RETIREMENT AWARENESS AS A DETERMINANT OF THE CHOICE OF TOOLS FOR COLLECTING PENSION CAPITAL

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Abstract
The article deals with the problem of retirement awareness of adult citizens. Its purpose was to determine the level of this awareness and knowledge about the pension system, as well as to learn the motives of decisions related to the optional part of the pension system. In addition, the aim was to identify what voluntary forms of raising capital for the retirement are most often chosen, and which factors in particular make people to take action to secure their retirement future. The study established that the respondents negatively judge the effectiveness of the Polish pension system, do not have adequate knowledge about the functioning of the pension system and show little interest in additional, voluntary forms of building pension security.

Keywords: pension system, retirement awareness, voluntary forms of building pension security.

JEL codes: G41, D14, J14.

1. Introduction

Many developed and developing countries suffer the problem of societies ageing. Poland is one of them. This means that individual ability of foresight is getting more and more important. It is one of the competencies that are a part of retirement awareness. Due to the fact that in Poland there is a significant risk that the public pensions will decrease the possessed knowledge referring to the ways of increasing the pension gives an advantage over the people without the knowledge, and first of all it gives a chance to gain higher pension. Thus the aim of this paper is to determine the level of this awareness and knowledge about the pension system, to know the motives of decisions related to the voluntary part of the pension system. This aim is going to be achieved by the analysis of the results of surveys that were done in similar period of time (2016). In addition, there was the pilot survey done in 2017 to compare these results. Moreover, the aim is to identify what voluntary forms of raising capital for the retirement are most often chosen, and which factors in particular make people to take action to secure their
retirement future. The main two hypotheses stated at the beginning are that: (H1) Poles do not represent high level of retirement awareness and (H2) are little interested in voluntarily saving money for retirement.

2. What is pension awareness?

Pension awareness can be defined as a phenomenon of being aware of events and processes referring to the future and/or current pension and having abilities to analyze and evaluate them. Analyzing the issue from the psychological point of view it may be assumed that it is a complex psychological formation serving to controll financial behaviours of an individual connected with shaping the future or current pensions. Dealing with pension awareness as the example of financial awareness we can assume that it is composed of three following elements:

- knowledge, including: formal knowledge based on formalized financial education including pensions (school, courses, trainings, workshops, etc.) and informal knowledge gained by various media or people (family, friends, colleagues, acquaintances, neighbours, etc.),

- objective understanding of financial phenomena including the ones referring to the rules of pensions shaping,

- practical skills to make rational financial decisions referring to pensions.

The possessed knowledge and skills should be reflected in understanding and perception of phenomena. However, it is not guaranteed that the person with broad financial knowledge will achieve financial success in the future or will avoid financial problems. It is not guaranteed that his or her decisions will be rational and the best. On the other hand, one can have some practical skills to deal with financial issues without understanding their complexity and rules. In the optimal situation there are all three elements simultaneously, that is knowledge, practical skills and understanding of financial phenomena. These elements compose general financial competence, in other words joining three attributes: knowledge, skills and emotions which allow a person to realize financial activities in a skilfull, effective and responding to qualitative expectations way (Cicharska et al. 2016, pp. 25-26). The analyzed topic primarily deals with the knowledge referring to the way of shaping the future pensions, what can be done and how one can achieve the best result, and what the effects of such activities can be.

Facing the progress of ageing processes of societies the pension awareness seems to increase in importance. Especially in the countries where it is not guaranteed to gain public pension or when the public pension is too low. Due to the fact that in Poland there is a significant risk that the public pensions will decrease (both the nominal as well as in relation to former remuneration) the possessed knowledge referring to the ways of increasing the pension gives an advantage over the people without the knowledge, and first of all it gives a chance to gain higher pension.
3. Pension awareness of the Poles in the context of current surveys

The research of pension awareness of the Polish was conducted by Czapinski and Góra\(^1\) (2016). It was shown that almost 80% of the respondents do not take any actions in order to prevent worsening of material life standard after retiring. Among those who take any action the biggest group is composed of individuals allocating means at bank deposits or in cash (61%), 14.6% invests in various investment goods, which can constitute safeguards for the future (e.g. property, noble metals, works of art), 13.3% possesses Protection and investment insurance, 8% possesses an Individual pension account, 1.6% use Employees pension schemes, and 0.5% Individual pension benefit account. It is interesting that as many as 12.4% of the respondents treats their children as a protection for the retirement and they try to raise them in a way so that they financially help. According to the research, conducted by Węgrzyn\(^2\) (2016), which was more local, the result was similar. The majority (65.89%) declared that they do not accrue capital for the retirement. Individuals with higher education were more cautious as only (!) 53.73% of them did not collect capital for the future pension, in comparison to 78.57% of those with secondary education. The relation between the income level and collecting additional means for the retirement is shown in Figure 1.

![Graph showing percentage of individuals not saving capital for the future retirement according to remuneration](image)

**Fig. 1.** Percentage of individuals not saving capital for the future retirement according to remuneration


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\(^1\) This survey was conducted on a sample of 1006 persons in age of 18-67. The main criteria of including to the sample was work activity. Survey was conducted by the Social Surveys Lab (pbs.pl) as an direct interview with CAPI technique (computer assisted personal interview) on a representative sample for Poles in age of 15+. The aim of this survey was to check the knowledge on own retirement future and activities related to preparation, mainly economic, to retirement (Czapinski and Góra 2016, p. 6).

\(^2\) This survey was conducted on a sample of 129 persons. It wasn't representative and responses were collected via website and paper questionnaires. The aim of the survey was to know opinions of respondents about the pension system, their knowledge of its construction, range of actions aimed at securing the future of retirement and their determinants (Węgrzyn 2016, pp. 72-73).
On the basis of this research the dependence between the received remuneration and pension forethought can be noticed. Up to 84.13% of persons earning up to 2000 PLN do not save capital for the future pension, whereas in the best earning group only 28.57% do not do it. On the basis of this rule, the economic factor can be assumed as the key one, which decides about abandoning actions leading to the increase of the Polish pension safety. Individuals who decide to save capital most often choose deposits (14.73% of all respondents). The individual pension account is chosen by 11.63%, whereas only 3.10% choose Individual pension benefit account which is recognized as the best in this paper. This phenomenon can be caused by the fact that Individual pension benefit account has been introduced after Individual pension account, what lead to shortening the period when the interested could join the program. None of the respondents indicated other tools by the means of which they would like to safeguard their pension future. The result is concurrent to the ones achieved by Czapiński and Góra in the scope of the main tool of saving pension capital. In both cases, these are the deposits which can and do not have to be purposed for financing consumption during the occupational deactivation period. The deposits have a general goal and they are not purposeful as it is in case of capital gained by dedicated means such as Individual pension account or Individual pension benefit account.

In the analysis by Wegrzyn the lack of free means, which could be dedicated for the protection of the pension future, is the most popular factor indicated by the respondents who so far do not save the capital for the future pension (77.65%). The crucial fact is that only 9.41% of the respondents considers the pension provided by ZUS (The Polish Social Insurance Institution) as sufficient. It means that the other part which does not save capital, has not taken up any actions yet, despite the conviction that they will not receive pension from the state pension system at the proper satisfactory level. Simultaneously, as many as 92.68% of the respondents expects to receive pension causing lowering current life standard after retiring. The fact that almost a half (46.34%) of those who retire shall need additional means should be alarming. It means that in case of lack of such a source when retiring the said individuals may have problem to secure their living. 39.47% of respondents, who claim that the simulated pension is low or too low, does not save capital for the future pension. Besides, as many as 41.86% thinks that till their retirement Polish Social Insurance Institution ZUS will go bankrupt³, and only 3.88% believe that their pension will be at the level of their last remuneration. The fear for insolvency of Polish Social Insurance Institution ZUS is also present in the research results by Czapiński and Góra. According to them even 80% is afraid of such a situation. The results are surprising if they are compared to the percentage of individuals who declare not saving the capital for the future. Despite the fact that the majority have a negative attitude to the level of the future pension or the possibility to receive it at all, a significant majority of

³ 41.79% with higher education and 44.64% with secondary education believes that Polish Social Insurance Institution will go bankrupt so it can be assumed that the level of the education is not related to the bankruptcy of the institution.
Retirement awareness as a determinant of the choice of tools for collecting pension capital

Individuals do not take any action to increase the pension in the future. It is a hard definable phenomenon as it means that the individuals foreseeing the negative situation in the future do nothing to change this perspective. The degree of usage of financial instruments which allow to receive a higher pension in the future is the manifestation of pension awareness. In Polish conditions the basic choice refers to subaccount in Polish Social Insurance Institution ZUS and an account in Open Pension Fund. According to the research by Węgrzyn the option is chosen by only some individuals what is presented in Figure 2.

![Bar chart showing responses to questions about pension choice]

**Fig. 1.** Answers for the question: “What have you chosen, Open Pension Fund or subaccount in Polish Social Insurance Institution (ZUS)?”
Source: Węgrzyn 2016, p. 82.

![Bar chart showing reasons for pension choice]

**Fig. 2.** Answers for the question: “What was the main reason of allocation of means in Open Pension Fund or the subaccount in Polish Social Insurance Institution (ZUS)?” More than one answer was possible
Source: Węgrzyn 2016, p. 84.
It turns out that 54% of those who worked over 4 month since July 2014 did not take any action connected with the choice between Open Pension Fund and ZUS subaccount. These respondents were not interested in this possibility. The results can be judged as dramatic as it shows that about half of the Polish who could make such a choice, is not interested in the issue of their future pension at all. Despite the previously presented results which show the negative attitude to the future pension level these people have no interest in case of circumstances forcing them to make a choice influencing the level of their future pension. In this case, the choice should be made on the basis of the analysis Open Pension Fund return rates and subaccount valorization. The analysis could be broadened by information gained from the press and TV or friends. Such an action could allow to receive proper data constituting the basis of a rational decision. This type of analysis was declared by only 9% of respondents. Opinions of friends and family were much more popular (20%) as well as information from the press and TV (27%) as the decision making factors. Simultaneously almost a half of the respondents (47.29%) claims to have no knowledge referring to the pension calculation way by Polish Social Insurance Institution ZUS, 41.09%, of the respondents claims to have scarce knowledge whereas 11.63% is able to state which choice would be more profitable.

4. Polish pension awareness in the light of own analysis

The analysis, defining pension awareness of Polish society⁴, conducted in 2017 showed very low interest in the voluntary part of a pension system. The research was regional and it was mainly conducted among inhabitants living in Lower Silesia Province, Opole Province and Silesia Province. The research proved that over 56% of the society does not save in Pension Pillar 3, and 32% saves no more than 500 PLN per month.

![Pie chart showing the amount of means saved per month by the inhabitants of Opole Province](image)

**Fig. 3.** The amount of means saved per month by the inhabitants of Opole Province

Source: own analysis.

⁴ Pilot analysis conducted in October 2017, sample of 200 respondents.
The respondents indicated the lack of sufficient financial means, insufficient knowledge of investing, ignorance of Pillar 3 products as well as lack of trust in financial institutions as the main reason of not saving by the means of Pension Pillar 3 instruments. Figure 4 depicts the reasons of not saving by the inhabitants of Opole Province.

![Bar chart showing reasons for not saving](image)

**Fig. 4.** Reasons of not saving by using products of Pension Pillar 3  
Source: own analysis.

It is alarming that the lack of knowledge of investing and ignorance of Pillar 3 products are among the main reasons of not saving in Pillar 3. It proves the low pension awareness of Polish society and it reveals a very low propensity to save for the retirement. The financial crisis in 2017 definitely caused the low percentage of people saving for the pension by the instruments of the capital market. The crises escalated in 2008 and led to decrease of confidence in financial markets and it discouraged to invest in instruments linked to this market.

Besides, the right information about the product being the subject of the contract is of crucial meaning while concluding contracts referring to programs of Pillar 3. The responsibility to inform the client lies on the person proposing concluding the contract – an insurance agent, a bank employee or a financial advisor. Unfortunately, mostly the given information is not precise and contrary to the contract conditions. Often the consumers in the moment of concluding the contract are being informed only about the profit height which can be expected when paying in their money (even few dozen of percent), whereas they are not informed about the investment risk and possibility of loss. It results in misleading the customers and consequently it causes a significant loss of financial means and it undermines the confidence in financial institution (Chorkowy 2013,
The low pension awareness of Polish society is confirmed by the fact that respondents numbered apart from higher income of a household, also trainings raising awareness of investing in Pillar 3, more attractive bonuses in exchange for joining the program and wider assistance of financial advisors in the scope of management of means allocated in Pillar 3 products, as the main reasons forcing individuals to save means by Pillar 3 instruments.

The declared height of the amount saved per month by an ordinary Polish citizen is a crucial element which decides about future pension level. The research showed that 35% of society would be prone to save in Pillar 3 up to 200 PLN and 42% not more than 500 PLN. It means that despite considering possibility of joining the voluntary part of a pension system the Polish declare the amounts which do not guarantee saving a sufficient amount of means allowing to satisfy the maintenance of life level at retirement similar to the level during professional activeness.

Low popularity of Pension Pillar 3 is mainly caused by the low level of knowledge of pension system Pillar 3 instruments. More than 80% of society has no knowledge or has a basic knowledge of the issue. As a result, more than 50% of the respondents who had a choice of fund portfolio with various risk chose safe fund portfolio, when only 11% of respondents were ready to invest in the aggressive fund (Figure 5).

**Fig. 5.** Tendency to take investing risk
Source: own research.

It has a direct influence on the form of savings investing. The majority of the respondents prefers bank deposits (over 57%). Another popular investing forms are bonds (34.5% of respondents) and investing funds (40% of respondents). The

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5 The respondents could choose 2 answers maximum, therefore the percentage total is over 100%.
aggressive forms of investing such as stock exchange and Forex so the ones with the potential highest return rate and investing risk are definitely less popular.

5. Conclusion

Analyzing the Polish respondents participating in the studies pension awareness on the basis of various research results, which was conducted in the independent way in a similar period of time, it can be assumed that individuals with negative attitude to the future pension from Polish Social Insurance Institution are in majority. Most of the respondents think that the future pensions will be low, even on the level forcing to look for external finance sources. Some of them even think that Polish Social Insurance Institution ZUS will go bankrupt and they will not receive pensions. Simultaneously, a considerable part of the respondents have a dismissive attitude to the future pensions as they are not interested in basic instruments enabling to gain higher capital for the retirement and they show a total decisive passivity in this issue. It is also shown by the fact that the voluntary forms of saving pension capital are not popular. The level of using them grows together with the wealth level. It means that the economic factor is the major determinant of pension foresight. The individuals with higher education declare to have the knowledge of the basis of the question more often than the ones with secondary education. However, when a concrete situation is described and professional knowledge is required e.g. about the way of quarterly valorizations, the knowledge level is similar in both groups. This means that both hypotheses stated at the beginning of this paper were confirmed as respondents participating in the studies have low retirement awareness and they are not interested in voluntarily saving money for retirement.

Summing up the considerations included in this paper, a big anxiety should be expressed as far as the level of Polish pension awareness is concerned and their low activity level to build pension capital. Although the problem also exists in more developed countries (see also: Hopkins 2018; van Rooij et al. 2011; Uppal 2016), it cannot be a justification. For the Polish future pensioners it means that they rely only on public pensions, believing that “someone else (“state” as an incarnation of the Santa Clause) will be responsible for the consumption of pensioners” (Czapiński and Góra 2016, p. 11). Unfortunately this faith can be pernicious.

References


