Financing of social security benefits in Poland

(Finansowanie ubezpieczenia społecznego w Polsce)

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Abstract – The authors characterised health services financing in Poland between 1945 and 1986. Then, they paid attention to the reformed financing model of insurance benefits after 1986, and then after 1999.

Key words - health services financing, Poland.


Słowa kluczowe – finansowanie świadczeń zdrowotnych, Polska.

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I. SOCIAL BENEFITS FINANCING BETWEEN 1945 AND 1986

Between 1918 and 1939, Polish state budget did not include social insurance funds. It was intended to subsidise the insurance system and had the right to use its deposits.

After 1945, the economic situation in Poland changed and the national budget ceased to pay in previously fixed contributions for social security. Then, the shortage of money in the amount of 1 m zlotys occurred. Before long, however, social security funds improved because following 1950, the provisions of the six-year plan started to be implemented and all cash funds were combined. That was the reason why social security finances were joined with the state budget to the effect that social security institutions were financed through state subsidies, but surpluses from social security activities fully flowed in the budget in the form of deposits. Since that moment onwards, social security funds became one of the sources of financing of general and economic goals. As a result, the calculation methods used so far with regard to contributions which provided reserves for the financing of insurance benefits were abandoned. Profits from contributions were transferred for the payment of disability and old-age pensions. From that moment, all benefits were to be granted by the economic potential of the state which was supposed to ensure full employment and production growth.

Due to the fact that since 1951 onwards the finances of social security institutions, like state-budget entities, were incorporated into the state budget, social insurance policies obtained the budgetary status. That was the reason why revenues of the Social Insurance Company became the state revenue, whereas certain amounts of money were allocated for expenses related to social security schemes. If someone did not pay fees, they did not have a right to benefits under social security.

If someone was employed at the company, they acquired the right to benefits. Such a model of social security was valid until 1964 [1,2].
Years 1965-1986 brought the next model of financing social insurance benefits, whose finances on the one hand were covered by the state budget, and on the other — comprised special funds which were “Craftsmen’s Security Fund (1965–1977), Social Security Fund of Certain Groups of the Population (1966–1977), Pension Fund (1968–1986), and State Fund of Combatants (1976–1986)”[3].

Between 1965–1970 revenues in the Craftsmen’s Social Security Fund largely exceeded expenses. After 1967, the surplus began to dwindle, and from 1971 onwards a financial deficit took over.

When this type of social security was abandoned, the deficit amounted to 110 m zlotys. The condition of the Social Security Fund of Certain Groups in the Population was better as its cash inflows definitely outgrew expenses.

The Pension Fund was established under the Act of January 23, 1968. Its main source of revenue were contributions paid by enterprises in the amount of 8.5% of the contribution calculation basis and pension contributions paid by employees. This contribution constituted 3% of the remuneration for work or other respects and entitled employees to be covered by the laws concerning old-age pension provision. Employers deducted the due amount from the employee’s remuneration and submitted it to the Social Insurance Company. Years 1968–1977 were favourable because the Fund’s revenues matched expenses. If there were surpluses, they were deposited in the state budget or the National Bank of Poland and bore interest, simultaneously contributing to the growth of revenue of the Pension Fund, which in 1977 took over all receivables and liabilities of the Craftsmen’s Social Security Fund and Social Security Fund of Certain Groups in the Population. The matter concerning the return of the loan of 200 m zlotys, which was contracted from the state by the Craftsmen’s Social Security Fund, was resolved. Deficits in the Pension Fund occurred between 1978 and 1980. Consequently, in 1981, the contribution was raised from 20% to 25% of the contribution calculation basis. When in 1982 Price Compensations started to be withdrawn, the deficit in the Pension Fund’s reserves occurred again, but the state provided a certain amount of cash subsidy. The reserves were created only when the fee was raised by 33% in 1982 and by 43% in 1983.

Between 1968-1986 social security revenues grew thanks to the subsidy from the state budget, which the Fund received so that the Social Insurance Company could cover other benefits [2,4,5].

II. REFORMED MODEL OF SOCIAL BENEFITS FINANCING AFTER 1986

The model of financing social benefits raised dissatisfaction due to the distribution of money which covered various benefits. These funds came from the state budget, special and separate funds. That is the reason why on January 1, 1987 the organisation of social benefits financing was changed.

The premise of this action was to combine state budget funds earmarked for insurance benefits with the Pension Fund’s capital. In consequence, there was established the Social Security Fund whose reserves were comprised of state budget subsidy fees, interests on deposits, surpluses and other revenues.

All financial resources were transferred into the Social Security Fund’s account. Its scope of activity was expanded as it was in charge of handling all disability and old-age pension benefits, as well as social allowances from the financial angle. Since no contributions were collected for war pensions and benefits for combatants, some benefits were financed by the state budget. The funds for the army and militia were streamed to relevant ministries.

In the new model of financing insurance benefits after 1986 the role of state budget in financing social security was reduced to subsidising Social Security Fund and reimbursing raised payments of benefits within fee-free systems. There were also supplementary subsidies. From 1987, expenses exceeded inflows, which, year by year, only aggravated the financial situation. Just to mention, in 1987 expenses were higher that revenues by 6%, in 1989 by 18%, and in 1989 by 37.8% [1,3,6,7].

III. BENEFITS FINANCED BY SOCIAL SECURITY SYSTEM AFTER THE REFORM IN 1999

The model of financing benefits from social security funds was established under the social security reform which was effective as from January 1, 1999.

The Act of October 13, 1998 on the Social Security System stipulated that “the Social Security Fund is a state special-purpose fund, established in order to execute the tasks related to social security” [3]. The act made certain amendments to the effect that within the Social Security Fund there were set up the funds relating to specific types of insurance benefits, as well as reserve funds and the Demographic Reserve Fund.

The funds which are transferred into the Social Security Company for the Social Security Fund are distributed into various types of funds. “Old-system” old-age pen-
sions and the first-pillar pensions are paid out from these funds. This is the pension fund to which contributions are made in halves by the employee and employer, and applies to persons who are covered by insurance [4,8,9]:

- Employed persons,
- Persons working in cottage industries,
- Members of agricultural productions and farmers’ circles,
- Mandataries and co-workers,
- Deputies and senators,
- Sports scholarship laureates,
- Persons who are performing paid work on the basis of a referral to work during the time they are serving the penalty of deprivation of liberty,
- Regular soldiers,
- Police, prison service officers, Border Guard officers and State Protection Office officers”.

The financing of contributions for disability and old-age pensions in half by the employee and employer does not apply to persons who run their own business as they pay contributions in full. Nor does it apply to soldiers in the case where their contribution is fully paid in by the relevant minister or persons who receive social allowances, in which case the social welfare centre covers them.

Contributions to pension funds are paid for their employees by relevant headquarters of the Police, Border Guard, State Fire Service, whereas contributions for the persons on maternity or parental leave or those entitled to social allowances are covered by the state budget. Unemployed persons have their contributions financed by the Job Centre from the Labour Fund. If employers fail to submit the half of a contribution for an employee, they are breaching the law. The second group of payments constitutes a disability fund, within which benefits are paid to people unable to work due to poor health and past accidents. From this fund also come training allowances and supplementary allowances to pension for complete orphans, nursing and funeral allowances. Similarly to the pension fund, the disability fund is made up of the employee’s and employer’s contributions (paid in halves by each).

The reform of disability pension system was initiated on September 1, 1998. A person’s right to disability pension depends on their capacity for work, and not on the health injury. They usually have no money to provide for themselves. They have to first obtain the right to the benefit, and then its amount is determined.

If a person who is entitled to a disability pension is employed, the benefit will be suspended. Once the amount of disability pension exceeds the retirement pension from two pillars, the amount of the latter will equal the disability pension. Analogically, the same will apply to indexation of disability and retirement pensions [2-4,8].

Another group of payments is a sickness fund designed for the benefits granted to persons temporarily unable to work due to poor health, random events, childbirth or raising of a child.

A work accident fund is established and designed for paying out disability pensions in cases where inability to work results from an accident at workplace or professional disease. From this fund, too, family allowances and one-time compensations are withdrawn.

Cash funds which are deposited in particular funds should cover relevant benefits. They are collected from contributions and resources from the reserve fund. If they are not sufficient, the state budget grants subsidies to pay out these benefits in full and in a timely manner. “The function of reserve funds is to collect financial resources (contributions) which, as of December 31 each year, are deposited on the accounts of disability pension, sickness and work accident funds and which may be used exclusively for the purpose of filling in shortages in these funds”. Contributions to work accident fund are made by payers purely from their own resources and their amount depends on the level of possible dangers in a given company.

This fact mobilises employers to maintain good and safe working conditions at their companies. Benefits are paid out from the work accident fund in the case of accidents and professional diseases.

In addition, there was established the Demographic Reserve Fund which is intended to secure old-age pension system in case of financial deficits caused by an unfavourable demographic situation. This fund may be used to fill in shortages in the old-age pension fund resulting only from demographic reasons. The fund is made up of the money which remains on the account of the old-age pension fund every year on December 31. It is reduced by the sum needed for the payment of benefits, which must be made in the first month of the following year.

The Fund of Guaranteed Employee Benefits was established from the contributions made by employers. It is a form of a collateral for employees should their employers fail to submit contributions to the Social Security Company or the company go bankrupt.

Since this is not the employee’s fault, contributions are reimbursed by the Fund of Guaranteed Employee Benefits, which is favourable for the state budget [6].

Since October 1, 2006 the terms and procedures for paying contributions to the Fund of Guaranteed Employee Benefits are defined in the act of July 13, 2006 on the
 protección de los reclamos del empleado en el caso de la insolvente del empleador (Dz. U., par. 158, item 1121, as amended). El acto requiere que las contribuciones se paguen por:

- Empresarios que dirigen su negocio solo en Polonia,
- Empresarios que dirigen su negocio en otros países miembros de la UE,
- Ramas de instituciones financieras,
- Ramas de compañías de seguros extranjeras,
- Ramas o oficinas representativas de empresas extranjeras.

Contribuciones al Fondo de Beneficios Garantizados: las contribuciones no son pagadas para los empleados que cumplieron 55 años en caso de mujeres, y 60 en caso de hombres. Las contribuciones a este fondo se transfieren en una cuenta bancaria separada indicada por la empresa de seguros sociales.

Según el Artículo 3.1 de la ley de 13 de octubre de 1998 sobre organización y funcionamiento de los fondos de pensiones de edad, los fondos de pensiones de edad se establecieron. Los libros de referencia describen los fondos como “mecanismos acumulativos de ahorro obligatorio individuo” en los que las contribuciones se hicieron y las futuras prestaciones no tienen elementos sociales y no se consideran sociales, sino sólo económicos.

Sin embargo, el artículo 3.1 de la ley de octubre 13, 1998 sobre la seguridad social proporciona que las funciones dentro del sistema de seguridad social se cumplen mediante los fondos de pensiones de edad bajo la seguridad social, cuyo capital financiero se hizo a través de las contribuciones realizadas en función de la base obligatoria por los asegurados. Tiene una tasa de 7.3% de la base de cálculo de contribuciones de un fondo de pensiones de edad. Estos fondos son gestionados por instituciones privadas que se refieren a como General Pension Societies.

Jędrasik-Jankowska proporcionó dos métodos para financiar los beneficios de seguridad social. El primer método, llamado Pay-as-you-go, se basa en la suposición de que a lo largo del año se necesita reunir un número suficiente de dinero que sea suficiente para cubrir los gastos anuales. Las contribuciones se reúnen en fondos colectivos, donde se considera que el fondo es de naturaleza de consumo. Este sistema prevalece en los sistemas de pensiones de edad. La generación de trabajadores que actualmente cobran beneficios — discapacidad y pensiones de edad. El segundo método se llama método capitalizado. El fondo se acumula a lo largo de un período de tiempo a través de la capitalización de contribuciones y depósito de reservas financieras. Esto es debido a la naturaleza de inversión o capital del fondo. Se necesitan inversiones de fondos en tales inversiones que generen beneficios definidos. Las seguradoras ganan beneficios no sólo de las contribuciones, sino también del retorno del capital.

En el análisis de la seguridad social, se ha establecido que se estableció como un sistema financiado con fondos. No obstante, a lo largo del tiempo, se convirtió en un sistema Pay-as-you-go. Después de la Segunda Guerra Mundial, el capital fue reemplazado por el Pay-as-you-go. Después de la Segunda Guerra Mundial, el capital fue reemplazado por el Pay-as-you-go. Con el tiempo, se discutió sobre los métodos de financiamiento de los beneficios de seguridad social. La conclusión fue que el Pay-as-you-go era inútil porque era inestable, dependiendo de la política de intercambio y no proporcionaba beneficios económicos a medida que el dinero fluyó directamente. Se dijo que las empresas no pagaron contribuciones. Si las empresas cargan una contribución alta, entonces se reduce la competitividad de otras empresas que pagan menos contribuciones.

No obstante, algunos de estos métodos se precisaron, de igual modo, que es más resistente a la recesión económica y la inflación. También garantizaba protección a las personas que trabajan. El Pay-as-you-go es operacionalmente barato y puede funcionar incluso en condiciones difíciles.

De igual manera, el sistema basado en la inversión tiene buenos y malos lados. Uno de sus aspectos es que genera ahorros y consiguientemente proporciona recursos financieros al conjunto económico. Opera efectivamente incluso cuando hay condiciones desfavorables demográficas. Sin embargo, también tiene puntos débiles ya que su funcionamiento implica altos costos y fracasa en el caso de la inflación.

Due to the fact that it is difficult to determine which system is better in old-age pension reforms, both types of financing are combined and used together. The Pay-as-you-go method applies mostly to base old-age pension systems, whereas the capital-based one – in supplementary systems (compulsory and voluntary). To combine these two systems was one of the assumptions of the reform in 1999 [11,13].

IV. REFERENCES


