A new way to save for retirement

The goal of Employee Capital Pension Schemes (ECPS) is to improve employees' financial security, as well as increase public finance stability, and further stimulate economic growth potential.

Employers will have to sign an agreement with a chosen financial institution to set up and manage the ECPS. Such an institution must meet certain criteria, such as: at least three years' experience in managing investment funds, open-end investment funds, pension funds and/or open-end pension funds, and furthermore, it must have its own capital of at least PLN 25 million. Additionally, funds collected by employees must be accordingly allocated in funds based on the employee's current age.

Both employers and employees will make contributions to the ECPS. The employer's base contribution will be 1.5 percent of the employee's remuneration, whereas another 2 percent of that remuneration will come from the employee's salary. The Bill furthermore specifies that the employee's base contribution may be less than 2 percent of the remuneration (however, no less than 0.5 percent) if that employee's monthly remuneration from various sources does not exceed PLN 2,100.

Employers will be allowed to contribute more if they wish to do so (with additional contributions of up to 2.5 percent of the employee's remuneration), as will employees (up to 2 percent extra). In addition, there will also be annual co-financing of PLN 240 from the State for each participant of the ECPS. That will apply only to employees who have gathered in their accounts contributions of at least the amount of base contributions due on the sum equal to six times the minimum remuneration applicable in a given year. Employees whose base contribution is lower than 2 percent of the remuneration will be excluded from this rule, though.

OPT-OUT OPTION

Moreover, the employee will have the right to opt out by providing the employer with a written declaration to that effect. Consequently, the employer will no longer be under the obligation to pay contributions for that employee. Such an opt-out declaration is time-limited and is made for a period of four years; however, that procedure may be repeated in cycles.

Because of the unique nature of the funds gathered in the EPCS, their withdrawal will only be possible at the employee's request in exceptional cases, such as:

- if the employee reaches the age of 60 (as a rule a lump sum of 25 percent may then be withdrawn, while the remaining 75 percent in at least 120 monthly instalments);
- if the ECPS's participant wishes to withdraw the funds to provide a down payment when taking out a home loan to finance an investment such as buying an apartment or building a house (up to 100 percent of the funds, subject to the obligation to return them in their nominal value);
- if the employee, his/her spouse or child is diagnosed with a serious illness (withdrawal of up to 25 percent of savings);
- in the case of death, if the withdrawal is requested by an authorized person.

Up until recently, employers could have (and still can) operate voluntary Employee Pension Schemes (EPS), defined in the Act of April 20, 2004 on Employee Pension Schemes. According to the Bill, employers that run EPS and pay-based contributions amounting to 3.5 percent of the employee's remuneration will be exempt from the obligation to set up the EPCS, on the condition that at least 50 percent of their employees have joined the EPS.

In connection with the planned changes, employers have more and more doubts as to which savings option to choose – EPS or EPCS. Polish employers are familiar with the EPS, which has been in the market for some time now, whereas the EPCS is a novelty which requires further specification and clarification by the legislator. Employers should therefore compare the two existing systems and determine which is more suited to their needs. ●

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