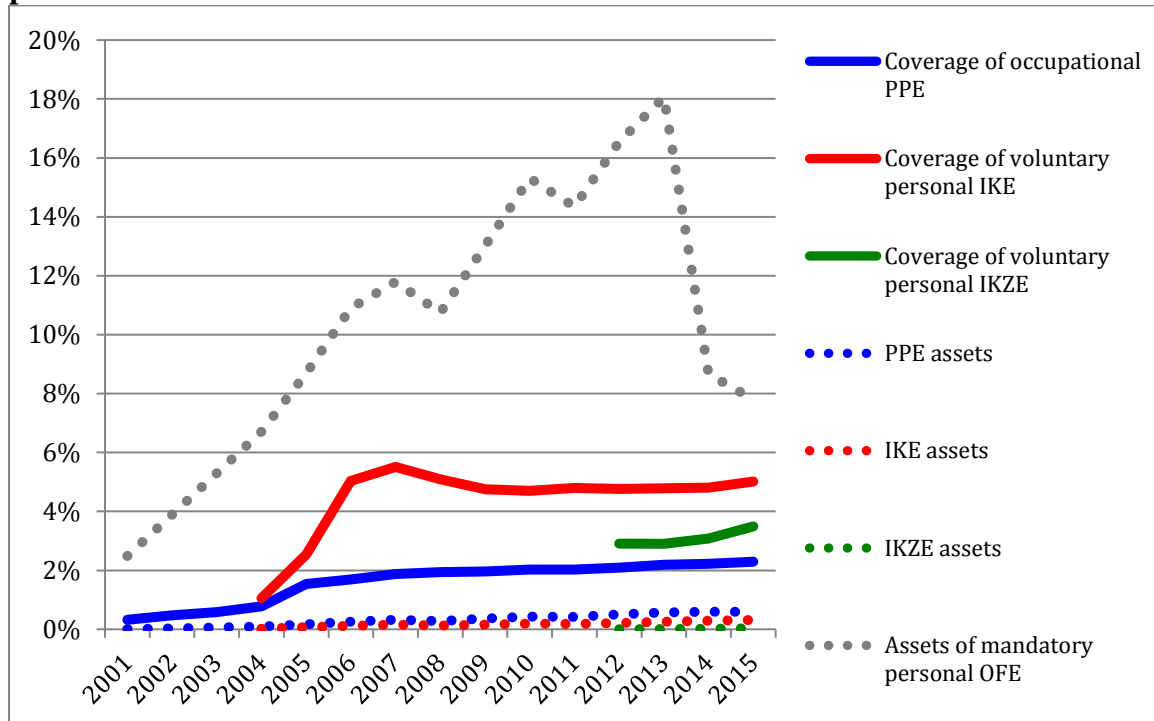
	pension funds					
<i>Romania</i>	3 <sup>rd</sup> pillar voluntary pension funds	Personal	4.3%	60.9% <sup>g</sup>	n/a	0.2%
<i>Bulgaria</i> <sup>h</sup>	3 <sup>rd</sup> pillar suppl. voluntary pension funds with occupational schemes	Occupational	0.2%	100%	95.6%	0.01%
	3 <sup>rd</sup> pillar suppl. voluntary pension funds	Personal	16%	72.5%	26.7%	0.9%

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*Notes:* <sup>a</sup>SEB 2015: 5; <sup>b</sup>total contribution includes state contributions; <sup>c</sup>measures coverage of 15-59 due to data limitations; <sup>d</sup>data for 2014Q4; <sup>e</sup>includes mandatory (i.e. statutory) plans for some categories of public-sector workers and employees working in heavy and hazardous conditions; <sup>f</sup>data for 2016; <sup>g</sup>data for August 2016; <sup>h</sup>table does not include Bulgarian statutory 2<sup>nd</sup> pillar 'professional pension funds' that cover employees working in heavy and hazardous conditions (with coverage of 7.8% of active aged population 15-64 and assets of 0.9% of GDP).

*Sources:* unless otherwise stated, own calculations based on Eurostat data and data from domestic financial supervision authorities and from Ministry of Finance or Labor; Readers can request that the author send them an excel worksheet containing calculations together with detailed sources.

**Figure 1 - Private pension plans in Poland, 2001-2015: Coverage as a percentage of the active population aged 15-64 and net assets as a percentage of gross domestic product**



*Note:* data on OFE coverage are excluded due to excessive scale (96.4% coverage in 2015)

*Sources:* own calculations based on Polish Financial Supervision Authority (KNF) and Eurostat data