



Construction of a Sustainable Social Security System in Poland

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	ABSTRACT
<p>2019 Research Leap/Inovatus Services Ltd. All rights reserved.</p> <p>DOI: 10.18775/jibrm.1849-8558.2015.43.3002 URL: http://dx.doi.org/10.18775/jibrm.1849-8558.2015.43.3002</p>	<p>The paper is about the construction of a sustainable social security system in Poland which is an attempt to define the types of changes that are required for the improvement of this system at the beginning of the 21st century. Optimization of the system should be understood as economic equity and obligatory application of axioms of commonship and unification.</p> <p>In order to construct a valid social security system, it is necessary to define the following factors: a catalog of social risks, a method of benefit funding and parameters of the benefits to be paid. Any structurally and financially sustainable system must be designed so that all its elements are compatible both with social risks that are protected in the system and with the elements of the social security system. The paper presents the Polish social protection system together with the social security system, the risks that are protected in the social insurances and a concept of changes that should be made to optimize the social security system.</p>
<p>Keywords: Axiom of commonship, Axiom of unification, System construction, Optimizing, Financial equity, Social security system</p>	

1. Introduction

A country's social security system exemplifies the government's social policy towards its citizens. The state as an organization must ensure citizens receive assistance where they become unable to support themselves through their labor due to adverse circumstances. The state provides assistance to such people through the social protection system which protects against the loss of effectiveness and damage to health and loss of capacity to be employed, old age, incapacity, death of the primary breadwinner of a household, sickness, maternity, unemployment, injuries and accidents at work, disability or age-related impairment. The range of social security services varies between countries and there are different state policies regarding the provision of social assistance. The methods applied to depend mostly on social security policy. In Poland, the principles of the social market economy model are used. In pursuit of putting this model into practice, for the last 29 years, the Polish government has implemented several system changes, one of which was streamlining of the social security system in 1999. So far, the system is being executed but not yet finished and the reform requires essential adjustments. In Poland, social insurances are based on the principles that are obligatory in the Polish social security system. These principles include the principle of compulsory participation, the principle of commonship, the principle of equal treatment, the principle of guaranteed benefit payments, the principle of mutuality and the principle of social justice (Klimas,2013).

All of the above axioms and principles should be applied with no exceptions to achieve an optimal social security system. Unfortunately, in practice, many exceptions are applied, in particular with respect to the obligatory axiom enforcement. This is why the system is financially insufficient, which is presented in the table below.

Table 1: A deficit in the budget of the state social security system (in millions PLN)

Year	Social security contributions	State funding	Total expenditure	Social security trust fund deficit (expenditure - contributions)
2010	89,378.7	60,458.9	160,842.3	71,463.6
2011	102,549.0	52,944.2	166,667.3	64,118.3
2012	121,108.5	47,701.7	174,857.4	53,748.9
2013	122,942.0	47,842.4	183,785.8	60,843.8
2014	131,102.7	38,631.9	191,710.4	60,607.7
2015	143,298.4	45,164.1	199,498.0	56,197.6
2016	152,160.3	48,010.1	205,430.2	53,269.9
2017	166,941.1	44,214.0	212,947.6	46,006.5

Source: In-house study on the basis of: www.zus.pl.

The deficit has occurred due to shortage of the system axioms of commonship and coherence; certain vocational groups, e.g. miners, enjoy special privileges, other professions, e.g. judges and prosecutors, uniformed services (the police, armed forces, prison services, border police forces and special services), which are beyond the system, while still others (farmers) have a separate system that is funded primarily (90%) by the government.

2. Literature Review

Every social security system must be structured to include constituents which operate in accordance with specific construction. If a system is so perceived, it is essential to analyze its elements to be able to talk about a system at all. To present the simplest structure of a social security scheme, the following elements must be included:

- protected social risk
- branches of insurance,
- benefits paid to eligible individuals out of certain types of insurance (social security subsystem).

The EU Member States have adopted the Social Security (Minimum Standards) Convention No. 102, a primary international social security instrument, as the basis of the implementation and maintenance of social protection schemes; however, the range of risks included in the schemes and the system financing techniques are nationally defined by each state. The social risks and benefits provided under Convention No. 102 include:

- 1) sickness – this risk is complex and inhomogeneous, it is designed to compensate for a loss of earnings as a result of illness and includes healthcare (medical) services and/or sickness cash benefits;
- 2) unemployment – a loss of earnings where a protected individual is still fit for work but cannot find a proper job;
- 3) old age – provision of cash benefits to anyone reaching the prescribed age (which should not be more than 65);
- 4) work-related accident or injury, work-related disease – a complex risk, defined in a comprehensive and precise manner);
- 5) family and parenting support – provision of cash and/or in-kind support for low-income families raising children;
- 6) maternity – cash support and healthcare (medical) services for a protected female in relation to a loss of earnings during pregnancy, delivery, and in the postpartum period, and to a need for healthcare services in these periods;
- 7) disability – inability to perform any physical labor to a degree specified after a disability assessment if it is total and presumably permanent or persistent and causes a loss of earning;
- 8) death of the breadwinner – a loss of support suffered by a widowed person or a child as the result of death of the breadwinner (Uścińska,2005).

The social security program currently applicable in Poland is presented in the table below.

Table 2: Elements of social protection in Poland

An element of social security scheme	Type of protected social risk	Financing technique	Responsible entity
Social insurance	old age, sickness, maternity, death of the breadwinner, work-related injuries and sickness	insurance (including redistribution, capital-accumulation and saving)	Social Security Administration, State insurance companies, banks, brokerage offices, insurance companies
Health insurance	health, life	insurance-based	National Health Fund and subordinate entities in each voivodeship
Redundancy insurance	unemployment	insurance-based	National, voivodeship and regional labor offices
Disability benefits	disability	insurance-based	State Fund for Rehabilitation of the Disabled Persons and subordinate entities in self-governed circuits
Social welfare	poverty	social assistance	Voivodeship and regional social welfare centers
Family benefits	child poverty	social assistance	Voivodeship and regional social welfare centers
Uniformed service pension/benefit*	old age, sickness, maternity, death of the breadwinner, work-related injuries and sickness	non-contributory pension	Disability benefit authorities in the Ministry of Interior Affairs, Ministry of National Security, Prison Services, State Fire Services
Farmer pension/benefit	old age, sickness, maternity, death of the breadwinner, work-related injuries and sickness	non-contributory pension	Farmer's Social Security Trust Fund

- The police, armed forces, prison services, fire services

Source: In-house study

The data presented in the table above show that the social security system in Poland is inhomogeneous, the protected risks are duplicated, various financing techniques are applied to protect the same social risks, and last, but not least – different public authorities are in charge of protection of the same social risk.

Table 3: Elements of the Polish social security system

Type of insurance	Protected risk	Type pf benefits
pension	Old age	-redistributive pension (Pillar I), -capital-accumulation pension (Pillar II), -workplace pension (Employee Pension Scheme), -Personal Pension Plans, -Personal Pension Security Account, -attendance allowance.
disability	Long-term unfitness for work, death of the breadwinner, injuries while going to or returning from work	-unfitness for work benefit, -survivors benefit, -re-qualification benefit, -sickness benefit, -rehabilitation allowance, -compensating benefit.
sickness	Sickness, maternity	-sickness benefit, -rehabilitation allowance -parental benefit, -paternity benefit, -funeral benefit, -attendance allowance.
Work-related injury*	Work-related injury, accident or sickness	-one-off health-impairment compensation, -one-off compensation for death of an insured person, -unfitness for work benefit, - survivors benefit, - re-qualification benefit, - sickness benefit, - rehabilitation allowance, - compensating benefit. - attendance allowance, - funeral benefit.

*-benefits paid only to those who suffered work-related injuries and/or accident or have work-related diseases.

Source: In-house study

A sustainable social security system was first defined at the end of the 1990s; the authors of the system reform assumed that the system had to ensure maximum social protection to all citizens, that the costs associated with the reform would never be higher than the economic capacity and that the costs of transformation needed long-term financing. The expected results of the reform include the creation of a stable system which will function to provide for the wellbeing of many future generations. In the implementation of the reform, modern concepts of adequate social security need to be taken into account; the reformed system will require compliance with the principle of social justice (Hausner, 1998). It can, therefore, be presumed that the system which was designed (though not quite consistently) and implemented should operate in line with the logic of insurance policy rooted in social risks:

social risk → contributions (social security trust fund) → adverse event → loss → benefit.

Theoretically, each social security system should be based on three axioms: commonship, cohesion (unification) and effectiveness. The system commonship is understood as a solution allowing coverage of all citizens of a country. System cohesion refers to the application of the same rules and principles in each case and for all system participants. System effectiveness should be understood as the pursuit to balance the incomings and expenditure of the social security trust fund (Garbiec, 2016).

3. Methodology

This paper attempts to analyze the effectiveness of the Polish social security system briefly and presents proposed changes to improve the system. A tool used in the study is an economic and systemic analysis, and the period examined are the years 2010-2017.

4. Result and discussion

4.1 The proposal concept of a sustainable social security system in Poland.

A sustainable social security system in Poland should respect the axioms of commonship and cohesion (unification) and should, first of all, be financially productive. The incomings will never be balanced with expenditures unless the axioms of commonship and cohesion are implemented.

The structure of a sustainable scheme should be based upon a logical matching of separate social risks in unified segments with the same financing techniques. A concept of elements of a sustainable social security system in Poland is given below.

Table 4: Proposed elements of a sustainable social security system in Poland

Type of insurance	Protected risk	Financing technique	Type pf benefits
pension	Old age	-insurance (redistribution, capital-	-redistributive pension (Pillar I),

Similarly, as in the social protection system, the social security system is also characterized by duplication of specific risks in different types of insurance. Moreover, the scheme lacks some social risks, for example, incapacity or parental risk (although it provides for the payment of such benefits as attendance allowances, parental benefit or paternal benefit).

		accumulation and saving), non-contributory pension (minimum benefits – pension allowances)	-capital-accumulation pension (Pillar II), -workplace pension (Employee Pension Scheme), -Personal Pension Plans, -Personal Pension Security Account,
disability	Long-term unfitness for work, death of the breadwinner, injuries while going to or returning from work	-insurance-based	-unfitness for work benefit, -survivors benefit, -re-qualification benefit,
sickness	Sickness	-insurance-based	-sickness benefit, -rehabilitation allowance -funeral benefit, -compensating benefit.
maternity	Maternity, care for children	-insurance-based -non-contributory benefits (family benefit)	- parental benefit - paternal benefit - family benefit
work-related injury	Work-related injury, accident or sickness	-insurance-based	-one-off health-impairment compensation, -one-off compensation for death of an insured person, -unfitness for work benefit, - survivors benefit, - re-qualification benefit, - sickness benefit, - rehabilitation allowance, - compensating benefit.

			- attendance allowance, - funeral benefit.
attendance	Incapacity, disability	- insurance-based - non-contributory benefit/ pension	- attendance allowance (benefit), -social benefit -old age living allowance (full- or part-time)
against unemployment	Unemployment	- insurance-based - non-contributory benefit/ pension	-unemployment benefit -job-seeker benefits (trainings, re-qualification)

Source: In-house study

A new, effective (meaning: financially sustainable) public social security system should be financed through individual savings (wherein the entitlement to benefits will depend on the funds gathered on individually owned social accounts) and operate as a "communicating vessels system".

Recent literature on social security and social welfare systems highlights rules, goals and effects of the social security system reform; yet, the presented definitions usually regard pension or pension/disability plans only. No concepts of a comprehensive system reform are proposed, as sickness and accident insurances (In the Polish social security system comprising four insurance constituents: pension, disability, sickness and work-related injury/accident. Social security systems in other countries also include other types of insurance, e.g.: parental or attendance.) are looked at as minor constituents of the plan that do not require thorough consideration. This can be explained by the fact that these latter two types of insurance usually operate much more effectively than pension or pension/disability insurances. Such fragmentary analyzing and, consequently, fragmentary reforming of social security systems causes scheme incoherence. Each social security system, both on the macro (as a part of social policy and public finance) and the microscale (with respect to insured entities) should be considered and analyzed as a "communicating vessels system" (the term often used in defining economy, most often global, or economics), where amendments or corrections within one of the constituents affect all other parts (Garbiec,2013).

4.2 Concept of ISSA (Individual Social Security Account)

One of the solutions I propose is the provision of an Individual Social Security Account (ISSA) that would be operated similarly as the individually-owned retirement account implemented in 1999. Individual Social Security Account should encompass pension, disability, sickness and unemployment insurances and should use the formula of payment benefits through individual insurance savings. Adoption and implementation of this new approach would help reduce the pension fund deficit and guarantee the insured that

their contributions paid to the disability, sickness and unemployment funds are not used up for the payment of benefits to other people whose benefit claims are groundless or unjustified. Each insured would have their own ISSA to be used in periods of unfitness for work or unemployment (in cases if the unfitness for work was caused by a work-related injury/accident or a work-related disease, the benefits would be paid out of work-related injury/accident fund created by the contribution payers). The benefit payment scheme operated under the above rules would reduce both the number and volume of benefits and disability allowances. Any unused money gathered on an ISSA would be automatically shifted to the pension fund to increase the amount of a future pension benefit. Previous experience, for example within the operation of accident insurance in the Polish social security system, shows that individualization (or beneficiary-orientation) of the contribution payment has positive effects on transparency and reliability of each social system. Uniting the social protection elements into one coherent social security system and applying the ISSA concept will balance the incomings and expenditures of the social security plan, simplify the procedures and reduce, or even eliminate the fraud and deceit in the near future.

5. Conclusion

After the reform of 1999, the Polish social security system has been incoherent, ineffective and inhomogeneous. The implemented changes caused rapid deterioration of the financial effectiveness of the system instead of the overall improvement which had been emphatically announced by the reformers. If this situation persists and is tolerated, it will be increasingly difficult to prevent financial failure of the Social Security Trust Fund. Recovery measures are required to improve the financial result of the Trust Fund, and system reconstruction in order to enhance the system in a relatively fast and reasonable way. System reconstruction should include parametric and, first of all, systemic changes. Such changes include not only the implementation of a system based on protection of social risks incorporated in the Polish social security system but, in particular, social risks protected by virtue of the social protection system. The extension of the risk catalog, defining methods of financing, applying the tool of "communicating vessels system" and obligatory application of the axioms of commonship and cohesion will improve the effectiveness of the system and balance its elements in a foreseeable time. To get the expected results sooner, systemic changes should be accompanied by parametric modifications, for example: defining different criteria for entitlement to some benefits, changing the methods of benefit calculation or benefit collection periods. However, the benefits and benefit collection periods should not be reduced obligatorily but should be reasonably changed instead so that the Polish citizens receive the benefits sufficient to provide minimum living standards and to meet the criteria defined by the legal acts of the European Union.

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