

Designing payouts of II pillar pensions in Poland

Fully funded part of the Polish system exists already since 1999 pension reform, but payouts modes are still under debate. Our project assumes that benefits are paid by life annuity funds, possibly managed by existing Pension Societies. So far Pension Societies are dedicated exclusively to service the accumulation phase of the Polish pension system by managing Open Pension Funds.

Our project assumes that both investment risk and longevity risk are shared between Pension Society and annuitants. Yearly indexation of annuities depends on investment returns and longevity improvements. However, risk is substantially reduced through the buffer fund that absorbs a substantial part of volatility of investment returns and observed deviations of realized mortality from projected mortality. The mechanism of the buffer fund is an important element of the project and will be presented in detail.

Another novel solution is a mechanism of clearing of mortality between annuity providers. The clearing mechanism removes interest of annuity providers in attracting clients with shorter life expectation, and thus is a radical remedy against adverse selection. This will be also presented in detail.