POLISH PENSIONS – GRAND LARCENY

During my trip to Europe I spent two days in Krakow in Poland just before the country raided the private pension funds.

The Government of Poland did not let the current crisis go to waste. It announced very quietly that it would transfer to the state, i.e. confiscate, the bulk of assets owned by the country's private pension funds, many of them owned by such foreign firms as PIMCO - parent Allianz, AXA, Generali, ING and Aviva, without offering any compensation. In effect, the state just nationalised roughly half of the private sector pension fund assets, although they adninistered a more politically correct name for it: pension overhaul!

As background Poland has a hybrid pension system. Mandatory contributions are made into the state pension vehicle, known as ZUS, and private funds, which are collectively known by the Polish acronym OFE. Bonds make up roughly half the private funds' portfolios, with the rest comprising company stocks. While a change to state-pension funds was long awaited - an overhaul as euphemistically named - nobody expected that this would entail a literal pillage of private sector assets.

Prime Minister Donald Tusk said private funds within the state-guaranteed system would have their bond holdings transferred to a state pension vehicle, but would keep their equity holdings. The funds would effectively be left with only the equities portions of their assets, although even this would be depleted, which will lead to uncertainty about the number of new savers joining.

But why is Poland engaging in behavior that will ultimately be disastrous to future capital allocation in non-public pension funds (the type that can at least on paper generate some returns as opposed to "public" funds which are guaranteed to lose?) This can only be conceived as a last ditch step, which no rational person would undertake unless there were no other option.

The answer is simple: there is no other option! Like many other countries Poland is broke, facing a stark reality check with too much debt.

By shifting some assets from the private funds into ZUS, the government can book those assets on the state balance sheet to offset public debt, giving it more scope to borrow and then spend. Finance Minister Jacek Rostowski said the changes will reduce public debt by about eight percent of GDP. This in turn, he said, would allow the lowering of two thresholds that deter the government from allowing debt to rise over 50 percent, and then 55 percent, of GDP. Public debt last year stood at 52.7 percent of GDP, according to the Government's own calculations.

To summarise:

1. Like many, The Polish Government has too much debt to accumulate any more debt which they have every intention of doing.

2. It has nationalised private pension funds making their debt holdings an "asset" and commingles this with other public assets.
3. The outcome is that the confiscated assets net out the sovereign debt liability, lowering the debt/GDP ratio.

4. As desired, the Governments problems are solved and the Debt/GDP drops below the key threshold allowing Government to issue more sovereign debt.

As Poland utilizes the new window of opportunity, and taps out its new and improved limits, it will have no choice but to confiscate more assets in order to make its balance sheet appear better, until one day, there is nothing left in the private sector to confiscate.

At that point the limit itself will have to be legislated away and Poland will simply continue borrowing until one day there are no foreign lenders willing to take the same risk as the nation's private pensioners are being forced to do. At that point, Poland, which is in the EU but still has the Zloty, can just go ahead and monetise its own debt by printing unlimited amounts of its currency.

The government in Poland is confiscating the pensions allegedly to make them safer, if that is believed, but perhaps more worrying is that this can set a precedent for other countries to follow.

Polish officials have tried to reassure investors, saying the overhaul avoids the more radical options of taking both bond and equity assets away from private funds outright.

End result: The Polish pension funds' organisation said the changes may be unconstitutional because the Government is taking private assets away from them without offering any compensation. Unconstitutional? Wow!

Members who are not already doing so, should ensure that their pensions are out of harm’s way of any possible future nationalisation. Take care and remember also that Governments have their sights well focused on new avenues of capital acquisition. The aftermath of what happened in Cyprus is just the beginning.

I hope Members can clearly see the recent European blueprints for preserving the myth of solvency, which are hailed as bail-ins, but in reality, is plainly theft by confiscating a percentage of bank deposits. As we see pension fund overhauls being added to the equation, this is simply just another confiscation/pilfering. This time it is pension funds which are being swallowed. Be advised that this is going to become a more common occurrence as governments scramble to stay afloat.

Any member concerned about future government moves to confiscate bank deposits, pension plans or savings/investment plans should contact RIO for solutions to avoid this growing trend of government refinancing.

In 2009 the Argentinean government took a similar stance. The problem is not new.

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