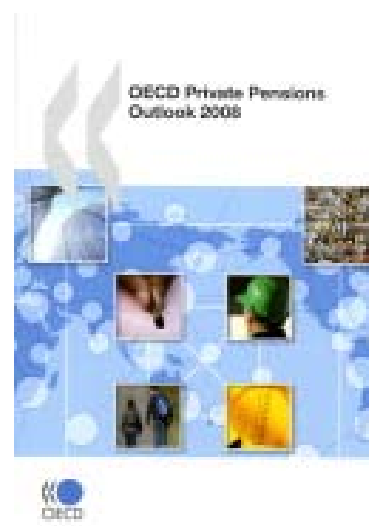


# Pension Country Profile: Poland

(Extract from the *OECD Private Pensions Outlook 2008*)

The *OECD Private Pensions Outlook 2008* contains a set of country profiles which describe in a concise manner the design of private pension systems in individual OECD countries. This document is an extract from this publication. For further information on the *Outlook*, please see [www.oecd.org/daf/pensions/outlook](http://www.oecd.org/daf/pensions/outlook).



## Contents

Each Pension Country Profile is structured as follows:

➤ **How to Read the Country Profile**

This section explains how the information contained in the country profile is organised.

➤ **Country Profile**

The country profile is divided into six main sections:

- Demographics and macroeconomics
- Country pension design
- Pension funds data overview
- Reference information
- Overview of private pension system by type of plan and financing vehicle

➤ **Acronyms, Symbols and Conventional Signs**

➤ **Glossary**

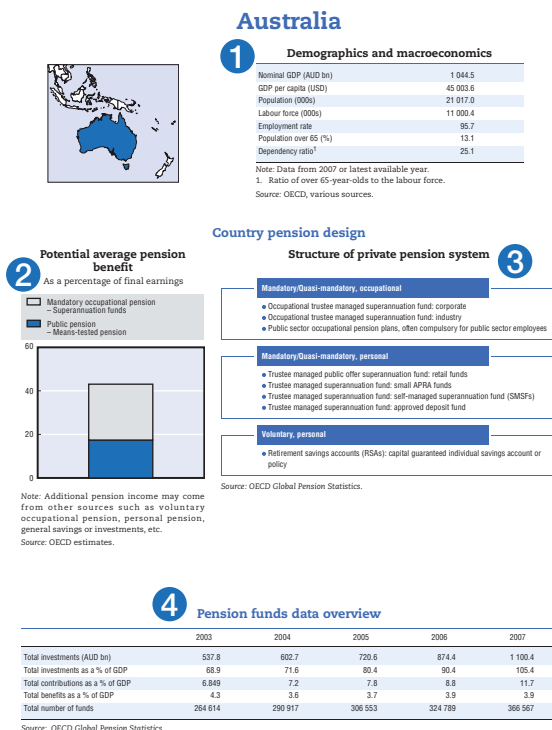
# How to Read the Country Profiles

This section provides country profiles, describing private pension arrangements in individual OECD countries. Each pension country profile is divided into six main sections:

- Demographics and macroeconomics
- Country pension design
- Pension funds data overview
- Private pension system's key characteristics
- Reference information
- Overview of private pension system by type of plan and financing vehicle

The figure below shows how the first three sections are organised on the first page of each country profile.

5. AUSTRALIA



**4 Pension funds data overview**

	2003	2004	2005	2006	2007
Total investments (AUD bn)	537.6	602.7	720.6	874.4	1 100.4
Total investments as a % of GDP	62.9	71.6	80.4	92.4	105.4
Total contributions as a % of GDP	6.849	7.2	7.8	8.8	11.7
Total benefits as a % of GDP	4.3	3.6	3.7	3.9	3.9
Total number of funds	264 614	290 917	306 553	324 789	366 567

Source: OECD Global Pension Statistics.

StatLink  <http://dx.doi.org/10.1787/517137382748>

Series database. Population figures are from the OECD Population and Labour Force database.

## Country pension design

This section is split into two parts:

### 2 Potential average pension benefit

This figure displays a broad estimate of the total pension income which an average-earning individual may receive from various sources (state, mandatory, and voluntary occupational pensions) after a full working lifetime. It is expressed as a percentage of the earnings the pensioner had just before retirement. These figures draw and expand on a microeconomic approach used in the publication *Pensions at a Glance*, looking at future individual pension entitlements under 2004 parameters and rules.

The pension incomes projected here, however, should be considered only as broad indications of what may happen, as they are conditional on a number of assumptions. It is assumed that individuals are covered by public pension plans throughout their careers. For the countries where occupational pension plans are common, average-earning individuals are assumed to be covered throughout their careers by occupational pension plans that are typical of market practice in that country. In countries where private pension accounts are compulsory, they are assumed to have participated in the compulsory system throughout their careers. Those with shorter, or periodically interrupted, careers should expect lower benefits than those which are set out in this figure.

A public pension can be an earnings-related pension (a pension computed by reference to a rate of emoluments, whether actual emoluments or not and whether final or average emoluments), a flat rate pension (a pension payable at a rate fixed otherwise than by reference to a rate of emoluments or to the rate of another pension), a minimum pension (the minimum level of pension benefits the plan pays out in all circumstances), a basic state pension (a non-earnings related pension paid by the State to

## Demographics and macroeconomics

**1** The first section presents a selection of key demographics and macroeconomics indicators that provide a sense of the size of the country and its economy. GDP figures are from the OECD Reference

individuals with a minimum number of service years), or a means-tested pension (pension granted to a person after examination of his/her financial state).

Data cover public pensions and other mandatory or quasi-mandatory private pension plans. Voluntary plans are also included if they cover at least 30% of the working population. Additional pension income may come from other sources, such as individual savings, but these are not included in the data.

For five countries, several projections are presented as private pension systems are in a particular state of change.

### 3 Structure of private pension systems

The second part displays a bulleted list summarising the structure of private pension systems according to the pension plans currently in place in the country.

## Pension funds data overview

4 The third section presents selected pension fund indicators from 2003 to 2007 from the *OECD Global Pension Statistics* project ([www.oecd.org/daf/pensions/gps](http://www.oecd.org/daf/pensions/gps)). For further data and analysis, readers can refer to Chapter 2 of this publication.

## Private pension system's key characteristics

The information provided in this section covers eight private pension system key characteristics:

- Overview
- Coverage
- Typical plan design
- Contributions
- Benefits
- Fees
- Taxation
- Market information

Depending on data availability, these characteristics are developed for each existing category of pension plan (mandatory vs. voluntary pension plan, occupational vs. personal pension plan). Information provided in this section refers to December 2007 or to the latest available year.

## Reference information

This section includes references to key legislation reforms, provides the name of regulatory and supervisory authorities and displays official statistical references and sources on private pensions.

## Overview of private pension systems by type of plan and financing vehicle

This last section gives a detailed description of the various private pension plans found in each country as well as the statistical data coverage of the *OECD Global Pension Statistics*.

The following figure gives an example of such an overview. The first two columns provide the name and the description of each pension plan. Pension plans included in the *OECD GPS database* are marked with a tick in the next column, excluding OECD estimates. Under the column headings “Type of plan” and “Financing vehicle” are given the correspondence of each pension plan with the OECD Classification by funding vehicle and by type (see OECD (2005), *Private Pensions: OECD Classification and Glossary*, OECD, Paris).

**Overview of private pension system by type of plan and financing vehicle**

	Included in OECD GPS database	Type of plan				Financing vehicle			
		Voluntary	Mandatory/Quasi-mandatory	Occupational	Personal	Pension fund	Book reserve	Pension insurance contract	Banks or investment companies
Occupational trustee managed superannuation fund: corporate	✓		✓	✓		✓			
Occupational trustee managed superannuation fund: industry	✓		✓	✓		✓			
Trustee managed public offer superannuation fund: retail funds	✓		✓		✓	✓			
Trustee managed superannuation fund: small APRA funds	✓		✓		✓	✓			
Retirement savings accounts (RSAs): capital guaranteed individual savings account or policy		✓			✓			✓	✓

Source: OECD Global Pension Statistics.

# Poland



## Demographics and macroeconomics

Nominal GDP (PLN bn)	1 162.9
GDP per capita (USD)	11 022.4
Population (000s)	38 116.0
Labour force (000s)	16 909.0
Employment rate	90.4
Population over 65 (%)	13.4
Dependency ratio <sup>1</sup>	30.3

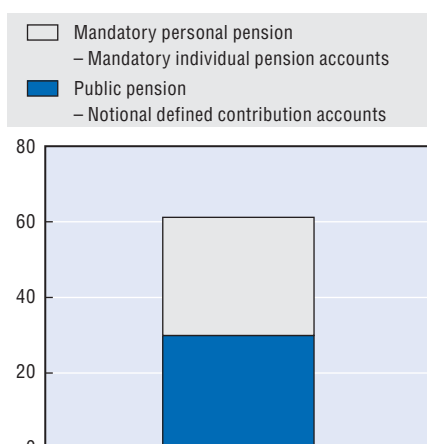
Note: Data from 2007 or latest available year.

1. Ratio of over 65-year-olds to the labour force.

Source: OECD, various sources.

## Potential average pension benefit

As a percentage of final earnings

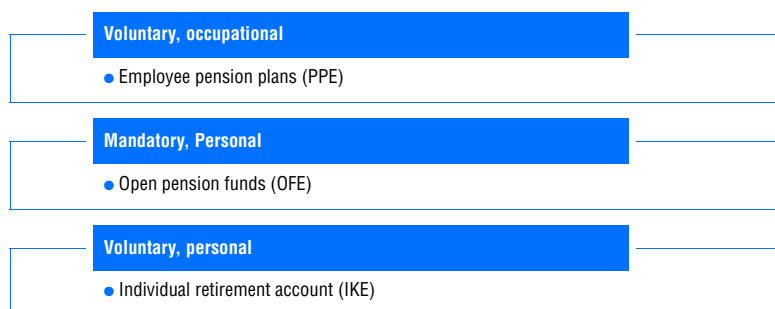


Note: Additional pension income may come from other sources such as voluntary occupational pension, personal pension, general savings or investments, etc.

Source: OECD estimates.

## Country pension design

### Structure of private pension system



Source: OECD Global Pension Statistics.

## Pension funds data overview

	2003	2004	2005	2006	2007
Total investments (PLN bn)	45.0	62.6	85.7	117.8	141.3
Total investments as a % of GDP	5.3	6.8	8.7	11.1	12.2
Total contributions as a % of GDP	1.2	1.2	1.4	1.5	1.5
Total benefits as a % of GDP	0.0	0.0	0.0	0.0	0.0
Total number of funds	20	21	20	20	20

Source: OECD Global Pension Statistics.

StatLink <http://dx.doi.org/10.1787/517713003167>

## Private pension system's key characteristics

### **Occupational voluntary**

#### *Overview*

Voluntary occupational pension plans (PPE) were introduced in 1999.

#### *Coverage*

In 2006, almost 2% of the active population was covered.

#### *Typical plan design*

PPE membership is established by a mutually agreed contract between employer and employees. Employers are restricted in plan design, with minimum requirements including a legally defined "basic employer contribution". Employees pay a supplementary contribution, which is also limited by law. The plan must be offered to more than 50% of employees in the company and registered with the Polish Financial Supervision Authority (KNF). Several kinds of financial institutions are responsible for asset management of PPE in Poland. Voluntary occupational pension plans may be managed by investment funds, life insurance companies, specially established employee pension funds, or foreign management companies.

The relative unpopularity of this voluntary form of pension capital saving, coupled with problems in transferring capital between PPEs or withdrawing it when a new employer had not established a PPE, prompted the government to propose a new form of voluntary personal pension plan, known by its acronym IKE (see below).

Employer contributions are exempt from the social security levy up to a ceiling of 7% of an employee's salary. Employees may make additional contributions that supplement those of their employer. Employee contributions are capped at three times the maximum amount that can be paid into an IKE: *e.g.*  $3 \times 150\% = 450\%$  of the average monthly salary.

There are no restrictions on how pension benefits should be paid out. A member may not, however, withdraw benefits before reaching retirement age.

#### *Fees*

The fees of the pension plans are set by the financial institution responsible for asset management of PPE. They therefore vary widely. PPE management entities may not charge fees on contributions.

#### *Taxation*

Employee contributions are based on after-tax earnings, while employer contributions are liable to taxation. Investment income and benefits are tax-exempt.

### **Personal mandatory**

#### *Overview*

A mandatory personal pension system was introduced in 1999 and has, together with state pensions, become pensioners' main income source.

## Coverage

Any person covered by the national social security system and born after 31 December 1968 is required to join a mandatory personal pension plan, i.e. an OPF. People born between 1 January 1949 and 31 December 1968 were allowed to choose whether or not to opt into the new mandatory system introduced in 1999. Their decision was, however, irreversible. Those who made the transition to the new system (but not necessarily became the members of OPFs) were credited with “start-up capital” on their notional accounts in the Social Insurance Institution (ZUS) based on an actuarial valuation of their social insurance contributions on the transition date. Employees born before 1 January 1949 were not eligible for the new pension system and therefore remain in the old system. The self-employed must also participate in the new system, but may pay lower contribution rates.

People who did not select an OPF were randomly allocated to a qualifying pension fund by the regulator. (In order to qualify funds had to have less than a 10% share of the asset-weighted market and a higher-than-average rate of return over the previous 36 months.) In 2006, the OECD and the KNF, estimated that some 12.4 million people – or 77.1% of the labour force – were members of OPFs. Individuals may belong to only one fund.

## Contributions

In total, contributions to an OPF account for 19.52% of employees’ taxable income, with employers and employees each paying half. Of that amount, 12.22% goes into the public notional defined contribution plan, with 9.76% paid by employers and 2.46% by workers. The remaining 7.3% is credited to a private individual account, which is paid entirely by the employee. Annual contributions are limited. In a given year, they can be levied only on salaries up to 30 times the average Polish monthly salary.<sup>6</sup>

## Benefits

An institutional structure for the payment of benefits is due to be established in 2008. Benefits will be paid out as annuities and a minimum pension – in the form of a percentage of the average gross wage in the quarter preceding retirement – will be guaranteed.

The effective retirement age in 2007 was 59.4 years for men and 56.1 for women, making the average age 57.2. Pension benefits will be paid from 2009 onwards.

## Fees

OPFs can charge three types of fees:

- Distribution fees, calculated as a predetermined percentage of contributions paid. It is capped at 7% and will fall to 3.5% by 2014.
- Management fees which cover a fund’s administration costs. They comprise a fixed and a variable component. The fixed portion does not exceed 0.045% of monthly contributions (an annual cap of 0.54%). The fixed component is calculated on the basis of regressive ratio. For example, for the first PLN 8 billion assets, the monthly management fee amounts to 0.045% of assets, but for the assets above PLN 65 billion, the fee is only 0.015% a month. The variable component depends on investment returns generated by the fund, but may not exceed 0.005% of net assets per month. A management fee is charged proportionately to investment returns. A pension fund management company with the highest rate of return may charge the full variable

portion of the fee, while a company whose fund generated the lowest rate of return may not even charge the variable component.

- Transfer fees are charged if an OPF member changes fund within 24 months. The fee ranges from PLN 160 to PLN 80, depending on the length of the membership period.

### **Taxation**

EET taxation treatment applies.

### **Personal voluntary**

#### **Overview**

Personal voluntary pension arrangements are available in Poland. Their prime purpose is to meet the needs of people who want the protection of additional income when they are retired.

#### **Coverage**

Personal voluntary plans (IKEs) are defined contribution plans with individual accounts managed by private financial institutions. Individual pension plans started to operate in September 2004. Any person age 16 or above can join an IKE.

#### **Contributions**

Contributions to IKE are based on after-tax earnings, and may not exceed 150% of the average monthly wage in order to qualify for tax exemption.

#### **Benefits**

Pre-retirement withdrawals are allowed, but are liable to penalties. There are no regulations regarding loans to members.

#### **Fees**

Fee levels are stated in IKE providers' contracts. There are no regulations or caps, so fees can vary widely.

#### **Taxation**

Contribution to IKE are based on after-tax earnings and paid individually by members. Investment income and benefits are tax-exempt.

### **Market information**

#### **Occupational voluntary**

Voluntary occupational pension plans are managed by investment funds, life insurance companies, specially established employee pension funds, or foreign management companies. All managed plans must be based in Poland. Switching from a PPE to an open pension fund (OPF) is not allowed, although it is possible to move to an IKE. There can be one PPE in one company, but a financial institution may manage more than one PPE.

The occupational pension plans investment regime is similar to that of the OPFs, although more liberal in some respects. The default product and default portfolio are provided for in PPE's statutes. Disclosure and information requirements between a PPE and

its members are specified in the legal regulations, statutes and agreements between the employee and the institution that manages the PPE.

In December 2007 participants numbered 312 133 in total. There were 5 registered pension funds managing assets worth PLN 1.05 billion (USD 0.3 billion), but the total assets of pension plans reached PLN 3.8 billion (USD 1.3 billion). In addition to the five occupational pension funds, occupational pension plans were managed by fifteen investment fund companies and eight insurance companies.

### **Personal mandatory**

Individual accounts are privately administered by specialised pension fund management companies –private joint-stock companies, called general pension companies and known by their acronym PTE. Individuals may switch between pension providers in search of the portfolio of their choice. A PTE is separate from the assets it administers, which are owned by the OPF's members. Starting an asset management company requires securing a license from the regulatory authority, the KNF. OPFs must achieve a minimum return on investment.

In 2007, the 15 registered PTEs counted 13.1 million participants in total. They managed PLN 140.3 billion (USD 50.7 billion).

### **Personal voluntary**

Personal pension plans are administered by investment funds, brokers, insurance companies, and banks. IKEs can offer a choice of portfolios and pension products. An IKE's statutes set out quantitative limits on investments and state its default product and portfolio. They do not provide any guarantees. Members can switch from one IKE to another, or to a PPE. Providers may charge a switch fee for transfers within the first 12 months of a contract. Disclosure and information requirements between an IKE and its members are established by contract.

## **Reference information**

### **Key legislation**

2004: the Individual Pension Accounts Act of 20 April 2004;

2004: the Employee Pension Programmes Act of 20 April 2004;

1997: the Organisation and Operation of Pension Funds Act of 28 August 1997 (as subsequently amended).

### **Key regulatory and supervisory authorities**

Polish Financial Supervision Authority (KNF): supervises the private pension system, [www.knf.gov.pl](http://www.knf.gov.pl).

### **Key official statistical references and sources on private pensions**

Insurance and Pension Funds Supervisory Commission (KNUiFE), [www.knuife.gov.pl/english/](http://www.knuife.gov.pl/english/).

OECD, *Global Pension Statistics Project*, [www.oecd.org/daf/pensions/gps](http://www.oecd.org/daf/pensions/gps).



## Overview of private pension system by type of plan and financing vehicle

	Included in <i>OECD GPS database</i>	Type of plan				Financing vehicle			
		Voluntary	Mandatory/ Quasi- mandatory	Occupational	Personal	Pension fund	Book reserve	Pension insurance contract	Banks or investment companies
Open pension funds (OFE)	✓		✓		✓	✓			
Employee pension funds (PPE)	✓	✓		✓		✓		✓	✓
Individual retirement account (IKE)		✓			✓			✓	✓

Source: OECD Global Pension Statistics.

**Notes**

1. Statistics Canada (2004), *Pension Plans in Canada*, Pensions and Wealth Research Series, 1 January.
2. Statistics Canada.
3. The Reserve Fund is established with 5% of the pension company profits.
4. The TFR is a sort of severance pay scheme that the employer has to pay to an employee in the case of his dismissal or retirement. Every month the employer sets aside 6.91% of the gross salary of the employee; every year the accumulated stock of the TFR, which is accounted as a book reserve in the balance sheet of the employer, is appreciated according to a CPI-linked formula.
5. Minimum pension is equivalent to a 1997's monthly minimum wage updated in accordance with inflation.
6. The average monthly wage in Poland is PLN 2 869.69 (USD 1 025) before tax and social security contributions. The net wage is around 70% of the gross.
7. Contribution rates and information on rates of contracting out were obtained from the Department for Work and Pensions' report entitled *Employers' Pension Provision Survey 2005*.

## Acronyms, Symbols and Conventional Signs

<b>AFP</b>	Contractual Early Retirement Plan
<b>AGIRC</b>	<i>Association Générale des Institutions de Retraite des Cadres</i>
<b>ALM</b>	Asset Liability Management
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ARRCO</b>	<i>Association des Régimes de Retraites Complémentaires</i>
<b>ASSEP</b>	<i>Association d'Épargne Pension</i>
<b>AVC</b>	Additional Voluntary Contributions
<b>CBFA</b>	<i>Commission Bancaire, Financière et des Assurances</i>
<b>CEE</b>	Central and Eastern Europe
<b>CONRSAR</b>	National Commission for the Retirement Savings System
<b>CPP</b>	Canadian Pension Plan
<b>CSSF</b>	<i>Commission de Surveillance du Secteur Financier</i>
<b>DB</b>	Defined Benefit
<b>DBO</b>	Defined Benefit Obligation
<b>DC</b>	Defined Contribution
<b>TyEL</b>	Earnings-related provisions for private-sector workers
<b>EEA</b>	European Economic Area
<b>EET</b>	Exempt-Exempt-tax
<b>EPI</b>	Employee Pension Insurance
<b>EPF</b>	Employees' Pension Fund
<b>FMA</b>	Financial Market Authority
<b>GDP</b>	Gross Domestic Product
<b>GPS</b>	Global Pension Statistics
<b>HMRC</b>	HM Revenue and Customs
<b>IBA</b>	Income Base Amount
<b>IKE</b>	Individual Retirement Account
<b>IRA</b>	Individual Retirement Account
<b>ITP</b>	Collectively bargained pension plan for white-collar employees
<b>KNF</b>	Polish Financial Supervisory Authority
<b>LDI</b>	Liability-Driven Investment
<b>LO</b>	Confederation of Trade Unions
<b>MO</b>	Mandatory Occupational
<b>MP</b>	Mandatory Personal
<b>NHO</b>	Confederation of Norwegian Business and Industry
<b>OFE</b>	Open Pension Fund
<b>PAMC</b>	Pension Asset Management Company
<b>PAYG</b>	Pay-as-you-go

<b>PEE</b>	<i>Plan Épargne Entreprise</i>
<b>PERCO</b>	<i>Plan d'Épargne pour la Retraite Collectif</i>
<b>PERP</b>	<i>Plan d'Épargne Retraite Populaire</i>
<b>PIP</b>	Personal pension plan set up through life insurance contract
<b>PPE</b>	Employee Pension Fund
<b>PPM</b>	Premium Pension Authority
<b>PPRF</b>	Public Pension Reserve Fund
<b>PRSA</b>	Personal Retirement Savings Account
<b>QMO</b>	Quasi-Mandatory Occupational
<b>RAC</b>	Retirement Annuity Contract
<b>S2P</b>	State Second Pension
<b>SAF</b>	Swedish Employers' Confederation
<b>SEPCAV</b>	<i>Société d'Épargne Pension à Capital Variable</i>
<b>SPS</b>	Severance Pay System
<b>SIMPLE</b>	Savings Incentive Match Plan for Employees
<b>SNA</b>	System of National Account
<b>SPMC</b>	Supplementary Pension Management Company
<b>SSRF</b>	Social Security Reserve Fund
<b>SWF</b>	Sovereign Wealth Fund
<b>TFR</b>	<i>Trattamento di Fine Rapporto</i>
<b>TQPP</b>	Tax Qualified Pension Plan
<b>UK</b>	United Kingdom
<b>US</b>	United States of America
<b>VO</b>	Voluntary Occupational
<b>VP</b>	Voluntary Personal

## Symbols

000s	Thousands	JPY	Yen
m	Million	KRW	South Korean won
bn	Billion	MXN	Mexican peso
AUD	Australian dollar	NZD	New Zealand dollar
EUR	Euro	NOK	Norwegian krone
USD	United States dollar	PLN	Zloty
CAD	Canadian dollar	SKK	Slovak koruna
CZK	Czech koruna	SEK	Swedish krona
DKK	Danish krone	CHF	Swiss franc
HUF	Forint	TRY	New Turkish Lira
ISK	Icelandic krona	GBP	British pound

## Conventional signs

n.a.: not applicable

n.d. / ..: not available

## Country ISO code

Australia	AUS	Korea	KOR
Austria	AUT	Luxembourg	LUX
Belgium	BEL	Mexico	MEX
Canada	CAN	Netherlands	NLD
Czech Republic	CZE	New Zealand	NZL
Denmark	DNK	Norway	NOR
Finland	FIN	Poland	POL
France	FRA	Portugal	PRT
Germany	DEU	Slovak Republic	SVK
Greece	GRC	Spain	ESP
Hungary	HUN	Sweden	SWE
Iceland	ISL	Switzerland	CHE
Ireland	IRL	Turkey	TUR
Italy	ITA	United Kingdom	GBR
Japan	JPN	United States	USA

## Glossary

Most of the definitions below draw on the publication *Private Pensions: OECD Classification and Glossary*. It can be downloaded at the following address: [www.oecd.org/dataoecd/0/49/38356329.pdf](http://www.oecd.org/dataoecd/0/49/38356329.pdf).

Term	Definition
Active member	A pension plan member who is making contributions (and/or on behalf of whom contributions are being made) and is accumulating assets or has accrued assets in the past and is not yet retired.
Annuity	A form of financial contract mostly sold by life insurance companies that guarantees a fixed or variable payment of income benefit (monthly, quarterly, half-yearly, or yearly) for the life of a person (the annuitant) or for a specified period of time. It is different from a life insurance contract which provides income to the beneficiary after the death of the insured. An annuity may be bought through instalments or as a single lump sum. Benefits may start immediately or at a pre-defined time in the future or at a specific age.
Asset allocation	The spread of fund investments among different investment forms.
Asset manager	The individual(s) or entity(ies) endowed with the responsibility to physically invest the pension fund assets. Asset managers may also set out the investment strategy for a pension fund.
Basic state pension	A non-earning related pension paid by the State to individuals with a minimum number of service years.
Beneficiary	An individual who is entitled to a benefit (including the plan member and dependants).
Benefit	Payment made to a pension fund member (or dependants) after retirement.
Book reserved pension plans	Sums entered in the balance sheet of the plan sponsor as reserves or provisions for occupational pension plan benefits. Some assets may be held in separate accounts for the purpose of financing benefits, but are not legally or contractually pension plan assets. Most OECD countries do not allow this method of financing. Those that do usually require these plans to be insured against bankruptcy of the plan sponsor through insolvency guaranty arrangement.
Closed pension funds	Funds that support only pension plans that are limited to certain employees ( <i>e.g.</i> those of an employer or group of employers).
Contribution	A payment made to a pension plan by a plan sponsor or a plan member.
Contribution rate	The amount (typically expressed as a percentage of the contribution base) that is needed to be paid into the pension fund.
Deferred member	A pension plan member that no longer contributes to or accrues benefits from the plan but has not yet begun to receive retirement benefits from that plan.
Deferred pension	A pension arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned.
Deferred retirement	A situation when an individual decides to retire later and draw the pension benefits later than their normal retirement age.
Defined benefit (DB) occupational pension plans	Occupational plans other than defined contribution plans. DB plans generally can be classified into one of three main types, "traditional", "mixed" and "hybrid" plans.
"Traditional" DB plan	A DB plan where benefits are linked through a formula to the members' wages or salaries, length of employment, or other factors.

Term	Definition
"Hybrid" DB plan	A DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets ( <i>e.g.</i> fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.
"Mixed" DB plan	A DB plan that have two separate DB and DC components but which are treated as part of the same plan.
Defined contribution (DC) occupational pension plans	Occupational pension plans under which the plan sponsor pays fixed contributions and has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience.
Dependant	An individual who is financially dependent on a (passive or active) member of a pension scheme.
Dependency ratio	Typically defined as the ratio of non-active age to those of active age in a given population.
Final average earnings	The fund member's earnings that are used to calculate the pension benefit in a defined benefit plan; it is typically the earnings of the last few years prior to retirement.
Fund member	An individual who is either an active (working or contributing, and hence actively accumulating assets) or passive (retired, and hence receiving benefits), or deferred (holding deferred benefits) participant in a pension plan.
Funded pension plans	Occupational or personal pension plans that accumulate dedicated assets to cover the plan's liabilities.
Funding	The act of accumulating assets in order to finance the pension plan.
Funding level	The relative value of a scheme's assets and liabilities, usually expressed as a percentage figure.
Funding rules	Regulation that requires the maintenance of a certain level of assets in a pension fund in relation to pension plan liabilities.
Gross rate of return	The rate of return of an asset or portfolio over a specified time period, prior to discounting any fees of commissions.
Group pension funds	Multi-employer pension funds that pool the assets of pension plans established for related employers.
Industry pension funds	Funds that pool the assets of pension plans established for unrelated employers who are involved in the same trade or business.
Mandatory contribution	The level of contribution the member (or an entity on behalf of the member) is required to pay according to scheme rules.
Mandatory occupational plans	Participation in these plans is mandatory for employers. Employers are obliged by law to participate in a pension plan. Employers must set up (and make contributions to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.
Mandatory personal plans	These are personal plans that individuals must join or which are eligible to receive mandatory pension contributions. Individuals may be required to make pension contributions to a pension plan of their choice normally within a certain range of choices or to a specific pension plan.
Minimum pension	The minimum level of pension benefits the plan pays out in all circumstances.
Multi-employer pension funds	Funds that pool the assets of pension plans established by various plan sponsors. There are three types of multi-employer pension funds: <i>a)</i> for related employers <i>i.e.</i> companies that are financially connected or owned by a single holding group (group pension funds); <i>b)</i> for unrelated employers who are involved in the same trade or business (industry pension funds); <i>c)</i> for unrelated employers that may be in different trades or businesses (collective pension funds).
Net rate of return	The rate of return of an asset or portfolio over a specified time period, after discounting any fees of commissions.
Normal pension age	Age from which the individual is eligible for pension benefits.
Occupational pension plans	Access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups thereof ( <i>e.g.</i> industry associations) and labour or professional associations, jointly or separately. The plan may be administered directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.
Open pension funds	Funds that support at least one plan with no restriction on membership.

Term	Definition
Overfunding	The situation when the value of a plan's assets are more than its liabilities, thereby having an actuarial surplus.
Pension assets	All forms of investment with a value associated to a pension plan.
Pension funds	The pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund. Pension funds take the form of either a special purpose entity with legal personality (such as a trust, foundation, or corporate entity) or a legally separated fund without legal personality managed by a dedicated provider (pension fund management company) or other financial institution on behalf of the plan/fund members.
Pension insurance contracts	Insurance contracts that specify pension plans contributions to an insurance undertaking in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. Most countries limit the integration of pension plans only into pension funds, as the financial vehicle of the pension plan. Other countries also consider the pension insurance contract as the financial vehicle for pension plans.
Pension plan	A legally binding contract having an explicit retirement objective (or in order to satisfy tax related conditions or contract provisions the benefits cannot be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits.
Pension plan sponsor	An institution ( <i>e.g.</i> company, industry/ employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members.
Personal pension plans	Access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership.
Private pension funds	A pension fund that is regulated under private sector law.
Private pension plans	A pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers.
Projected Benefit Obligation (PBO)	The actuarial present value of vested and non-vested benefits attributed to the plan through the pension benefit formula for service rendered to that date based on employees' future salary levels.
Protected pension plan	A plan (personal pension plan or occupational defined contribution pension plan) other than an unprotected pension plan. The guarantees or promises may be offered by the pension plan/fund itself or the plan provider ( <i>e.g.</i> deferred annuity, guaranteed rate of return).
Public pension funds	Pension funds that are regulated under public sector law.
Public pension plans	Social security and similar statutory programmes administered by the general government (that is central, state, and local governments, as well as other public sector bodies such as social security institutions). Public pension plans have been traditionally PAYG financed, but some OECD countries have partial funding of public pension liabilities or have replaced these plans by private pension plans.
Rate of return	The income earned by holding an asset over a specified period.
Replacement rate	The ratio of an individual's (or a given population's) (average) pension in a given time period and the (average) income in a given time period.
Separate accounts	A pension fund that is legally segregated from both the plan sponsor and a financial institution that acts as the manager of the fund on behalf of the plan member.
Single employer pension funds	Funds that pool the assets of pension plans established by a single sponsor.
Trust	A legal scheme, whereby named people (termed trustees) hold property on behalf of other people (termed beneficiaries).
Trustee	A person or a company appointed to carry out the tasks of the trust.
Underfunding	The situation when the value of a plan's assets are less than its liabilities, thereby having an actuarial deficiency.



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Term	Definition
Unfunded pension plans	Plans that are financed directly from contributions from the plan sponsor or provider and/ or the plan participant. Unfunded pension plans are said to be paid on a current disbursement method (also known as the pay as you go, PAYG, method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth contributions within given time periods. Most OECD countries do not allow unfunded private pension plans.
Unprotected pension plan	A plan (personal pension plan or occupational defined contribution pension plan) where the pension plan/fund itself or the pension provider does not offer any investment return or benefit guarantees or promises covering the whole plan fund.
Voluntary contribution	An extra contribution paid in addition to the mandatory contribution a member can pay to the pension fund in order to increase the future pension benefits.
Voluntary occupational pension plans	The establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can, on a voluntary basis, establish occupational plans that provide benefits that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security contributions.
Voluntary personal pension plans	Participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension contributions to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security benefits with those from personal pension plans.

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