

SESSION: Population and Economics

TITLE:

POLISH HOUSEHOLDS SAVINGS FOR FUTURE LIFE ON PENSION

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Abstract (150 words):

The changes of pension system (due to population ageing) in Poland poses questions concerning how the savings and saving behaviour are perceived in the Polish society. We use data from our own study (carried out from 1999 to 2005). First of all, analysis gives insight into qualitative understanding Poles' attitudes towards old age and their life on future pension. Secondly, saving in Polish households is usually a conscious behaviour resulting from the need for material security and from fear about the prospects of one's own and one's close family. It is also purposeful, directed at life goals. Residual saving, resulting from the existence of a surplus of income as compared to the cost of living, occurs only sporadically. In all phases of a life cycle the main purpose of saving is to provide a buffer.

Extended abstract: 2-4 pages

From 1999 the new pension system was introduced in Poland as also as the remedy of population ageing phenomena and the process of changes is still ongoing. The new system has been combined of the Defined Contribution Pay-As-You-Go system with National Accounts (1) with a mandatory advance funded second pillar (2) and with individual privately managed accounts (3). Voluntary third pillar will guarantee higher pensions for those that decide to save more. Empirical studies conducted in other communities showed that there exists a relation between type of the pension system and saving by households (Feldstein (1995), Daly (1983)). So it was expected that changes in the social security system in Poland should lead to an increase in the saving rate, in particular, among those for whom the period of retirement and living during the old age period is a close perspective, i.e. middle age people.

However, the systemic changes were placed in the new market economy just being implemented in Poland. New economic reality involves serial of processes influencing management of the current budget. On one hand the principles of market economy impose rigorous environment for management of the disposal income while on the other the dynamically developing market of goods, services and modern banking systems create pressure to spend. The evolution of pension system during economic transformation naturally poses questions concerning how the savings and saving behaviour are perceived in the Polish society during economic transformation.

The research conducted by Perek-Białas and Rószkiewicz at the turn of 1998 and 1999 and by Rószkiewicz at the end of 2001 and at the end of 2004 identified determinants in shaping creating saving in Polish households (Perek-Białas J., Rószkiewicz M. 1999, Rószkiewicz 2001, Rószkiewicz 2004). The results of studies conducted during last five years allow believing that savings as an asset, possession of which may be considered by a household, is not common and is not extensively acquired. The more, since the time of the pension system reform has been implemented, a decrease in propensity to save, measured by the frequency of declarations that the households saved, could be observed. In 1998, 32.4% of households declared saving a certain amount from the current income. In 2001 that percentage was only 24.1% and in 2004, 25,1%. No significant change in the declared saving rate was recorded though. The saving rate averaged 15.1% of the total monthly household income in 1998, 17.1% in 2001 and 15.5% in 2004. The results of empirical researches confirm of the economic point of view on the accumulation of reserves in line with Keynes theory: income received is the basic condition of saving and creating material reserves.

However, it should be emphasised that the survey provides for a supposition that the conditioning of saving by income is strengthened by the level of education. If an adequately high income is a sufficient condition of household saving in general, a relatively high level of education guarantees the strengthening of this trend. I.e. only for households achieving high average monthly income per capita and whose head has the university education double risk phenomena can be observed. For 9,2% of households in 2004 higher capabilities of saving coincident with high saving rate.

Considerable coincidence between evaluation of households' financial standing and the saving rate is an explanation of lower inclinations to save of those with relatively higher income level. Only for these households which evaluated their own financial standing as good positive correlation between income level and saving rate was observed. However increase in income level didn't change saving rate for whom with bad and neutral opinion about their financial standing. Differences between these groups tested in ANOVA procedure were significant ($p < 0,001$). This regularities confirmed statement of economics psychology that for same households (particularly with higher, but not the highest, income level) the

consumption aspirations were as important barrier of saving as classic economic determinants.

In addition, the longitudinal approach contained in the hypothesis of life cycle is reflected in the data gathered through the observation of Polish households, which shows a general tendency towards a fluctuating possibility to save in consecutive phases of the family life cycle¹. According to life cycle hypotheses empirical data indicate that the greatest possibility to save was enjoyed by those households having achieved the phase of “empty nest 1”. Additionally, according to the concept of hierarchical financial behaviour, the enlargement of household reserves through the creation of material wealth takes place in this phase of the family life cycle, after which the process slows down. But, in contrary with theoretical regularities, saving behaviours were continued during retirement (the phase of “empty nest 2”). Every five household which declaring saving reached last phase in family life cycle and the highest saving rate was estimated for those households able to save which were at the beginning of their family life. The results presented in Table 1 illustrate these trends.

Table 1. The percentage of households saving in 2004 according to the phase in family life cycle.

<i>Phase in family life cycle</i>	Percent of households declaring savings	Average saving rate
Absence of family or the forming of family life	12,6	19.8
Young family	20.1	17.4
Mature family	18.2	10.7
Empty nest 1	26.4	17.7
Empty nest 2	22.7	13.4
Total	100.0	15.5

Source: proprietary work

The highest saving rate for families from first phase, which deviates from the theoretical model of LCH, may be a result of a disproportion in income capabilities between generations in the earlier and later phases, which does not fit with the theoretical trend of income increasing over time. The particular circumstances of recent Polish history suggest why: people of the older generations are poorer than those of the new one, which has had better opportunities to make money in the market economy, a difference particularly emphatic where these opportunities have been accompanied by higher levels of education.

Income being the basic condition of creating reserves in households does not guarantee a systematic character to the savings process. Only a weak correlation could be found between an increase in income level and an increase in the possibility of systematic saving. The advancement of family life also did not affect the manner of reserve accumulation. Regardless of the level of income, more than half the households able to save in 2004 had the ability to make some savings each month (51.7%) and only a small group created their reserves sporadically throughout the year (3.6%). This would seem to stem from attitudes toward saving and the manner of managing disposable resources that is a result of these attitudes.

Saving in Polish households is usually a conscious behaviour resulting from the need for material security and from fear about the prospects of one’s own and one’s close family. It is also purposeful, directed at life goals. Residual saving, resulting from the existence of a surplus of income as compared to the cost of living, occurs only sporadically. Managing one’s estate in order to multiply one’s wealth occurs equally sporadically. The structure of the type of saving activities corresponds well to the notion that the process of savings creation is

¹ Five-grade classification of family life cycle phases has been applied here, which corresponds to the model of nuclear family life cycle as put forward by WHO in 1977 Feichtinger , Hansluwka, 1977.

determined by income. Tendencies toward systematic saving and the domination of cautious attitudes as motivations for saving are expressed through the accumulation of reserves acting as a buffer, and in the purposeful process of this creation. The creation of residual financial reserves is, obviously, restricted by the barrier of insufficient income levels, with an ensuing low occurrence of estate management.

These considerations show that the real-life data are remarkably consistent with the economic theory of household reserve creation, and with the concept of psychological economics. It can be stated that the empirical data confirm these theoretical considerations. The presented structure of attitudes to saving corresponds well with the types of reserve creation which take place in various phases of the life cycle. In all phases of a life cycle the main purpose of saving is to provide a buffer. These trends confirmed theoretical model, which assumes that the creation of buffer financial reserves takes priority over saving aimed at a specific purpose. Table 2 illustrates the structure of financial actions in each phase of a family life cycle.

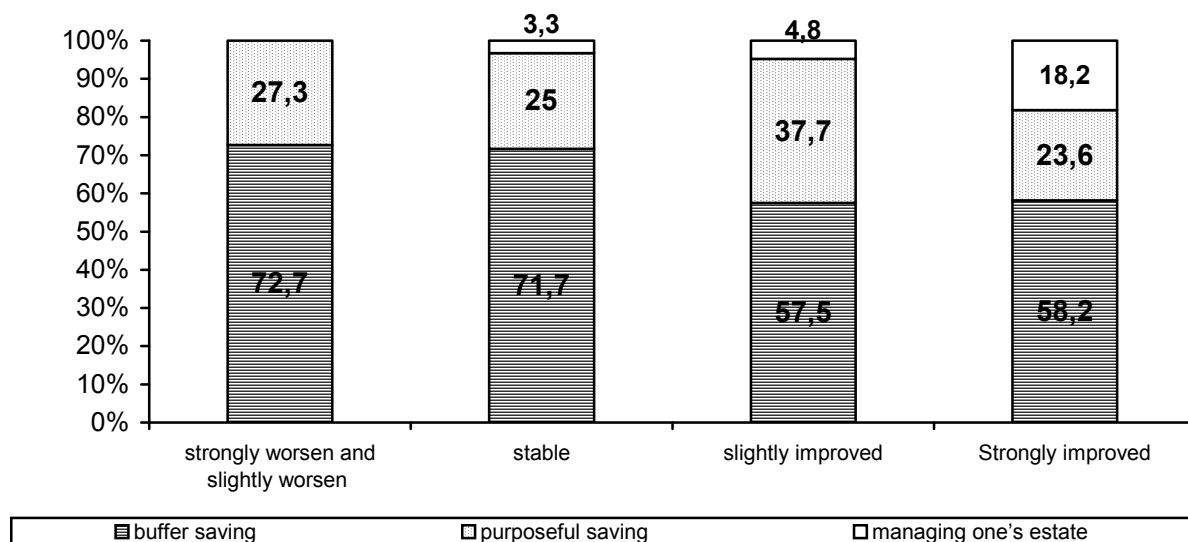
Table 2. The structure of households able to save in 2004, according to the type of reserves created in each phase of a family life cycle.

2. Phase of a family life cycle=100%	i. Financial actions		
	buffer saving	Purposeful saving	managing one's estate
Absence of family or the forming of family life	77.4	17.7	4.8
Young family	55.6	37.0	7.4
Mature family	57.1	32.7	10.2
Empty nest 1	59.4	34.8	5.8
Empty nest 2	86.9	8.2	4.9
Total	67.8	25.8	6.4

Source: proprietary work

According to theory of economy and economic psychology approach, the decision to save is dependent not only on income level but also on an evaluation of one's own economic situation. In accordance with the theoretical model, saving was easiest for those households whose evaluated their financial standing as rather good or good. In 2004, respectively 59.7% and 52.4% of households in these groups made savings. Saving was least possible for those whose evaluated their financial standing as bad. Among those households, respectively 4.7% (slightly worsen) and 5.3% (strongly worsen) households saved. In the group of households evaluating their financial standing as better, the largest proportions of households were managing their estate, the most advanced form of financial behaviour. Contrastingly, in the group, where reserve creation is theoretically most difficult, the accumulation of buffer reserves, which is typically impelled by a feeling of financial uncertainty, proved to be the dominant form. But the increase of evaluation from the low category to the moderate one doesn't cause decrease in the buffer reserves. This can suggest that the improvement in financial standing causes firstly an improvement in feeling materially secure (regarding to behavioral life cycle hypothesis) but still induces relatively moderate consumption behaviour. Figure 1 displays the structure of the types of saving in each separate group.

Figure 1. The structure of households able to save in 2004, according to evaluation of their financial standing and type of financial activity.



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