

*Małgorzata Marzec\**

*Agnieszka Szczudlińska-Kanoś\**

## **THE LEVELS OF TRUST IN THE PENSION SYSTEM: A POLISH PERSPECTIVE**

### **Abstract**

Public discussions on the Polish pension system clearly indicate the need for further reforms. Numerous studies show that the majority of Poles negatively assess the entire pension system and the activities of individual entities associated with it. With a low level of acceptance of the rules of the pension system and a lack of trust in it, it is difficult to count on the tendency to save citizens for the post-production period, which in the case of the ubiquitous demographic crisis seems to be a priority task for the authorities of all European Union countries. Changes to the pension system should be implemented in conditions of strengthening trust, which can be achieved, inter alia, by building trust in individual institutions, products and the entire system. The aim of the article was to analyse the levels of trust in the Polish pension system. An attempt was made to systematise the determinants shaping trust based on the analysis of Polish conditions. The article was prepared on the basis of a literature review on trust and the pension system.

Keywords: pension system, trust, pension institutions

### **Introduction**

The pension system is a kind of contract between citizens and the state, which, in accordance with the applicable provisions of law, is obliged, among others, to perform tasks pertaining to social security. It is already the preamble of the Constitution

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\* Faculty of Management and Social Communication, the Jagiellonian University.

of the Republic of Poland of 1997 that states the fundamental rights, based on the principle of subsidiarity, according to which the state should intervene into a citizen's life when they are unable to satisfy their own needs. Taking into account the functioning of the state and its citizens, it is essential that future generations have confidence in the pension system. The need to secure the future in the case of limited professional activity is one of the basic human needs. Only the certainty of citizens that the savings accumulated for retirement in the course of the working age will protect individuals in economic and social terms, minimize the risk of deprivation in their old age and have a direct impact on the amount of future benefits, may boost confidence in the pension system.

Due to the fact that social security as well as trust in the pension system or social risk receive a divergent treatment in the literature, for the needs of the given publication these terms always require defining. This article recognizes that social security is an idea whereby the society, as a result of a contract based on defined values, through the state and allied sectors, in the case of specific risks caters for basic needs of citizens who, through no fault of their own, are unable to provide themselves with a certain standard of living through their own professional activity and resources. In particular, social security for older people comprises all activities of institutions operating in all sectors of the economy (with a special role of the state and pension system) aimed at guaranteeing a proper quality of life to citizens who, due to their age, are unable to guarantee it with their own work. Social risk is a "threat of a contingency, the occurrence of which will result in a loss in owned or expected household resources"<sup>1</sup> included in the classic catalogue of social risks (threats) in the Recommendation by International Labour Organization (ILO) of 1944 and including, among others, the risk of sickness, maternity, invalidity, death of breadwinner, employment injuries, unemployment, emergency expenses and old age.<sup>2</sup>

Trust in the pension system has been defined as an expectation according to which trustees (individuals who are professionally active and transferring funds to the pension system) expect benefits to be paid after retirement when certain conditions are met. The main purpose of pension systems is to implement the income function, i.e. to protect an individual from a lack of means of subsistence at the end of life by receiving a pension.<sup>3</sup> The pension is a replacement income, a long-term benefit paid

<sup>1</sup> T. Szumlicz, „Szkoła” ubezpieczenia społecznego – założenia teoretyczne i konsekwencje praktyczne, Warszawa 2001, p. 8.

<sup>2</sup> Recommendation No. 67 Recommendation concerning Income Security, [in:] *Convention and Recommendation Adopted by the International Labour Conference 1919–1966*, Geneva 1966, pp. 461–470.

<sup>3</sup> T. Zieliński, Nowe emerytury – samoubezpieczenie na starość, [in:] T. Bińczycka-Majewska (Ed.), *Konstrukcje prawa emerytalnego*, Kantor Wydawniczy Zakamycze 2004, p. 15.

after the post-production period. The purpose of this benefit is to replace one's previous earnings and provide a source of satisfaction for one's needs after a period of professional activity. Persons who are in employment transferring funds to the pension system should believe that in the future they will be paid benefits that will enable them to function at a dignified level during retirement.

It seems interesting to analyse factors that may determine trust in the pension system and thus the behaviour of Poles in pension decisions. Particularly in the case when cooperation-relationship takes place from a long-term perspective, it is important that the cooperating entities have the certainty of achieving the set goals at the very beginning of the relationship. It appears significant to systematize the concept of trust and to determine the areas of its formation in relation to the pension system. The aim of the present study, which is of descriptive and review nature, is to analyse the levels of trust in the Polish pension system and to determine the ways and factors of its construction. An analysis of trust can contribute to better understanding of the activities of entities operating in the pension system and insurance products offered under the pension system. Considering the purpose of the article, the considerations regarding the pension system refer in particular to the years 1998–2018.

## **Changes in the Polish pension system as a factor affecting the trust of citizens in saving for the future**

Increasing citizens' savings, especially in the long term, is a considerable challenge for authorities in all countries of the world. Achieving the long-term goal is possible under stable institutional conditions, which may reduce the confidence deficit that encourages people to consume today rather than think about uncertain savings for retirement.<sup>4</sup> In Poland, numerous, often very deep and controversial modifications of the pension system, being implemented for decades, adversely affect citizens' trust and their willingness to save for the post-working age.

After the Second World War, the unstable situation of public finances made it impossible to gather and accumulate capital for the sake of future profits, including pensions. The need to acquire and pay out the existing financial resources was so extensive that it was decided to implement changes in the pension system and the then functioning system in large part of the capital was converted into a pay-as-you-go system. In addition, the contemporary political system of Poland, in which

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<sup>4</sup> Ibidem, p. 17.

private property was limited, did not allow for even a partial capitalization of the pension system. The new system, with a defined contribution, was characterized by an ongoing flow of funds between the generation of children and the generation of parents. Individuals in employment paid part of the remuneration – a contribution to the joint fund, from which benefits were paid on an ongoing basis.

Although for several decades efforts had been made to improve the existing system and implement numerous changes, which mainly involved combining or separating public finances from the funds accumulated within the social security system, it was not possible to stabilise the situation and provide the necessary funds. At the beginning of the 1980s, it was decided that larger funds would be obtained from the society. Thus, the process began of a gradual but very dynamic rise of the insurance premium, which by that time had been uniform. In the years 1981–1998, the premium increased from 15.5% up to 45% and its payment was due exclusively by employers, who in a relatively short period experienced an increase in labour costs, which, in turn, stimulated the development of the grey economy. The pay-as-you-go system also had a number of other disadvantages: it did not stimulate economic growth; it was characterized by a low level of domestic savings, low investment efficiency and inefficient allocation of public resources; and because of decoupling the amount of benefit from contributions it encouraged payment evasion and professional deactivation. On the other hand, this system generated lower operating costs, offered greater resistance to the economic downturn and inflation, and, which is important from the point of view of trust, guaranteed higher social security, which in the post-war period was of utmost importance for the society. In the citizens' opinion, the risk of insolvency of benefits basically ceased to exist, which obviously proved not to be true.

Quite soon, as early as at the end of the twentieth century, it turned out that the system of uniform contribution, similarly to other countries, did not work in the times of the then growing demographic crisis. In the mid-1990s, people began to think about the introduction of a typically capital part of the pension,<sup>5</sup> which would reduce the risk related to the unfavourable demographic trends. In 1998, the Act on the social insurance system<sup>6</sup> and the Act on pensions and invalidity pensions from the Social Insurance Fund<sup>7</sup> were passed, and the implementation of the new regulations resulted in the transition from the predominance of the maintenance system to the dominance of the insurance system, i.e. the change of the pay-as-you-go system into

<sup>5</sup> See M. Orenstein, *Prywatyzacja emerytur. Transnarodowa kampania na rzecz reformy zabezpieczenia społecznego*, PTE, Warszawa 2013, p.147 and ff.

<sup>6</sup> The Act of 13 October 1998 on social insurance, Journal of Laws 1998, No. 137, item 887, including further amendments.

<sup>7</sup> The Act on pensions and invalidity pensions from the Social Insurance Fund, Journal of Laws 1998, No. 162, item 1118, including further amendments.

a mixed – partly capital – system, which since January 1, 1999, after a few quite thorough transformations, has actually been operating in Poland until now.<sup>8</sup>

The main goal of the reform was to reduce the risk of system insolvency in the long term. The modifications were to increase the financial security of citizens and awareness of the need to save for the future.

The implemented reform meant that the burden of responsibility for pensions was partly passed on to the citizens themselves, and indirectly to private institutions functioning under the second and third pillars of the pension system. Introducing the capital part of the pension and strengthening the insurance model, in which the future performance is determined by the amount of the premium, were intended to motivate the society to undertake employment and pay contributions from the entire remuneration. In addition, the new system, through the abolition of privileges for specific professional groups, was to fight social inequality and strengthen confidence in it and, thanks to the elimination of early retirement options, was supposed to positively impact the extension of the working age.<sup>9</sup>

The system reform of 1998 introduced numerous changes. Firstly, the premium was divided and the financial resources from the previously uniform imposition were fragmented and at certain percentage rates in relation to the average remuneration, redirected to four main funds – retirement, disability, sickness and accident insurance. Secondly, the premium was to be paid, in various proportions, by both the employee and the employer. Thirdly, three pillars were created, two of them capital-related. The first pillar – pay-as-you-go was and still is obligatory. The benefits it pays out are financed mainly from current contributions and from the budget and are managed by the Social Insurance Institution (ZUS). The second pillar until 2014 had been compulsory for individuals born after 1969 and for those born between 1949 and 1969 who opted for paying contributions to the capital retirement pension. This pillar is still of capital character and funds are transferred to Open Pension Funds (OFE). Since the 2015 parliamentary elections, works on gradual termination of OFE have been underway. In 2018, it was decided to create Employee Capital Plans (PPK), which are supposed to replace the existing funds. The draft Act on PPK was adopted, assuming the creation of a private and voluntary system for collecting retirement savings. The scheme is to involve employers, employees and the state. The reform is to enter into force starting 1 January 2019, and from 1 July 2019

<sup>8</sup> Cf.G. Uściska, *Świadczenia z zabezpieczenia społecznego w regulacjach międzynarodowych i polskich*, IPISS, Warszawa 2005, pp. 207–240.

<sup>9</sup> E. Gubernat, *Stabilny system emerytalny w świetle reformy emerytalnej z 1999 roku*, [in:] F. Chybalski, I. Staniec (Eds.), *10 lat reformy emerytalnej w Polsce. Efekty, szanse, perspektywy i zagrożenia*, Monografie Politechniki Łódzkiej, Łódź 2009, p. 10.

it will apply to the largest entrepreneurs, i.e. employing more than 250 employees. Then, it will gradually include more employers – employing more than 50 people (from 1 January 2020), over 20 people (1 July 2020), with other entities and units of the financial sector – from January 1, 2021. Ultimately, every employer will be obliged to run PPK. The bill assumes that only companies with already established Employee Pension Programmes with employee participation no less than 25 per cent and with premiums of at least 3.5 per cent will be exempt from the introduction of PPK.

As part of the Employee Capital Plans, premiums are to be financed by both the employer – 1.5% of remuneration (with the possibility of additional contributions not greater than 2%) and employee – 2% of remuneration (with the possibility of a voluntary increase of 2.5%). It was assumed that individuals earning less than 120% of the minimum wage will be able to reduce the premium to 0.5%.

In order for the Employee Capital Plans to gain popularity, the legislator decided to introduce incentives – a one-time “welcome” payment in the amount of PLN 250 from budgetary funds and annual subsidies in the amount of PLN 240. In order to encourage saving in PPK, the government is to deposit between 35 and 40 billion PLN within 10 years. Society, however, should be sure that these funds will not, for example, be obtained from higher taxes or other mandatory fees.<sup>10</sup> Amounts disbursed to PPK will be exempted from social security contributions and from Belka’s tax. The payment of the collected funds is to take place after the age of 60, when 25% of the savings will be paid in a single payment and the remaining part in 120 monthly instalments. It is worth emphasizing that the funds accumulated on the account will be inherited by the persons indicated by the saver according to the inheritance law.<sup>11</sup>

At present, apart from the first, typically pay-as-you-go pillar, expiring OFE and new PPKs, there is also a third, voluntary capital pillar functioning as an optional source of retirement benefits, to which, according to the latest data, funds accumulated under the second pillar are to be transferred. Nowadays, the third pillar covers additional savings within the framework of: Employee Pension Programmes (PPE), which have been in operation since the introduction of the reform; Individual Pension Accounts (IKE) created in 2004, or Individual Pension Security Accounts (IKZE), which were established in 2011. Despite numerous incentives,<sup>12</sup> the participation of Poles in the third pillar can be considered as negligible.

<sup>10</sup> See J. Solska, *Cztery filary niewiary. Jak Polacy mają zaufać państwu i oszczędzać w PPK?*, “Polityka” No. 35/2018; <https://www.polityka.pl/tygodnikpolityka/rynek/1761882,1,cztery-filary-niewiary-jak-polacy-maja-zaufac-panstwu-i-oszczedzac-w-ppk.read> (retrieved on: 30.8.2018).

<sup>11</sup> <http://pracowniczeplanykapitalowe.org.pl/> (retrieved on: 30.8.2018).

<sup>12</sup> E.g.: in the case of IKE – no need to pay tax on profits after reaching a certain age and fulfilling other detailed conditions of the contract, and in the case of IKZE – the possibility of deducting a certain amount from income in the annual tax return.

According to the data of the Polish Financial Supervision Authority, at the end of 2017 951.6 thousand people had IKE, which constituted 5.8 per cent of the number of the working people, but the percentage of active accounts over the year amounted to merely 33 per cent (313,662 accounts). IKZE, on the other hand, was owned by 691 thousand people, which accounted for 4.2% of the number of the working people, of which only 28.7 per cent of accounts (198.1 thousand) were operated by savers.<sup>13</sup>

In recent years, the stabilization of the pension system has additionally been undermined by introducing modifications in the retirement age. January of 2013 saw a rise in and equalization of the retirement age of women and men. It was planned that retirement at the same level, at the age of 67, would be achieved for men in 2020, and for women in 2040. The new regulations included women born after December 31, 1952, and men born after December 31, 1947. On 1 October 2017, however, a new set of regulations came into force, restoring the age of the previous retirement age – 60 years for women and 65 years for men. Until December 1, 2017 up to 350,000 people applied for retirement benefits. The Social Insurance Institution (ZUS) had expected that the year of 2017 would see slightly over 300,000 applications.

After almost two decades of operation, it turned out that the changes made in the following years again brought the system closer to the pay-as-you-go model, in which individual savings collected outside the Social Insurance Fund are not of primary importance. The assurances of “retiring to a tropical paradise” accompanying the implementation of OFE turned out to be untrue and greatly undermined the citizens’ trust in the system. It is not surprising, therefore, that professionally active people do not intend to save additional financial resources in institutions established for this purpose and supervised by the state. They are unsure whether in a dozen or so years they will function and if so, in what form. In addition, the citizens’ concerns are aroused by the ZUS financial statements, which do not inspire optimism.

## Trust in the pension system vs. the definition of trust

There is a growing interest in the analysis of trust in the literature. Many studies concur that trust is necessary in a situation involving uncertainty, a lack of security of results and risk. Confidence is an emotion (a mental state) displayed to objects,

<sup>13</sup> Individual Pension Accounts and Individual Retirement Security Accounts in 2017, Office of the Polish Financial Supervision Authority, Department of Investment Funds and Pension Funds, Warszawa 2018, [https://www.knf.gov.pl/knf/pl/komponenty/img/IKE\\_IKZE\\_12\\_2017\\_61392.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/IKE_IKZE_12_2017_61392.pdf) (retrieved on: 20.4.2018).

people and institutions such as enterprises, governments or society. Confidence means being ready to undertake activities based on the expectation (intent or behaviour) that the other party will act in a way beneficial for us, or, more precisely, will do no harm to the trusting person. Building trust allows cooperation between individual cooperating entities. Trusting parties can cooperate and achieve their goals more easily. According to Mayer, trust can be defined as “a willingness of one party to become dependent on the other party’s actions based on the expectation that the other party will perform certain actions independently of monitoring and controlling its activities”.<sup>14</sup> Table 1 contains a summary of the definitions of trust.

Trust is a concept analysed under several scientific disciplines. It is understood as “certainty; hope; conviction or set of beliefs; predisposition; situational, structural or interpersonal variable, a variable of a social relation of trusteeship”.<sup>15</sup> For the purposes of this study, it is worth quoting the definitions by two researchers. The first one is put forth by P. Sztompka, who claimed that “we put trust in a person – an entity we believe will advise us well, thinking about us and not about themselves”.<sup>16</sup> The second one emphasises the concept of trust as an advantage. Its author is R. Hardin, who argues that “trusting someone means believing that this person is guided by good intentions and that they are capable of what we expect from them”.<sup>17</sup> Trust is currently being analysed as an element of a relationship that can be actively shaped by various entities. Regardless of the analysis, trust is characterised by the relationship of two parties, i.e.: the trusted party (the assessed one, so-called trustee) and the party placing trust (the one making the assessment, the so-called trustor). The subjective feeling of trust is the result of the experience collected by the recipient and may change as a result of the development of the relationship.<sup>18</sup> Sankowska indicates that trust can be understood as acceptance of sensitivity to the partner’s actions in a situation of uncertainty and risk. Trust is associated with the positive expectation that the other side of the relationship will not work opportunistically.<sup>19</sup> The consequence of trust is the willingness to take risks by interacting with the other party. In the case

<sup>14</sup> R. Mayer, J. Davis, F. Schoorman, *An Integrative Model of Organizational Trust*, “The Academy of Management Review” July 1995, Vol. 20, No. 3, pp. 709–734, p. 712.

<sup>15</sup> D. Lewicka-Strzałecka, *Zaufanie w relacji konsument – biznes*, “Prakseologia” 2003, No. 143, p. 2.

<sup>16</sup> P. Sztompka, *Zaufanie. Fundament społeczeństwa*, Wyd. Znak, Kraków 2007, p. 69.

<sup>17</sup> R. Hardin, *Zaufanie*, SIC, Warszawa 2009, p. 25.

<sup>18</sup> M. Łada, *Zaufanie jako istotny społeczny aspekt rachunkowości*, “Zeszyty Naukowe Uniwersytetu Szczecińskiego No. 873, “Finanse, Rynki Finansowe, Ubezpieczenia” No. 77(2015), Szczecin 2015, p. 132; file:///C:/Users/mm/AppData/Local/Packages/Microsoft.MicrosoftEdge\_8wekyb3d8bbwe/TempState/Downloads/FRFU-77-131%20(1).pdf (retrieved on: 30.8.2018).

<sup>19</sup> A. Sankowska., *Zaufanie w łańcuchu dostaw – determinanty, typy i konsekwencje*, “Studia Ekonomiczne Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach”, No. 217(2015), pp. 19–30, p. 20, Katowice 2015; [https://www.ue.katowice.pl/fileadmin/\\_migrated/content\\_uploads/02\\_19.pdf](https://www.ue.katowice.pl/fileadmin/_migrated/content_uploads/02_19.pdf) (retrieved on: 10.9.2018)



of trust, the act of entrustment involves undertaking activities related to the expectation that people and institutions will act in a way beneficial for us. Trust is always connected with the belief that the other side of the relationship is honest towards a given entity in its intentions and actions.

**Table 1. Definitions of trust**

Content	Source
'Trust... is accepted vulnerability to another's possible but not expected ill will (or lack of good will) toward one.'	Baier (1986) p. 259
'Trust is the conviction that the actions taken will lead to achieving the set goals and gaining benefits for all stakeholders.'	Bugdol (2010) p. 16
'The end state of a situation in which an 'individual or group (a) makes good-faith efforts to behave in accordance with any commitments both explicit and implicit, (b) is honest in whatever negotiations preceded such commitment and (c) does not take excessive advantage of another even when the opportunity is available.'	Cummings, Bromley (2008) p. 303
'Trust is the reliance by one person, group, or firm, upon a voluntarily accepted duty on the part of another person, group or firm, to recognize and protect the rights and interests of all others engaged in a joint endeavour or economic exchange.'	Hosmer (1995) p. 392–393
'Confidence in an exchange partner's reliability and integrity.'	Morgan, Hunt (1994), p. 23
'Trust is a three-dimensional relationship between the trustee (subject or object of trust), trustor and Q reference space (feature, conditions).'	Nieścior (1999)
'... is one party's willingness to be vulnerable to another based on the confidence that the other is benevolent, reliable, competent, honest, and open.'	Tischannen-Morgan (2001) p. 318

Source: Based on C.S. Burke, D.E. Sims, E.H. Lazzara, & E. Salas, *Trust in leadership: A multi-level review and integration*, "Leadership Quarterly" 2007, Vol. 18(6), 606–632, pp. 608–609; B. Mikula, A. Pietruszka-Ortyl, *Organizacje sieciowe*, "Zeszyty Naukowe Akademii Ekonomicznej w Krakowie" 2006, No 715, p. 219 and A. Sankowska, *Wpływ zaufania na zarządzanie przedsiębiorstwem*, Difin, Warszawa 2011., pp. 31–37.

Trust in the pension system is closely related to the evaluation by people in employment of the possibility of receiving certain benefits once the period of professional activity is over. Future pensioners should accumulate savings in pension institutions without worrying about their functioning and profitability. At present, however, there is a lack of faith and certainty that in a dozen or so years these institutions will exist and funds will be paid out with contractual and due interests. The situation is similar when the entitlements to benefits overlap. Employees with several entitlements usually limit the payment of insurance premiums only to those obligatory ones.

As it appears from the above, there is a lack of consensus on the definition of trust, which is a consequence of a multi-level approach towards it. Most authors, however, agree on the issue of their understanding of trust. First of all, trust is a common phenomenon regarding a variety of relationships and circumstances (conditions) among entities. Secondly, trust is not regulated by law, i.e. there are no regulations that could

shape trust. There can only be legal norms regulating conditions conducive to the creation of trust. Thirdly, trust is a subjective phenomenon, with each entity having to individually assess the value of this type of resource.<sup>20</sup> One could also indicate other determinants shaping trust such as:<sup>21</sup>

- one cannot invest in trust just like in other resources, expecting to gain benefits;
- trust is comprehensive and cannot be abused by individuals, entities or systems that are in its possession;
- trust is characterized by voluntariness – it is the consequence of free choice, no one can be forced to trust;
- trust is, however, conscious – each side of the relationship is aware of the trust of the other party;
- it is a dynamic value that changes over time – trust evolves with the development of relationships, cooperation between entities and depending on different conditions;
- it is difficult to exchange trust for other categories; meanwhile, trust is not complementary to other values;
- trust is not subject to erosion, but once gained it is not a permanent category, it should be garnered (shaped) and it is not possible to purchase it;
- trust is based on communication, but trust can also be built on one's own or others' experiences;
- trust can be of various nature, it can characterize specific people, institutions and relationships between different entities.

The level of trust depends on the characteristics of a given community (the so-called tendency to trust) and the moral principles of the communities in question. Trust arises as a result of complex interactions, creating trust networks, strengthened by the history of contacts and common standards for a given group. In the literature, you can find different levels of trust analysis, according to which trust is perceived as:<sup>22</sup>

- *Disposition (individual expectations)*, related to the subjective attitude towards the other party. It involves making a certain assessment or predicting certain activities. It is connected with entrusting, giving up control for trust, faith in the stability of social order, competences and standards of people we entrust to.

<sup>20</sup> P. Skowron, *Zaufanie i ryzyko jego utraty jako determinanty współczesnych przedsiębiorstw*, "Zarządzanie i Finanse – Journal of Management and Finance" 2016, Vol. 14, No. 3/2/2016, pp. 218–220.

<sup>21</sup> Based on B. Mikuła, A. Pietruszka-Ortyl, *Organizacje sieciowe*, "Zeszyty Naukowe Akademii Ekonomicznej w Krakowie 2006, No. 715.

<sup>22</sup> D. Lewicka, K. Krot, D. Książek, *Metodyczne aspekty badania zaufania w naukach zarządzania*, "ZN Uniwersytetu Ekonomicznego" 2016, 7(955), pp. 41–56; W. Grudzewski, I. Hejduk, A. Sankowska, M. Wańtuchowicz, *Zarządzanie zaufaniem w przedsiębiorstwie*, Wolters Kluwer, Kraków 2007, p. 22.

- *Emotion* shown to various recipients of trust, associated with the belief that a trusted person (entity) has good intentions and is able to do what we expect of them.
- *Decision, or intention*, related to relying on a certain object of trust (subject or object), which makes the trustee dependent on the other party.
- *Behaviour* that comes from entrusting to the other party.
- *Social structure*, where trust has not only an individual but also social character.

With regard to the pension system the role of trust arises from people's future-orientation.<sup>23</sup> In this case what seems particularly significant is the unpredictable risk individuals must take in relation to their future. One can consider trust against the backdrop of the whole pension system, individual organizations (institutions) operating in the system, or products offered within the system. The pension system, as such, is characterized by a high level of uncertainty as to the results of the system's operation. Future pensioners are forced to believe that specific actions defined under the system will be taken in the future. It is also expected that entities operating under the system will act in the interests of the insured according to certain predetermined rules. Thus, individuals (future pensioners) are forced to make decisions amid uncertainty, with no predictable consequence. The uncertainty results from the inability to predict the actions of other persons or entities and to control changes occurring in the future. Therefore, regarding the pension system, trust can be treated as a "calming measure" for the uncertainty of the results of the pension system. However, it is not able to reduce uncertainty; it can enable action despite the existence of uncertainty.<sup>24</sup> It would be worth considering who needs trust and on what levels this trust can be built in the pension system.

Based on the analysis of the concept of trust and the determinants of its formation, one can attempt to define trust in the pension system. According to the authors, trust in the pension system may be associated with the positive expectation (faith) of the insured (future pensioners) that the other party (the pension system, institutions representing the system as well as pension products) will operate in such a way that it will ensure payment of benefits after retirement. It should be noted that participation in the Polish pension system is of diverse nature. Nevertheless, participation in the pension system should always be linked to trust, regardless of the type of participation. Trust should apply equally to institutions operating under compulsory forms

<sup>23</sup> P. Sztompka, *Zaufanie. Fundament społeczeństwa*, Wyd. Znak, Kraków 2007, pp. 64–65.

<sup>24</sup> J. Beckert, Trust and markets, [in:] R. Bachmann & A. Zaheer (Eds.) *Handbook of Trust Research*, Edward Elgar, Cheltenham, UK 2006; A. Koźmiński, *Zarządzanie w warunkach niepewności*, Wyd. Naukowe PWN, Warszawa 2004, pp. 13–34; B. Nooteboom, *Trust: forms, foundations, functions, failures and figures*, Edward Elgar Nooteboom, Cheltenham, UK 2002; A.K. Koźmiński, D. Latusek-Jurczak, *Zaufanie i nieufność w podejmowaniu decyzji*, "Decyzje" 2011, No. 16, p. 30.

of participation – the first pillar (ZUS) as well as other institutions offering pension products under the second and third insurance pillars (OFE, PPK, IKE, IKZE, etc.).<sup>25</sup>

## Levels of analysis of trust in the pension system

Trust can be analysed both in relation to the pension system, as well as entities operating and products offered within the system. Entities utilising the pension system (working individuals, pension institutions) should be aware of the risk of quality of life after retirement. The working age population should believe that the pension system operates in a way that will guarantee them secured financial resources for retirement. The problem remains, however, to what extent the Polish pension system can offer this assurance. The literature provides a description of the following issues (problems) regarding trust in the pension system:<sup>26</sup>

- The pension system is complex and individuals who are within the working age range may have different levels of access or ability to understand the principles governing the system. One can observe a variety of models of managing information about the pension system used by various working people.
- The stability of the pension system is conducive to increasing trust. Clear rules of changes in the pension system are important, regardless of political decisions.
- Most people delay thinking about the future, especially regarding the time of retirement. This results in a lack of researching the pension system and its products as well as an ambivalent attitude to the issue of securing funds for the time of professional inactivity.
- Decisions regarding savings and pensions are not fully rational. They are also influenced by emotional factors and social feelings related to the political actions of the authorities.
- People need knowledge about the principles of the pension system and its products. However, there is an asymmetry of information between future pensioners and pension products. People need to apply the knowledge of experts, which creates the need to build trust in this type of authority figures or institutions.

<sup>25</sup> The topic of the article is the separation of the levels of trust in the pension system in general. The authors are aware that additional elements may shape trust in individual pillars of the Polish pension system, however, this is not the subject of this article's analysis.

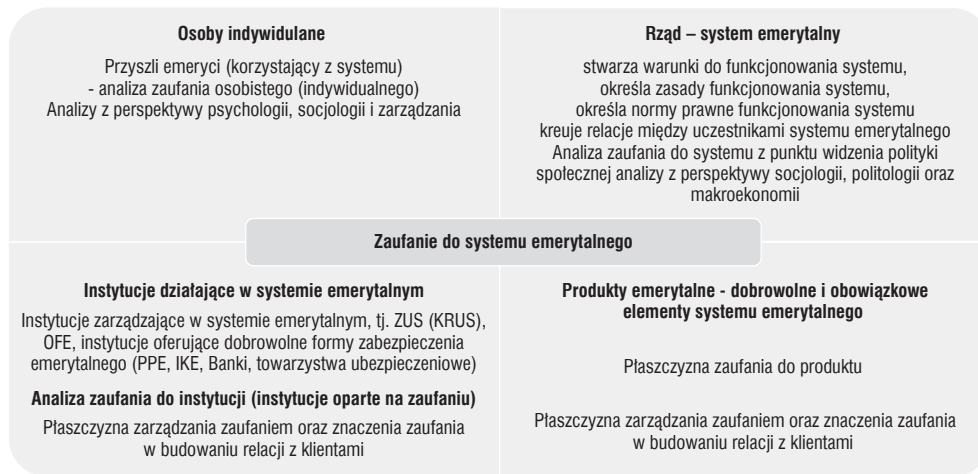
<sup>26</sup> Based on: S. Vickerstaff, J. Macvarish, P. Taylor-Gooby, W. Loretto, T. Harrison, *Trust and confidence in pensions: A literature review*, Working Paper no 108, DWP Department for Work and Pensions, Universities of Kent and Edinburgh 2012, p. 17. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214405/WP108.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214405/WP108.pdf) (retrieved on: 30.10.2017).

- There is a social debate about the crisis of trust in financial products in general. Headlines are full of financial scandals, the unreliability of financial institutions or cases of dishonesty in the financial services sector. This results in a decrease in general trust, especially in relation to the financial system and individual institutions operating within it, which also applies to the pension system and its institutions.
- It is much easier for people to trust the institution they already know, i.e. they have had experience (contact) with, than the institution that promises uncertain benefits in the long-run, regarding payments of capital or retirement benefits.
- When selling pension products, it is important to distinguish the advisory process from the product sale process. There should be, if possible, a clear separation of the stage of advising on the purchase of a pension product from its sale. It is important to clearly separate the benefit for the seller of the product offered from the profits received by the buyer of pension products. It is connected with the process of shaping trust in financial advisors.
- In the face of making decisions regarding future investments people may feel inert and unwilling.
- It is worth emphasizing the crucial role of educational and investment activities undertaken by the state institutions regarding the pension system.

Figure 1 presents the level of analysis of trust in the pension system from the point of view of various components of the system. One may distinguish four areas: individuals using the system; the government, which creates conditions for the functioning of the pension system; institutions (entities) operating in the pension system and pension products (characterized by compulsory or voluntary purchase).

Trust in the pension system should be considered from different standpoints. Individual trust can be widely analysed from the point of view of general trust and confidence. This issue is broadly discussed in psychological literature as well as in the field of sociology and management. In addition, one needs to bear in mind that government institutions create conditions for the system to function, define the operating principles and legal norms of this system, as well as create relations between individual participants of the given system. Therefore, a separate analysis is required with regard to trust in institutions functioning in the pension system, which could be found in many studies from the field of management, analysing institutions based on trust and the principles of building trust in relations with recipients. Finally, it is of utmost importance to analyse trust in pension products. In this case the analysis may be dependent on the purchase rules or the characteristics of individual products. It stems from the above that the analysis of trust in the pension system is not straightforward and should be compiled comprehensively since numerous levels of relations and dimensions of trust can be delineated.

**Figure 1. Levels of analysis of trust in the pension system from the point of view of system components**



**Key** (from the left to the right):

<p><b>Trust in the pension system</b></p> <p><b>Individuals</b> Future pensioners (using the system) – analysis of personal (individual) trust Analyses from the point of view of psychology, sociology and management</p> <p><b>Government – pension system</b> creates conditions for the functioning of the system, sets the legal norms, creates relations between the participants of the pension system. Analyses of trust in the system from the point of view of social policy, sociology, political science and economics</p> <p><b>Institutions operating in the pension system</b> Institutions operating in the pension system, i.e. ZUS (KRUS), OFE, institutions offering voluntary forms of pension security (PPE, IKE, banks, insurance companies) Analysis of trust in institutions (institutions based on trust) The level of trust management and the importance of trust in building customer relationships.</p> <p><b>Pension products – voluntary and obligatory components of the pension system</b> The level of trust in the product The level of trust management and the importance of trust in building customer relationships</p>
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Source: Based on S. Vickerstaff, J. Macvarish, P. Taylor-Gooby, W. Loretto, T. Harrison, *Trust and confidence in pensions: A literature review*, Working Paper no 108, DWP Department for Work and Pensions, Universities of Kent and Edinburgh 2012, p. 17, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214405/WP108.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214405/WP108.pdf) (retrieved on: 10.10.2017).

An interesting combination of determinants of building trust can be found in the study by McKnight and Chervany.<sup>27</sup> The authors have pointed out that most

<sup>27</sup> D. McKnight, N. Chervany: Trust and Distrust Definitions: One Bite at a Time, [in:] R. Falcone, M. Singh, and Y.-H. Tan (Eds.): *Trust in Cyber-societies*, Volume 2246 of Lecture Notes in Computer Science, Springer-Verlag Berlin Heidelberg 2001, pp. 27–54; <https://pdfs.semanticscholar.org/b482/28cc730f-d1e4bd841033a4ea2889b5000753.pdf> (retrieved on: 10.3.2017).

often the category of trust is defined by the analysis of, among others, the tendency to trust, institutions based on trust, as faith in certain outcomes and intentions and by trustworthy actions. On the basis of such conditions, an attempt may be made to build a model of trust in the pension system presented in Figure 2. The confidence in the pension system consists of both institutional trust and interpersonal trust. It is important to distinguish between general trust and trust, in particular, situations (relationships) as well as various elements of the system (specific objects).

Figure 2. Model of trust in the pension system

Trust in the pension system vs levels of trust analysis				
Trust in institutions		Trust in people (interpersonal trust)		
General trust	Trust in a given situation or in the structure (towards particular components of the system, towards relations)	Trust in specific objects Trust in specific relations		
Willingness to trust	Institutions based on trust	Trust as faith in specific results (effects of the system)	Trust as faith in specific intentions	Trust based on actions
Operational level				
Trusting attitudes General level of trust (trust towards strangers)	Structural security Norms building trust (existence of norms and rules creating conditions for the creation of trust)	Based on analysis: competences, kindness, honesty, predictability	Readiness for dependence on the other party. Subjective dependency on the other party	<ul style="list-style-type: none"> <li>• Cooperation</li> <li>• The quality of information provided</li> <li>• Creating formal agreements</li> <li>• Diminishing control</li> <li>• Handling contributions</li> <li>• Building autonomy</li> <li>• Developing transactions-relations</li> </ul>
Shaped by				
Pension awareness	Knowledge about the pension system and its products	Risk of old age, other risks regarding the pension system	Macroeconomic conditions (inflation, capital market, economic growth) Demographic conditions	

Source: Own elaboration based on D. McKnight, N. Chervany: Trust and Distrust Definitions: One Bite at a Time, [in:] R. Falcone, M. Singh, and Y.-H. Tan (Eds.): *Trust in Cyber-societies*, Volume 2246 of Lecture Notes in Computer Science, Springer-Verlag Berlin Heidelberg 2001, p. 48; <https://pdfs.semanticscholar.org/b482/28cc730fd1e4bd841033a4ea2889b5000753.pdf> (retrieved on:10.3.2017).

The tendency to trust is connected with trustful attitudes and the general level of trust, which should also be accompanied by the readiness of the trustee to become dependent on the trusted entity. If the trustor demonstrates trust, it means that they are ready to resign from controlling the other party's actions and believe that the trusted entity will not harm them. Also, confidence in the pension system is shaped by the general level of trust among people in a given area. It depends on numerous factors described in detail in the literature. Intentional trust (trust as a belief in specific

intentions) is related to the trust exhibited by the trustor regarding a lack of negative consequences resulting from trusting the trustee. Future pensioners need to be certain that they will benefit in the future from their participation in the pension system. On the one hand, it is shaped by the readiness to become dependent on the other party (at this point, it is worth indicating, for example, the nature of participation in the entire pension system or in its individual pillars and general pension awareness). On the other hand, it depends on the subjective dependence, built on the basis of knowledge about the pension system and its products, and reliant on macroeconomic conditions.

The model also indicates the characteristics of trust-based organizations. On the one hand, it is related to the existence of structural safeguards, conditioned by legal norms, where the importance of legal provisions defining the principles of the pension system and their institutions is recognised. On the other hand, it is essential to have certain standards and principles shaped by individual institutions operating in the system. Pension institutions should themselves pay attention to creating the conditions necessary to build their trust. The above model analyses several organizational features, such as competence, kindness, honesty and predictability.

The model also presents behaviours that can be classified as trustworthy. These include: cooperation, quality of information provided, building formal agreements, reducing control, taking receipts, building autonomy and developing transactions – relations. Individual behaviours may be analysed from the point of view of the entire pension system, its institutions and future pensioners.

Trust consists in believing and expressing it in the future, through active action, and not just the belief and passive consideration of future possibilities. This aspect of the future is embedded in the definition of trust. Professionally active (future pensioners) take actions that cause uncertain and unmanageable consequences. Trust must arise in the conditions of dependence between the trustor and trustee, with the awareness of a certain risk.<sup>28</sup> In fact, trust fulfils several essential roles. It helps to set a long-term perspective of decisions (relations), is a control mechanism (in fact, it limits control) and is an element of rational decisions (makes it possible to take decisions with uncertain future conditions). Separation of individual levels creates the basis for a thorough look at trust in the pension system.

<sup>28</sup> Grudzewski W., Hejduk I.K., Sankowska A., Wańtuchowicz M., *Zarządzanie zaufaniem w organizacjach wirtualnych*, Difin, Warszawa 2007, p. 36.



## Conclusion

Trust is an abstract, subjective and multidimensional concept that proves difficult to describe and examine (especially in determining its value). Most authors dealing with trust indicate that it causes an escalation of risk and giving up defence mechanisms (controlling the actions of the trustee or verifying the effect of the purchased product). The expectation is that the other party (the pension system, pension institutions, pension products) will comply with applicable social standards and will bring benefits, not losses for the beneficiary (future pensioner). Certainly, trust is facilitated by positive attributes of the trustee, i.e. integrity, credibility, competence, consistency, loyalty and achieved results. Especially in the case of cooperation from the long-term perspective, it is important that the cooperating entities have the certainty of achieving the goals set at the beginning of the cooperation. In the case of the pension system and offering products with a long-term outlook, trust plays a special role. Future pensioners transfer funds to the pension system via the Social Insurance Institution and should believe that after retiring they will receive the invested funds back in the form of retirement benefits and additional income depending on the participation in individual pillars of the pension system.

The article is of descriptive and review nature. Separating the levels of trust analysis with regard to the tendency to trust, institutions based on trust, faith in specific results and intentions, and to trustworthy activities, can become the basis for further research. The contemporary deficit of trust favours the development of discussions on the role and significance of trust in the pension system as well. Currently, a huge challenge for the authorities should be to change citizens' awareness and convince them that reducing consumption to future retirement savings will have positive effects. Certainly, it is necessary to undertake broad public education activities in this area, implement instruments to encourage savings, and, above all, to create transparent and sustainable principles of the system, which in the long-term will translate into an increase in citizens' trust in the pension system. The implementation of changes in the pension system cannot be a bargaining chip in political struggle, which in recent years has taken place in the run-up to every general election. Understanding the essence of trust in the pension system can become the key to the development of trust in the entire system as well as trust in individual institutions or products offered in the system.

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