

Chapter V

Social protection in Poland

Maciej Żukowski

The purpose of social safety nets is to protect people from the negative consequences of various events in life. Most of these events are unfavourable, and thus pose "social risks". There are also positive risks (such as giving birth), along with such events as growing old. All of these events – from sickness, disability, unemployment, old age, child-birth to other tribulations in life – create the need for material protection. This is precisely the function of social safety nets: to replace or augment sources of income, whether lost or insufficient in result of the occurrence of demanding events. Due to their common function, as well as the links between various of their institutions, it is justified to talk of a system of social protection.

Social protection is often understood broadly, as covering the vast majority of social policies. This *Report* devotes separate chapters to areas often included in social protection (Jończyk 2003), i.e., health care, family benefits and unemployment benefits. Therefore, this chapter will focus solely on two sections of social protection: social insurance (re: pensions, disability, sickness and accident) and social assistance.

With the onset of the systemic transformation in Poland, both social insurance and social assistance had to be adapted to the new environment. The basic problem was to ensure that these institutions performed their social functions as adjusted to the demands of a market economy.

The first part of this chapter examines the present social protection system in Poland – its main features, scope and structure. The second part is devoted to the pension system – by far the largest component of social protection, and one which underwent radical reform in 1999. Other sections of social insurance (disability, sickness and accident insurance) are presented in the subsequent portion, while the final portion presents the social assistance system. The chapter ends with a set of conclusions.

1. The present social protection system in Poland

The Constitution of the Republic of Poland (1997) states that every citizen has the right to social protection in the event of his or her inability to work due to sickness or disability, as well as after reaching retirement age. The scope and forms of social protection are defined by statute. A citizen unemployed not because of their own will and with no other sources of income, is entitled to social protection, the scope and forms of which are defined in the relevant statute (article 67).

The present social protection system in Poland is the product of the legacy of the communist regime (PRL) and of the 15 years of Poland's transformation, during which significant reforms have taken place. We inherited from the previous regime an overgrown and centralized state system of social protection. Together with full employment, the social functions of work places and price subsidies, the state's social benefits offered a high degree of social security – albeit at quite a low level. But such "lowest common denominator" egalitarianism was altogether consonant with "the sense of social justice" prevalent in the PRL (see Chapter 1).

The social protection system inherited from the PRL continued to function after the transformation had begun, for unlike the case of many other institutions, there was no need to create anything from scratch. But conditions were to change fundamentally. Work ceased to be "a place of satisfying the social needs of the employee". Employers began to limit their social functions. Most price subsidies were abolished. For a growing part of the population, social benefits became the basic source of income (chapter 2).

With the improvement of the economic situation, some curbs on social benefits were put in place. Work on structural social reforms, including the pension reform, was intensi-

fied. Poland joined the European Union with a partly reformed social protection system, but also with a difficult situation resulting from the weakening of economic growth and a dramatic decline in employment.

The main features of the current social protection system in Poland include:

- the domination of the insurance method. Only persons covered by insurance are entitled to protection in the case of sickness, inability to work, accident and old age. The insurance obligation is tied with the obligation to pay social contributions. The size of future benefits is tied to the amount of contributions paid in (revenues of the system), while reforms conducted in recent years have notably strengthened this link;
- the weakness of social assistance, which plays a marginal role in the system and above all suffers from underfunding;
- the lack of universal benefits in the system, based on citizenship or place of residence.

All employees are covered by social insurance. Contractual employees and persons conducting business activity outside of agriculture are covered by the general system, which is based on the law of October 13, 1998, and on the social insurance system, which is operated by the Social Insurance Institution (ZUS). Individual farmers are covered by a separate system that is operated by the Farmers' Social Insurance Fund (KRUS). The latter part of this chapter will focus mainly on the non-farmer, i.e., "general" scheme.

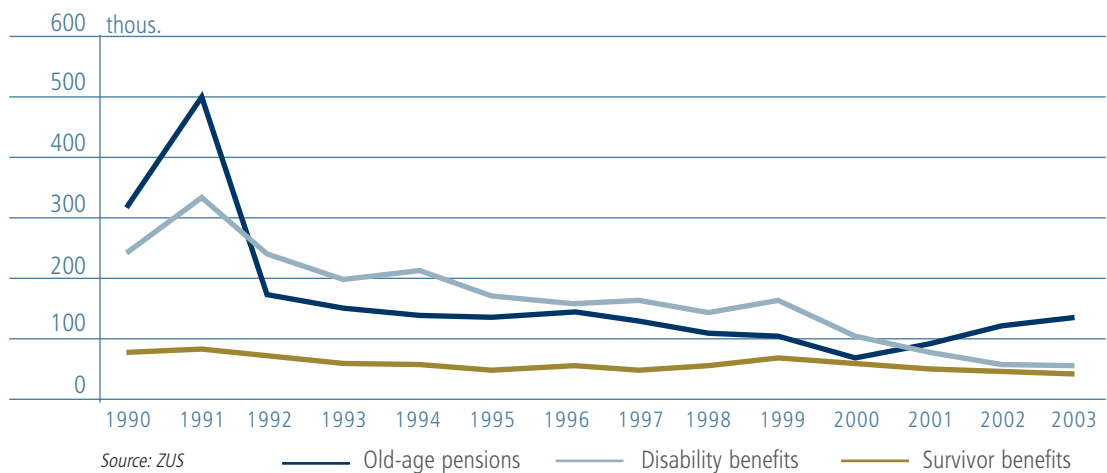
The new social insurance system, in place since 1999, distinguishes four sections of social insurance and differentiates their scope: the broadest scope applies to pension and disability insurance, the narrowest to sickness insurance. The separate social insurance rates are presented in Table 1.

Table 1. Social insurance (ZUS) rates in 2004

Insurance	Social contribution rate (in % of basis - salary)		
	Total	Employee	Employer
Pension	19.52	9.76	9.76
Disability	13.00	6.50	6.50
Sickness	2.45	2.45	–
Accident	0.40-8.12	–	0.40-8.12

In 2003, there were 12.7 million insured persons registered with the Social Insurance Institution, while 7.1 million people were receiving pensions or disability benefits. For each 100 insured there were therefore 56 benefit recipients, while in 1989 the ratio was 100 to 37. Such a significant deterioration of this ratio was mainly due to large-scale retirement, including early retirement, carried out in the initial years of the transformation – Figure 1 (see Chapter 2).

Figure 1. The number of benefit recipients awarded a pension or disability benefit by FUS (the Social Insurance Fund) between 1990-2003 (in thousands)



The rate of decline in the number of insured has slowed down somewhat in recent years, in part as a result of the stabilization of the number of pensioners and disability benefit recipients (Figure 2).

Figure 2. The number of insured and pension and disability benefit recipients in the Social Insurance Institution (in thousands)

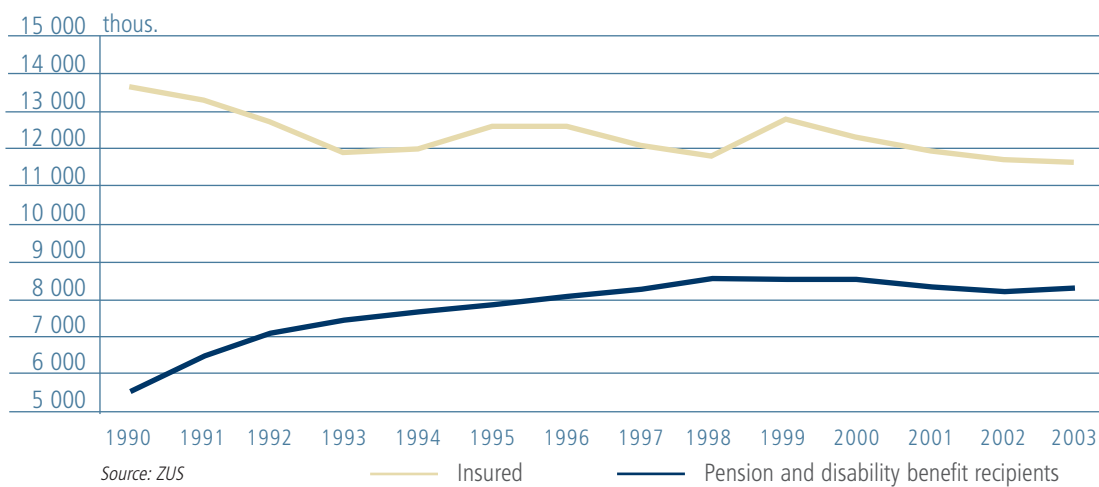
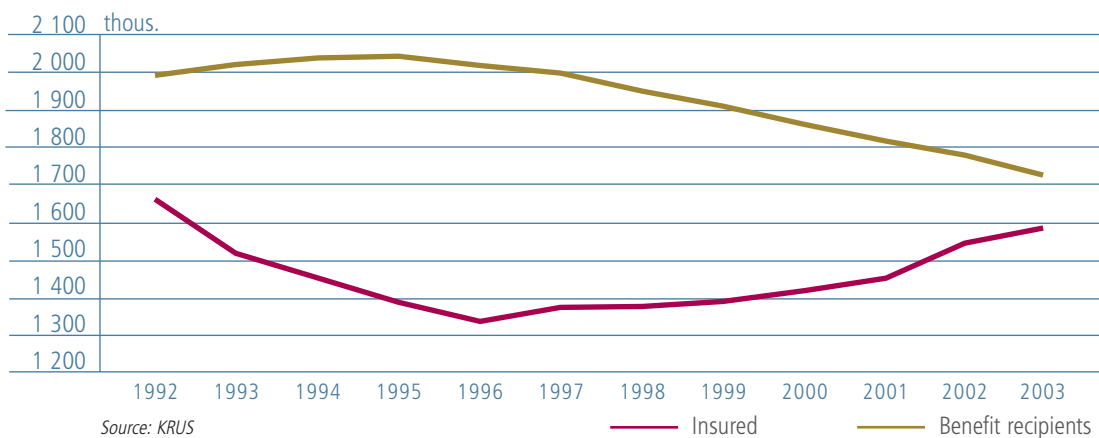


Figure 3. The number of insured and benefit recipients in KRUS, 1990-2003 (in thousands)



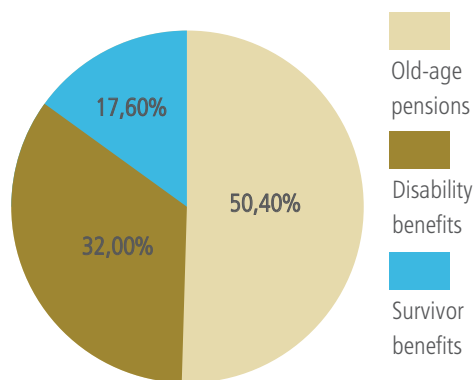
In 2003 there were 1.6 million insured and 1.8 million benefit recipients in KRUS (Figure 3), meaning that there were 110 benefit recipients per 100 insured. This relationship has been improving in the last two years, as a result of a natural decline in the number of benefit recipients and a surprising increase in the number of insured. This latter development, as observed in recent years, has two main causes: the reform of the non-farmer scheme, while leaving the farmer scheme unchanged (which has made it an increasingly attractive alternative), and European Union accession, which has entailed direct subsidies to farmers.

As a result of such the unfavourable relationship between the number of insured and benefit recipients, the farmer social insurance scheme is in the vast majority financed from a budget subsidy, which in 2003 amounted to 93% of the expenditure of the Farmers' Pension and Disability Fund (KRUS data). However, other social benefits for farmers (accident, sickness and maternity) are financed exclusively from farmers' contributions, as collected within the Farmer Social Insurance Contribution Fund.

Expenditures on social insurance benefits in the non-farmer scheme (ZUS) amounted to 12.3% of GDP in 2003. Pensions

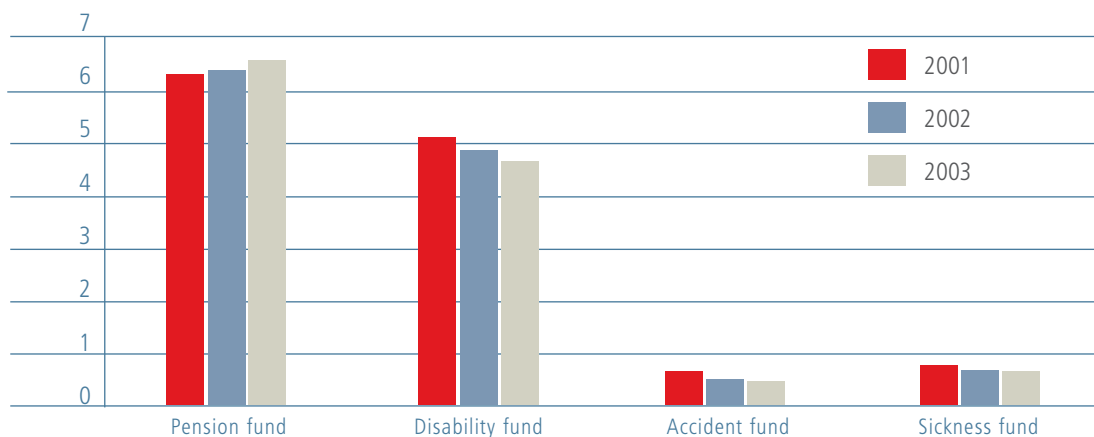
and disability benefits were clearly the dominating item in the sum of benefits, accounting for 91.7% of total expenditure (ZUS data). Among the pension and disability benefit recipients in ZUS, half were old-age pension recipients, one-third were receiving a disability benefit, while 17.6% a survivor benefit (following the death of the family's bread-winner) (Figure 4).

Figure 4. Structure of pensioners and disability benefit recipients in the Social Insurance Fund in 2003



Source: ZUS

Figure 5. Expenditure on social benefits from FUS according to funds (in % of GDP)



Source: ZUS

Expenditure from respective funds within the Social Insurance Fund amounted to (in relation to GDP): 6.5% from the pension fund, 4.7% from the disability and survivor fund, 0.6% from the sickness fund and 0.5% from the accident fund (Figure 5). It is worth noting that expenditure on pensions is rising, while that on disability benefits is declining, mainly as a result of the tendencies in the number of newly awarded benefits, i.e., more old-age pensions, fewer disability benefits (Figure 1).

2. The new pension system

In 1999 a structural reform of the pension system was introduced (chapter 2). All those insured under the age of 50 on January 1, 1999 fell under the coverage of the new rules. The others are subject to the old rules, ones which are still the basis for awarding pensions today, and will remain so over the upcoming years. The present description of the system refers to the new solutions, while the figures on pension expenditures refer to the old system.

The new pension system replaced the diverse set of pension solutions for various groups of insured and covered everyone except individual farmers, who remained in the separate KRUS system¹.

The new system separates the risk of ageing from the risk of inability to work and the death of the family bread-winner. Pension insurance was thus separated from disability insurance and survivor insurance. For both types of insurance, an upper ceiling of contributions was introduced at the level of

¹ Pensions for the uniformed services (military, police, fire service, etc.) were initially included in the new system (for newly hired officers), but were later again excluded from the general social insurance system. Prior to the reform, judges and prosecutors were also excluded from the scheme.

2.5 times the average salary. Of the pension contribution in the amount of 19.52% of the salary, 7.3% is transferred (through ZUS) to a selected pension fund (OFE).

The new system comprises two compulsory components or "pillars". The first operates according to pay-as-you-go principles and is administered by ZUS, while the second is a funded pillar and is operated by privately managed pension funds.

Pensions from the first pillar will be based on the principle of a defined contribution: pensions will be calculated as a ratio of the total indexed value of contributions paid in during the working life divided by the average life expectancy at retirement age. For persons born after December 31, 1948, and who were covered by social insurance before January 1, 1999, an "initial capital" is calculated and added to their accounts in ZUS. This comprises what they have earned in pension contributions in the old pension system.

Pensions from the second pillar will depend on similar factors. Pension funds are managed by private pension fund companies that have the legal form of joint-stock companies. An insured person can freely choose and change their pension fund. Funds are subject to strict regulations and state supervision. Every fund is required to attain a minimum rate of return. Therefore, if a given fund's results are clearly inferior to those of others, it is required to make up for the missing amount. A multi-step security procedure is built into the law to prevent the insolvency of a fund. An OFE cannot go bankrupt, but its management can be taken over by another pension fund company.

The new pension system, just like the old one, envisages a minimum pension. However, it is to be financed from the state budget and only persons with a minimum insurance period of 20 years (for women) and 25 years (for men) will be eligible to receive it, as an amount augmenting the pension received from the first and second pillars (i.e., ZUS and OFE) combined.

The third pillar constitutes various forms of additional voluntary insurance: employer pension schemes, individual pension accounts and all other forms, such as life insurance, savings, investments on the capital market, etc.

Six years have passed since the introduction of the reform. The attempt to evaluate the reform can therefore only be made with regard to its concept and implementation. All such assessments need to be made with care, taking into account the long-term nature of pension insurance systems, particularly one based on a funded component.

The new system has a number of advantages over the old one. First of all, it is based on risk spreading, as it operates partly according to a pay-as-you-go principle (meaning that it is tied to the labour market, as the size of pensions in the first pillar will depend on the rate of growth of salaries) and is partly funded (meaning that it is tied to the capital market, as the size of pensions from the second pillar will be determined by results of OFE investments). Although a compulsory funded system is not a solution commonly seen in Europe, it should be noted that voluntary funded schemes have been developing for a number of decades in developed European countries. The Polish reform can therefore be seen as an attempt at speeding up the process of spreading the risk in pension insurance.

The new system emphasises the foresight and responsibility of the individual for their old age pension. This is clearly visible in the third pillar, presented as a significant element of old age security. There is also a choice, albeit a limited one, in the design of the second pillar (choice of a fund). In addition, in the first year of the reform, persons aged 30 to 50 had the right to choose between two options: whether to participate or not in an open pension fund (OFE).

The microeconomic advantages of the new system in the first pillar are quite indisputable. They are also a direct response to the problems of the old system. By establishing a close link between the contribution and the pension and by abolishing early retirement, the new system, unlike the

old one, should offer positive incentives to pay contributions and stay longer on the labour market. The previous practice of retiring early, sometimes encouraged by authorities, constituted a serious threat both to the size of pensions, as well as the solvency of the system. In 2003 only 26.9% of people aged 55-65 were employed, as compared with an EU-15 average of 41.7% and the Lisbon Strategy goal for 2010 of 50%. Therefore, the new system is aimed at activating and encouraging people to work longer. It also ensures the individualization of eligibility and flexibility – these being features which a modern pension system must have.

A key aspect of the reform was the assumption that the new pension funds would contribute to economic growth through savings and investment. These effects, debatable in theory, cannot yet be assessed empirically. Meanwhile, on a macro-scale, the positive result of the reform should be the stabilization of the pension system's finances. Forecasts show that in the year 2050 Poland will likely be spending a similar share of GDP on pensions as it was in 2000.²

From the viewpoint of the security of funds gathered in the new institutions (open pension funds), initial experience is fairly positive. Legal regulations and the supervision of the state, currently carried out by the Insurance and Pension Fund Supervision Commission (KNUIFE), are performing their role.

However, the new pension system also features drawbacks and entails certain threats. These particularly concern the compulsory second pillar. These fears, well known from international debate, concern mainly the level of future pensions, investment results and the security of pension funds, the scope of insurance and, in particular, the transition from the old to the new pension system.

Pensions from the new system can be lower than those from the old one. According to the reform programme, pensions from the two compulsory pillars should jointly constitute

² In 2000, total expenditure on pensions and disability benefits in Poland amounted to around 13.5% of GDP.

Table 2. The relation of the average pension and disability benefit from the FUS (Social Insurance Fund) to the average salary (in %)

Insurance	1998	2003
Total pensions and disability benefits	57.0	57.5
Old age pensions	65.0	65.0
Disability benefits	47.4	46.9
Survivor pensions	56.3	55.3

Source: www.zus.pl/statyst

around 50%-60% of previous income. In 2003, the average pension (according to the old principles) amounted to 65% of the average salary (table 2). In addition, the size of the pension is burdened with much higher risk in the new system, a risk wholly borne by the insured individual, as this is a defined contribution system. A greater equivalence of contributions and benefits will also lead to a greater divergence of pensions, which in many cases will be associated with insufficient insurance. Unemployment will also contribute to low pensions. Persons with low incomes, frequent breaks in their contribution history, and who will thus not meet the

conditions for receiving a minimum pension will be at the mercy of social assistance.

A questionable element of the new system is the obligatory nature of the second pillar. The reform was based on the assumption of reinforcing individuals' own responsibility and the freedom of choice in pension insurance. Meanwhile, the total scope of compulsory pension insurance has not been limited. The state continues to force individuals to secure their own future, although it has partly ridden itself of direct responsibility for provision this security. The large scope of

Table 3. Structure of revenue of the Social Insurance Fund between 1998-2003

Insurance	1998	1999	2000	2001	2002	2003
Total revenue (billions of zł) (= 100 %)	72,0 (100,00)	73.7 (100,00)	81.0 (100,00)	91.6 (100,00)	95.3 (100,00)	98.6 (100,00)
Contributions and related dues (% of total revenue)	62.2 (86.5)	63.7 (86.5)	65.1 (80.3)	69.9 (76.3)	68.2 (71.6)	70.3 (71.3)
Targeted budget subsidy (% of total revenue)	3.2 (4.4)	3.2 (4.4)	3.3 (4.0)	3.7 (4.0)	3.4 (3.6)	3.5 (3.6)
Complementary budget subsidy (% of total revenue)	5.6 (7.8)	6.2 (8.4)	12.1 (14.9)	17.5 (19.1)	23.5 (24.7)	24.7 (25.1)
of which						
Transfer of funds to OFE (% of total revenue)	— —	2.3 (3.1)	7.5 (9.3)	8.7 (9.4)	9.5 (10.0)	9.9 (10.0)
Other revenue (% of total revenue)	0.9 (1.3)	0.5 (0.7)	0.6 (0.7)	0.6 (0.7)	0.1 (0.1)	0.1 (0.1)

Source: www.zus.pl/statyst; author's calculations.

the pension system is probably the main reason of the poor development of the voluntary third pillar. For example, as of December 10, 2004, there were only 389 employer pension schemes registered (Insurance and Pension Fund Supervision Commission data).

Open pension funds

Open pension funds as a provider of social insurance are a new element of the Polish system of social protection (Żukowski 2004b).

In 1999 almost 10 million persons joined open pension funds. This was undoubtedly to be counted a success for the reform, but on the other hand its costs are very substantial (see chapter 2). The structure of financing the Social Insurance Fund (FUS) has clearly deteriorated (table 3). Complementary subsidies from the budget, including those resulting from the need to cover the gap created after diverting part of the social contribution to OFE, currently amount to 1/4 of all of FUS funds, i.e., around 3% of GDP. This is a massive cost that limits the possibilities of financing other important social causes such as health care, education or effective social assistance. Such high transition costs will also make it lastingly more difficult to lower the compulsory social contribution level that was listed as one of the objectives of the reform.

The open fund market shaped itself in the first year of the system's functioning, i.e., in 1999. The division of the market which took place then has since been subject only to minor corrections in later years. The picture of the OFE market as of December 31, 2003 is presented in table 4. Altogether, the 16 OFE had 11.5 million members, 55.6% of which belonged to the three largest ones (the same ones as four years ago). The Polish obligatory pension fund market is the second largest in the world (after only Mexico's) in terms of the number of members (Müller 2003, p. 88).

The pension funds are currently attracting new members from two sources; new entrants to the labour market and insured people who are changing their pension funds. In 2003, around 470,000 new members joined OFEs, while almost 300,000 decided to change their fund (UKNUIFE 2004a)

In 2003 ZUS transferred 10.3 billion zloties in social contributions to OFEs. Since the beginning of the new system's functioning there have been problems with these transfers and payments were sometimes delayed. This was due to problems with collecting information about the insured and their contributions, particularly in view of the delays in implementation of the new IT system. However, the delays were also a way to reduce the previously mentioned financial problems of FUS. Based on the law of July 23, 2003 on the assumption by the State Treasury of ZUS' liabilities with regard to OFE, at the end of 2003 bonds worth 387 million zł. were transferred to the pension funds. According to estimates, the delays in payments amount to as much as 10 billion zł, an amount equivalent to the value of contributions transferred annually (UKNUIFE 2004a).

The structure of OFE investment portfolios is clearly dominated by Treasury bonds, the share of which fluctuates around 60%, while stocks account for 30% (Figure 6).

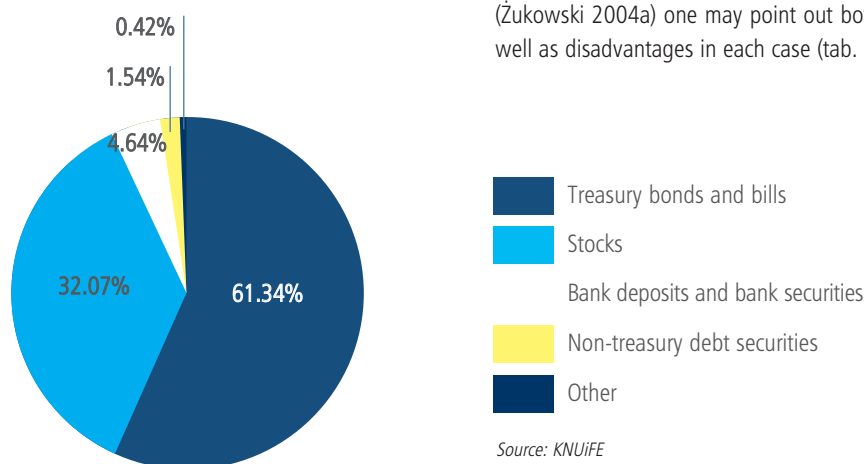
The effectiveness of OFE investment activity, as measured by the rate of return per calculation unit, averaged 10.9% in 2003, with little diversity between the funds (UKNUIFE 2004a). There has been more diversity in the official rate of return for the past 24 months (Table 1). The results of OFE investment activity in the entire 1999-2003 period are favourable – their rate of return in that period was significantly higher than return rates on bank deposits, investment funds or bond yields (Borowski 2004). OFEs' net assets increased by 42% in 2003, reaching 45 billion zł. (Table 4).

Table 4. Open Pension Funds. State as of December 31, 2003

O F E	Main shareholders of pension fund company (% of share capital)	Number of mem- bers, December 31, 2003	Net assets, December 31, 2003 (million zł)	Official rate of return 31.12.01-31.12.03
AIG	ALICO (50), Amplico LifeS.A. (50)	938 839	3 833.9	26.9
Allianz Polska	TU Allianz Polska S.A. (58,28) Allianz Aktiengesellschaft (41,72)	245 284	1 210.8	26.8
Bankowy	PKO Bank Polski S.A. (100)	395 444	1 368.1	30.3
Commercial Union	CU Polska Tow. Ubezp. na Życie S.A. (50) Bank Przemysłowo-Handlowy PBK S.A. (10) Bank Zachodni WBK S.A. (10) CGU International Insurance plc (30)	2 540 530	12 710.5	22.9
Credit Suisse L&P	Winterthur Life Insurance Company (70) EBOiR (30)	367 916	1 143.9	21.0
DOM	TUiR Warta S.A. (50), Kulczyk Holding S.A. (50)	239 793	749.7	23.5
Ergo Hestia	Sopockie TU Ergo Hestia S.A. (100)	397 907	915.4	24.3
Generali	Generali Polska Sp. z o.o. (85,91) Generali Sp. z o.o. (10,65) Generali Holding Vienna AG (3,44)	380 385	1 481.5	26.2
ING N-N Polska	ING Bank Śląski S.A. (20), ING Continental Europa Holdings BV (80)	1 966 603	10 046.9	30.1
Kredyt Banku	Kredyt Bank S.A. (100)	140 816	246.2	20.2
PeKaO	Bank PeKaO S.A. (65) Pioneer Global Asset Management S.p.A (35)	290 434	722.0	18.2
Pocztylion	PPUP Poczta Polska (33,33) Konferencja Episkopatu Polski (4) Cardiff S.A. (33,33), Amvescap PLC (29,33)	452 376	937.5	21.3
Polsat	Polsat Media S.A. (41,15) Telewizja Polsat S.A. (36,78) Invest-Bank S.A. (19,31) Totalizator Sportowy Sp. z o.o. (2,76)	123 581	181.8	29.4
PZU Złota Jesień	PZU Życie S.A. (100)	1 866 692	6 272.7	27.8
SAMPO	SAMPO plc (100)	510 090	1 374.9	27.8
Skarbiec- Emerytura	BRE Bank S.A. (100)	606 595	1 619.5	23.4
RAZEM		11 463 285	44 833.1	
Średnia ważona				26.0

Source: UKNUiFE (2004a); UKNUiFE (2004b).

Figure 6. Structure of open pension fund investment portfolios (October 2004)



In conclusion, the assessment of the new pension system is not unequivocal. By applying the three main objectives set for pension funds in the EU's open coordination method (Żukowski 2004a) one may point out both advantages as well as disadvantages in each case (tab. 5).

Table 5. The main advantages and disadvantages of the new pension system in Poland

Aims of pension system	Advantages	Disadvantages
Adequate protection	Equivalence - opportunity to earn a good pension, ensuring continuation of the living standard enjoyed during working life	Poor protection against poverty. Low pensions for women (as a result of equivalence of the system and women's lower retirement age).
Long-run sustainability	Internal stabilizers adjusting expenditure to contributions - ensuring long-term sustainability. Incentives to work longer and retire later.	High costs in the transition period - burden for public finances. Maintaining a high contribution rate, inhibiting employment growth.
Modern design – adjustment to changing needs	Individualization (individual accounts). Flexibility with regard to changes on the labour market. Clarity and consistency of solutions in both components of the compulsory system.	Poor equalization mechanisms to ensure appropriate pensions for women (equivalence of the system).

Source: www.zus.pl/statyst

3. Other components of social insurance: disability, accident and sickness

The structural reform of the pension system was also associated with the division of the social insurance system (which until then was uniform) into separate components, namely: pension, disability and survivor, accident and sickness insurance. However, unlike the case of the pension system, the separation of contributions and funds was not at the same time associated with any changes in the terms of eligibility and in the size of benefits. Changes in these institutions were conducted regardless of the pension reform, some of them already beforehand. At the same time, these changes were usually far less radical than those carried out in the case of pension insurance.

Disability insurance

This social insurance component covers two types of social risk: inability to work and death of the bread-winner.

As of September 1, 1997 the name of disability benefits was changed to "benefits due to inability to work". One of the features of the Polish social insurance system is the large number of disability benefit recipients (Figure 4). In the initial years of transformation, the number of newly awarded disability benefits also increased, although legislation governing these benefits did not change. The reason was that of the relative ease of obtaining such benefits, ones which persons threatened with unemployment took advantage of. Since 1992 the number of newly awarded disability benefits was even higher than the number of pensions (Figure 1).

A disability benefit is paid out to an insured person who has

been found completely or partly unable to work. A person completely unable to work is a person who has lost the ability to perform any type of work. If a person who is completely unable to work requires the constant or long-term care and assistance of another person in satisfying basic needs, such a person is considered unable to exist independently. A person partly unable to work is one who has largely lost the ability to perform work in line with their skills.

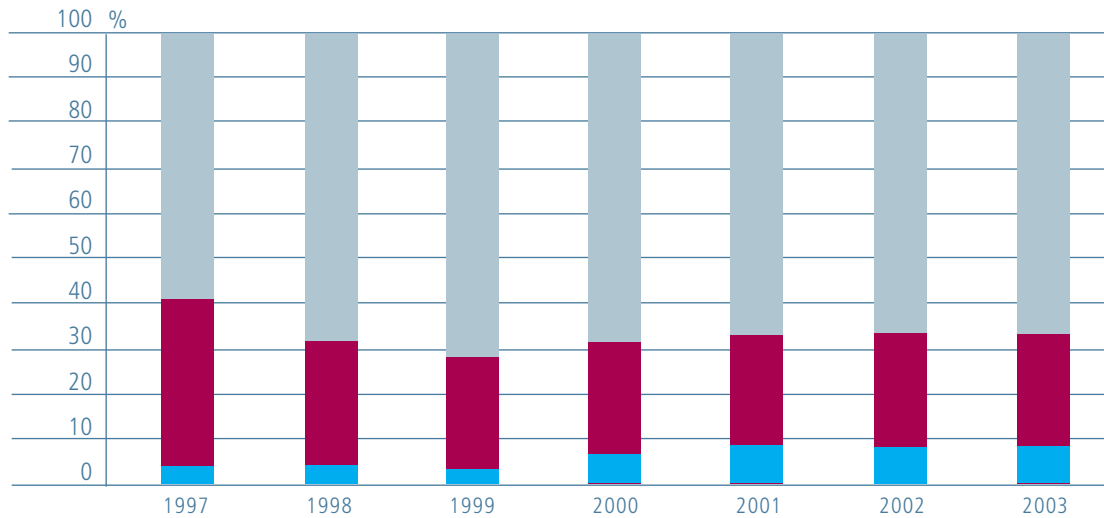
Inability to work (total or partial) can be declared permanently (as permanent inability to work) or temporarily (if according to medical knowledge there is a chance for the person to regain the ability to work). Decisions on inability to work for disability benefit purposes are made by the assessment of doctors, whose decisions can be appealed for re-examination by a doctors' commission from the Social Insurance Institution (ZUS)³.

The tightening of assessment criteria and change to the assessment procedure have led to a decline in the number of newly awarded disability benefits, as well as to a change in their structure according to the degree of inability to work (Figure 7).

In 2003 the number of disability benefits awarded was less than half of the 1997 figure, of which 7.6% were benefits due to total inability to work and exist independently (an increase from 4.4% in 1997), 29.0% were benefits due to total inability to work (decline from 36.4%) and 63.4% were benefits due to partial inability to work (increase from 59.2% in 1997) (ZUS data). Changes in the structure of newly awarded benefits have resulted in a change in the structure of all benefits paid out (Figure 8). In 2003 benefits due to total disability to work and exist independently accounted for 13% out of the total number of 2.3 million disability benefits paid out (ZUS figures).

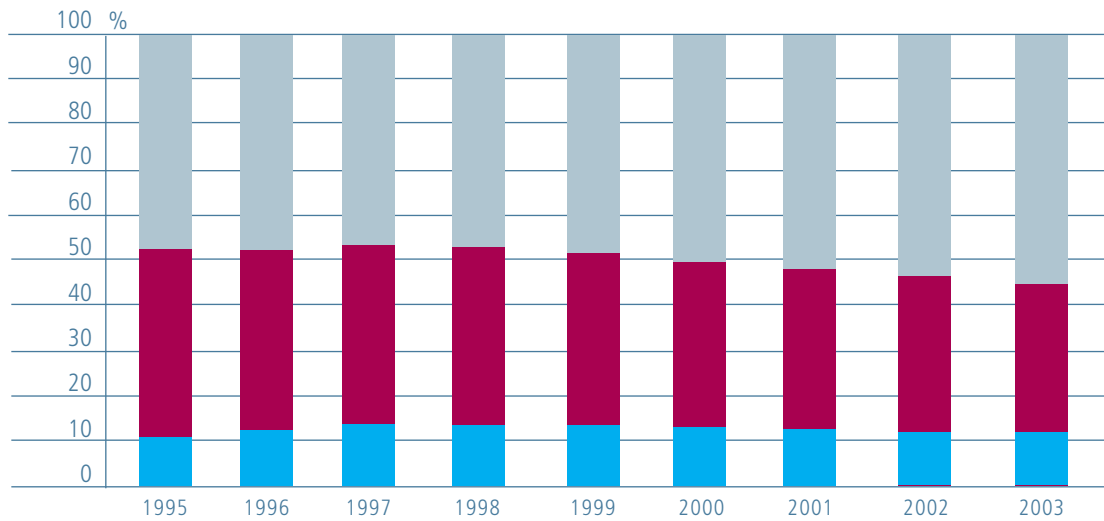
³ Following a change introduced with the law of April 20, 2004 on the change in the law on pensions and disability benefits from FUS and selected other laws (Dz. U. nr 121, poz. 1264), in force since January 1, 2005

Figure 7. Structure of disability benefits awarded between 1997-2003 according to the degree of inability to work



Source: ZUS

Figure 8. Structure of disability benefits paid out of FUS between 1995-2003 according to degree of inability

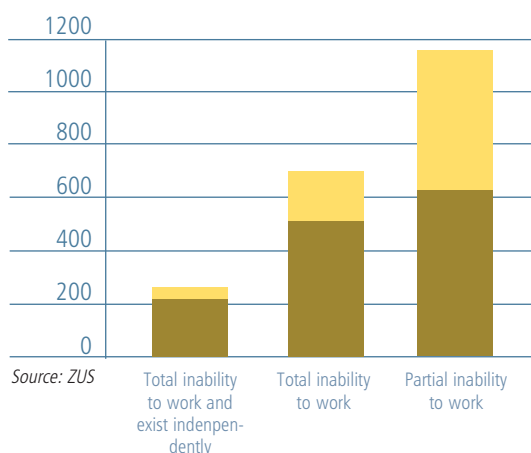


Source: ZUS

- Partial inability to work
- Total inability to work
- Total inability to work and exist independently

Temporary inability to work is declared much more commonly today than in the past. In 2003 permanent benefits accounted for only 9.3% of newly awarded disability benefits. Meanwhile, among all persons collecting disability benefits in December of 2003, those with permanent disability accounted for almost 64% (Figure 9). However, the proposal of reviewing previously awarded disability benefits (something included in the "Hausner plan") has met with fierce criticism.

Figure 9. Structure of disability benefits paid out of FUS in December 2003* according to validity of disability decision (in thousands)



Source: ZUS

* excluding persons collecting war-time and military disability benefits
Source: ZUS

■ Declared temporarily
■ Declared permanently

In conclusion, a number of positive changes have taken place in recent years as regards disability benefits. The number of benefits has declined, slowly bringing Poland closer in line with other European countries, where disability benefits account for slightly more than 10% of the total number of pension and disability benefits paid out. As a result, expenditures from the disability fund have declined (Figure 5). Disability benefits are now more often awarded temporarily, inability to work is therefore usually not treated as an irre-

versible situation. On the other hand, the rising share of benefits in the most serious category points to new challenges in the area of providing protection for persons permanently unable to work and who, moreover, require regular care. Some wealthy countries, including Germany, have introduced a new solution for this group: nursing security. The weight of this problem in Poland will be rising with the ageing of the population, including an increase in the number of people in the "fourth age".

Survivor pensions are also paid out of the disability and survivor insurance fund. Unlike the number of pensions and disability benefits, the number of newly awarded survivor pensions has remained fairly stable throughout the transformation period (Figure 1). Moreover, the rules for their awarding and calculation have not been subject to any significant changes. In 2003, 1.26 million people were collecting survivor benefits from FUS – this constituted 17.6% of all pensioners and disability benefit recipients. The average amount of survivor benefits was between that received by pensioners and by disability benefit recipients (Table 2)

Accident insurance

On January 1, 2003, the law of October 30, 2002 on social insurance against accidents at work and work-related diseases came into effect. Significant changes were introduced to the definition of accidents at work, while accidents taking place on the road to or from work were excluded from accident insurance (and shifted to disability insurance). The scope of the insurance was broadened to cover all persons covered by social insurance, resulting in two categories of on the job accidents: employee and non-employee (Szpor 2004).

The contribution rate for accident insurance varies (Table 1). In the first period of the new system's functioning the rate was uniform, with differentiation introduced from 2003. Gradual differentiation will also take place (starting in 2006) with regard to employers. This is supposed to encourage

them to undertake measures aimed at preventing both accidents at work and work-related diseases.

One of the main challenges faced by accident insurance in the future will undoubtedly be the development of accident prevention.

Expenditure on benefits from the accident fund amounted to 0.5% of GDP in 2003 (Figure 5).

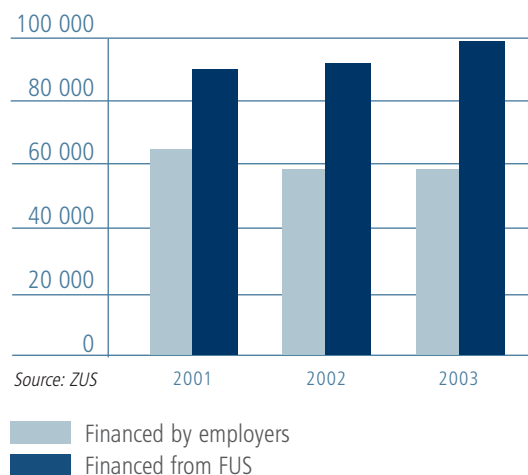
Sickness insurance

Sickness insurance provides benefits in case of sickness and maternity. The sickness insurance obligation is the narrowest of the four sections of insurance and covers employees and members of farmer production cooperatives and cooperative farmer circles.

There are three types of benefits paid out in case of sickness: sickness benefit, rehabilitation benefit and complementary benefit. The sickness benefit is of primary importance; it is paid out to an insured employee from the 34th day of inability to work. For the first 33 days of inability to work, the employee is entitled to guaranteed compensation from the employer. Therefore, sickness absences are partly financed by employers and partly from sickness insurance. Between 1999 and 2003, sickness absenteeism declined considerably: from more than 19 million days in 1999 to 13.2 million in 2003 (ZUS data), most likely in connection with the increase in unemployment over that period. Meanwhile, measures undertaken in recent years to limit sickness absenteeism (not paying for the first day of sickness not lasting longer than 6 days) have not brought about expected results, but there has been a shift in the structure towards sickness insurance (Figure 10).

The sickness insurance fund also finances maternity benefits associated with maternity leave after giving birth and nursing benefits, and in the case of the need to take care of a

Figure 10. Sickness absenteeism according to sources of financing between 2001-2003 (in thousands of days)



child or another family member. There have been no significant changes in recent years with regard to these significant "family" benefits from sickness insurance. However, the number of nursing benefits paid out declined significantly: from 688,000 days in 1999 to 370,000 days in 2003. Such a large reduction in the use of this benefits was probably associated with the deteriorating situation on the labour market and fears of job loss.

Expenditure on benefits from the sickness fund amounted to 0.6% of GDP in 2003 (Figure 5).

4. Social assistance

The aim of social assistance is to prevent and limit poverty and social exclusion. Social exclusion is currently defined in a broad sense and unlike the traditional perception of poverty, it encompasses not only low incomes, but also such aspects as unemployment, low skill level or poor health. The prevention and limiting of social exclusion defined in this way is therefore a task for the global social policy of the state, including labour market policies, education policies (chapter 4), family policies (chapter 3), health care (chapter 6) and social insurance as presented in this chapter. In this system, social assistance is the last resort, aimed primarily at limiting poverty.

Depending on the boundary line assumed, the ratio of people living in poverty in Poland in 2003 was as follows: 11.7% (assuming the minimum subsistence level as the boundary), 17.0% (assuming the EU definition of 60% of the median equivalent income), 25% (assuming the adjusted social minimum) (Ministry of Social Policy, 2004, Social Diagnosis, 2003). Regardless of the definition assumed, figures indicate that the scope of poverty has increased considerably over the past 10 years.

In the conditions of real socialism, social assistance was marginalized, partly for ideological reasons, as a relic of the capitalist system, as being redundant in a system aimed at abolishing poverty. Full employment, price subsidies, the social activities of employers and an extensive social insurance system have all objectively marginalized the role of social assistance. This was evidenced for example by the fact that until 1990 the law on social assistance passed in 1923 was still in force.

Social assistance was therefore a social policy institution that clearly needed to be developed (see Chapter 2) in the new conditions created after the economic transformation. The

new law on social assistance was passed on November 29, 1990 and came into effect on January 1, 1991. The current law on social assistance, passed on March 12, 2004, then replaced it. The latest change was mainly aimed at activating benefit recipients and mobilizing them to become more independent in overcoming their difficult lifetime situations. Social assistance may only be provided in response to situations defined in the law as "difficult lifetime situations" (as proposed by J. Jończyk 2003). Paragraph 7 of the law lists 15 situations allowing social assistance to be granted:

- poverty
- orphanhood
- homelessness
- unemployment
- disability
- protracted or severe illness
- family violence
- need to protect maternity or large families
- helplessness in providing family care and raising children and managing a household particularly in broken and large families
- inability of youth leaving care centres to adjust to life
- problems with integrating persons with refugee status
- problems in adjusting to life after leaving penitentiary facilities
- alcohol or drug addiction
- random events and crisis situations
- natural or ecological disaster

Benefits may be obtained on the condition that the net income of the person applying for assistance does not exceed a certain level. At the end of 2004 this was the level of 461 zł. per month for a single person and 316 zł. for a person in a family.

The basic tasks in the area of social assistance are handled by municipalities. These tasks can be divided into the municipalities' own (mostly obligatory) and those delegated by government administration. These tasks are performed by municipal social assistance centres. At the district (powiat) level, social assistance tasks, including the operation of

social assistance homes, are performed by district family support centres. The law also delegates certain tasks in the area of social policy to voivodeship governments, as well as to voivodes (governors) themselves.

Social assistance can have the form of financial or in-kind benefits, services, and of stationary (social assistance homes) or open (e.g., daytime support centres) support. In terms of the number of people assisted in various forms, there is a clear predominance of material support over that provided in the form of services (Table 6).

Homelessness is a particularly dramatic form of social exclusion. It is estimated that there are between 30,000 and 80,000 homeless in Poland (Ministry of Social Policy 2004, p.17). The provision of shelter, food and necessary clothing

to persons in such need is the obligatory task of municipalities. Nighttime shelters for the homeless are run both by local governments, as well as non-governmental organizations.

Social disability benefits have been paid out by the Social Insurance Institutions since October 1, 2003, based on the law of June 27, 2003 on social disability benefits. This solution can be perceived favourably by those eligible, as it strengthens the "claiming" nature of this benefit. Conversely, it is criticized, as it is not a social insurance benefit. In view of this, proposals have been voiced for some time to distinguish a third type of social protection benefits (beyond social insurance and social assistance), namely "social support" (Szurgacz, Zagrosik 2004).

Analyses of the functioning of social assistance in Poland since 1990 (Golinowska, Topińska 2002; Hryniewicz 2004)

Table 6. Social assistance benefits in 2002

Wyszczególnienie		Beneficiaries in thousands	Benefits provided in millions of zł.
Total	1995	2 127	1 408
	2002	2 549	3 834
Material assistance		3 285	3 535
of which			
Benefits: permanent		74	293
Permanent complementary		116	350
periodical		470	310
dedicated		1 036	466
Social disability benefit		231	1 055
Maternity protection		106	115
Shelter		10	16
Food		1 052	292
Clothing		39	7
Financing			
of health care services		23	5
Assistance in the form of services		94	299

Source: *Abridged Statistical Yearbook 2004, GUS, Warszawa, table 12 (156).*

lead to diverse assessments. On the one hand, a modern legal basis for this system has been created, new institutions have been built and professional staff trained. The activities of non-government organizations, which play a significant role in social assistance, have developed tremendously, particularly in the initial period.

On the other hand, social assistance in Poland features significant weaknesses, particularly the following:

- lack of strategy and long-term solutions
- poor diagnosis of the situation and identification of needs
- domination of passive benefits, poor activation of recipients, even though according to the law currently in force, the objective of social assistance is to "lead [beneficiaries] – to the extent possible – to become independent in life")
- domination of financial benefits over assistance in the form of services
- low, sometimes negligible amounts of benefits provided
- decline in the real value of benefits that have not been regularly indexed in recent years
- "crowding out" of tasks not listed in the law as obligatory by those which are obligatory
- lack of financial resources. It is easier to reduce expenditure on social assistance, the last link in the social protection chain, than rigid expenditure from the social insurance system.

Expenditure on public assistance in Poland increased from around 0.2% of GDP in 1990 to around 0.5% at present. However, this amount is grossly insufficient to solve or even significantly alleviate the social problems that have increased over that period.

Public assistance provided in Poland therefore is not a fully-fledged and effective link of the social protection system.

Summary and conclusions

The main challenges for social protection remain pertinent:

- the challenge to ensure appropriate protection against the negative consequences of various events in life (social risks)
- the challenge, in new economic and political conditions, to focus on limiting the negative economic consequences and to strengthen motivation to work and individuals' responsibility
- the challenge of Poland's membership in the European Union.

The analysis of the current situation indicates that the social protection system in Poland only partly meets these objectives. Meanwhile, the system will need to deal with additional challenges, ones arising mainly from demographic changes (see chapter 3) and the situation on the labour market (chapter 4). Although social protection remains the domain of European Union member states, the policy of Open Method of Coordination pursued in recent years by the European Union will also have an effect on the Polish system of social protection (see chapter 2).

A fundamental change has taken place in Poland in the largest component of social protection, namely the pension system. The new system is undoubtedly modern, reinforces both the motivation to work and individuals' own responsibility and provides an opportunity to make the system sustainable in the long term. However, the costs of implementing this system are too high. Furthermore, in the long run it could crowd too many people out of social assistance, meaning that it may not properly fulfill the main objective of every pension system: securing appropriate incomes for the period of old age.

A number of positive changes have taken place in recent years as regards disability benefits. However, material security is only one element of the whole system of supporting

disabled persons. Their living conditions are significantly affected by the functioning of the whole of the economy and state social policy, particularly concerning: access to education, the situation on the labour market and real chances of finding employment, access to health care, housing, living and nursing services. The situation in Poland as regards these aspects is not good, which fact significantly affects the living conditions of this segment of the population. The activation and social integration of disabled persons, aimed at preventing their social exclusion, remains a very important objective for social policy (Golinowska 2004).

Social assistance has been developed during the transformation period, but it nonetheless remains the weakest link in the social protection system, evincing a limited effectiveness in alleviating the problems of persons threatened with social exclusion.

In view of the above analysis, the following aspects should be considered priorities in the area of social insurance in Poland:

- a proactive approach - putting work first as the priority and as a solution better than benefits (evolution "from a welfare state to a workfare state"),
- simultaneous, effective protection against social exclusion by the notable strengthening and better earmarking of social assistance, and a partial return to universal benefits, perhaps by complementing a bipolar approach (social insurance - social assistance) with social support,
- undertaking a comprehensive reform of the social insurance system for farmers.

Economic growth is a necessary prerequisite for improving the effectiveness of the social protection system's functioning and the situation of persons benefiting from its support. Growth will allow the state to provide better security in the case of sickness, inability to work, unemployment or old age. However, economic growth alone will not automatically resolve all the problems. There is also a need for a modern, effective and active policy on the part of the state.

On the other hand, a well-functioning social protection system can pose a factor supporting economic growth, as an investment in human capital.