

## SOCIAL SECURITY SYSTEMS FOR RURAL POPULATION IN POLAND

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**Abstract:** There are two social security systems in Poland: general system, which concerns the majority of society and the special one for individual farmers and spouses working with them. In general system the social insurance tasks are carried by the Social Insurance Institution and in case of agricultural system – by Agricultural Social Insurance Institution. The systems differ from each other in the subject area, level of premiums and benefits. Premiums paid by a person coming under general security system are higher than the ones paid by a farmer. The benefits from general system are also higher than the ones from agricultural systems. This indicates that there is a need for a reform of the system.

**Keywords:** social insurance, pension, old-age pension, premium, ASII, SII

### INTRODUCTION

There are two social insurance systems in Poland: general and special system. Both systems frame rural population. The general system concerns the majority of society, whereas the special one – individual farmers. In general system, social insurance tasks are carried by the Social Insurance Institution (SII), and the financial system is based on funds, which main element is the Social Insurance Fund (SIF). The Agricultural Social Insurance Institution (ASII) was charged with the realisation of social security of farmers. The financial bases of this institution are: the Contribution Fund, Pension Fund, Fund of Prevention and Rehabilitation as well as Administrative Fund. The ASII in such form has been functioning for many years, whereas the SII since 1999, when the general security system reform was implemented. The changes were related to increasing expenditures on pension system. It is worth to mention that unfavourable financial situation also concerns the social insurance system of individual farmers. The act on farmers' social insurance, which came in force in 1991, has been slightly changed and the pension system is mainly financed by the state budget (93% of the Pension Fund revenues). It is a result of low premiums paid by the insured and lack of the system resistance to demographic threatens, mainly society ageing, which causes the extension of period of receiving of long-term benefits as well as the adverse proportion between the number of the insured and receiving pensions. Moreover, the financial situation of the system is closely connected to the level of benefits.

### PENSION INSURANCE

Farmers' population has been a subject of separate social insurance since 1977. According to the Agricultural Census 2002, farmers' population constitutes 38% Poland's total population. Currently under the Act of 20 December 1990 On Farmers' Social Insurance, a farmer is a subject of pension insurance, when they conduct agricultural activity on his own account as the owner of the farm situated in the Republic of Poland and possessing above 1 ha of arable land or conduct special section of agricultural production, as well as farmer's spouse who work constantly on the farm, if they are not covered by other social insurance and do not have right

to old-age pension or disability pension from the farmers' social insurance or other social insurance. The insured pays premiums on a quarterly basis equal to 30% of basic old-age pension in the last month of the previous quarter.

Between 2000 and 2006 the pension insurance premium grew by 32.3% (Fig. 1). The highest premium growth took place in the third quarter of 2001 (by 12.7%) in comparison to the pervious quarter, and the lowest one occurred in the third quarter of 2002. Since the first quarter of 2004 until the second quarter of 2006 the level of pension insurance premium had not been changed. It was related to the minimum old-age pension, which was stable in this period (562.58 PLN).

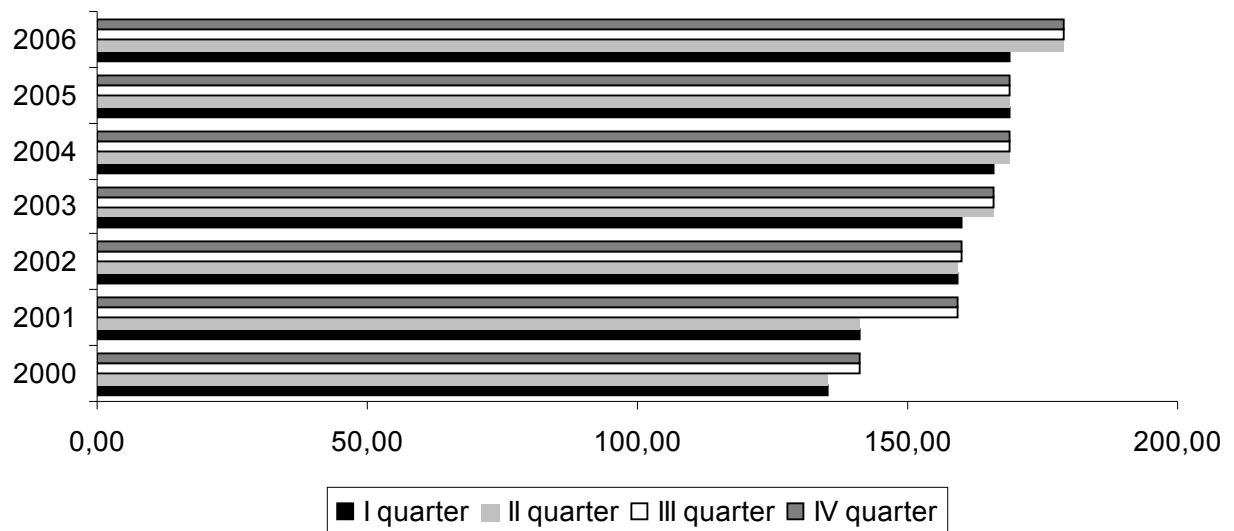


Figure 1. The quarterly pension insurance premium paid by a person insured in the ASII between 2000 and 2006

Source: authors' own elaboration on the basis of the ASII data.

Rural population may also be a subject of general social insurance on the basis of the Act on Social Insurance System of 13<sup>th</sup> October 1998. This insurance mainly concerns persons conducting non-agricultural economic activity. Old-age premium amounts to 19.52% of the basis assessment, and pension for incapacity for work insurance totals - 13% (since July the 1<sup>st</sup> 2007, until December, 31<sup>st</sup> 2007 - 10%, and since January, the 1<sup>st</sup> - 6%). Pension premium basis assessment is constituted by the revenue, and in case of persons conducting non-agricultural economic activity - the declared amount, not lower than 60% of average monthly wage in the previous quarter.

It should be mentioned that monthly premium paid by a person conducting non-agricultural economic activity is almost twice higher than the premium paid by a farmer on a quarterly basis. Between 2000 and 2006 the pension premium paid by a person conducting non-agricultural economic activity increased by 43.8% (Fig. 2). The lowest monthly premium occurred in January and February 2000 (334.43 PLN) and the highest between June and August 2006 (493.69 PLN) The highest premium level increase took place in March 2006 in comparison to the previous month (by 7.7%), meanwhile the decrease of premium level could be observed in September 2004 (by 4.4%).

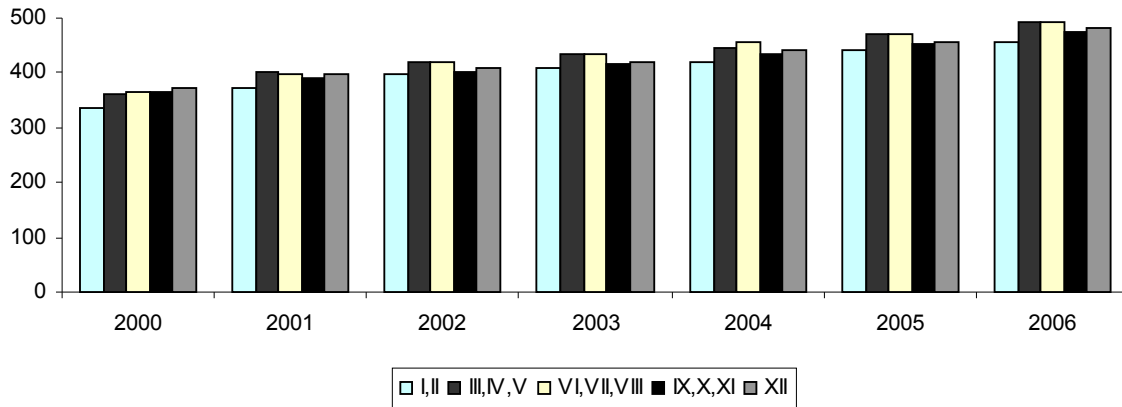


Figure 2. The monthly pension insurance premium paid by a person conducting non-agricultural economic activity

Source: authors' own elaboration on the basis of the SII data.

It should be underlined that in the analysed period the pension insurance premium paid in relation to the minimum wage of a person insured in general system increased from 227.5 PLN to 292.2 PLN between 2000 and 2006 (Fig. 3). That premium is financed in half by the insured and in half by the payer. Between 2001 and 2002 the premium level had not changed, because in that period the minimum wage was stable (760 PLN). The highest increase of pension insurance premium could be observed in 2000 in relation to the previous year (by 8.6%), and the lowest one in 2004 (by 3%).

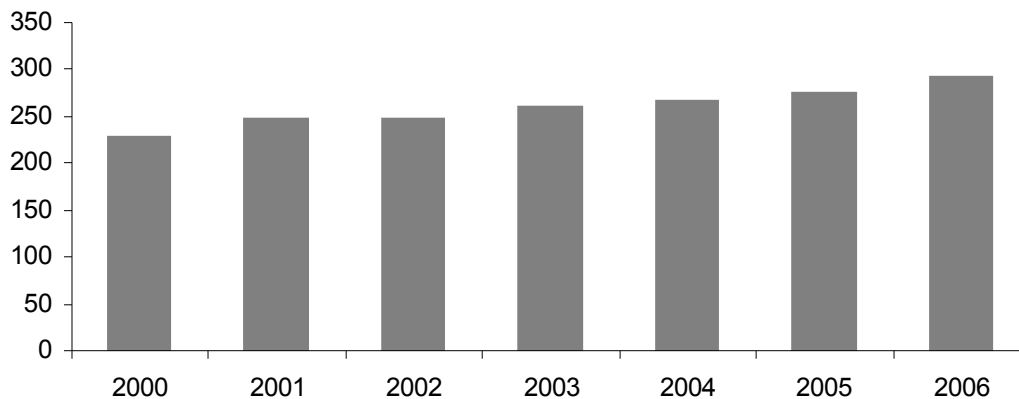


Figure 3. The monthly pension insurance premium paid in relation to minimum wage

Source: authors' own elaboration on the basis of the SII data.

The quarterly premium paid by a farmer is much lower than the monthly premium paid in general security system by a person conducting non-agricultural economic activity (about 60%) or a person receiving minimal wage (about 40%). In the analysed period the growth rate of premium paid by a farmer was lower than the premium paid by a person conducting non-agricultural economic activity (by 11.5 percentage points), and higher than workers' premium (by 4 percentage points). Moreover, between 2000 and 2006 average premium paid by a farmer was equal to 160.8 PLN and a person receiving minimum wage - 259.63 PLN. Premiums paid by a person conducting non-agricultural economic activity was the highest and amounted to 423.46 PLN.

The investigation conducted in agricultural holdings indicates that in the enterprises consisting of 1-2 ha the share of premiums in costs of final production (without amortization) totaled 11.8%. In bigger holdings the share was lower (5-7 ha – 6.5%, 10-15 ha – 4.7%, 20-50 ha – 2.7%, above 100 ha – 0.5%). It should be underlined that premiums paid to the ASII have great influence on income level obtained from agricultural holdings operational activity, in particular in small holdings. In holdings consisting of 1-2 ha the amount of premium paid to the ASII totaled 45% of net agricultural income including premium amount. Therefore the premium lowered the obtained income by half. In bigger holdings the share was smaller and in holdings of 5-7 ha constituted 10.5%, 10-15 ha – 8.2%, above 100 ha – 1.2% (Goraj, Jagła, 2002).

#### BENEFITS FROM PENSION INSURANCE

The catalogue of benefits from security system embraces: agricultural old-age pension, agricultural pensions for incapacity for work and survivors' benefits. Those benefits are granted in general and agricultural system. However the benefits in general system are higher than the benefits from agricultural system. Between 2000 and 2006 the average monthly pension from the SIF functioning in the SII was higher by 50.5% than the monthly benefit from the PF in the ASII. The growth rate of the ASII benefit figured out 33.4% and the SII – 44.02%.

In the analysed period the average monthly PF old-age pension was higher than the minimum old-age pension by 34.09% in 2000 and 41.1% in 2005 (Fig. 4). Between 2000 and 2006 the average benefits paid by the ASII grew by 33.3%. Meanwhile the average old-age pension from the SIF increased from 1000.07 PLN in 2000 to 1360.52 PLN in 2006 and was higher than the minimum one in the interval of 112.5%-132.1%. The highest growth of the average old-age pension, both from the SIF and PF, was observed in 2001 in comparison to 2000 (by 13.04% and 10.6%) and the lowest one occurred in 2005 (1.1% and 1.33%). The old-age pension from general social insurance system was higher than the agricultural old-age pension by 37% on average. The median of the monthly PF old-age pension amounted to 765.75 PLN and was lower than the SIF old-age pension median by 471.78 PLN.

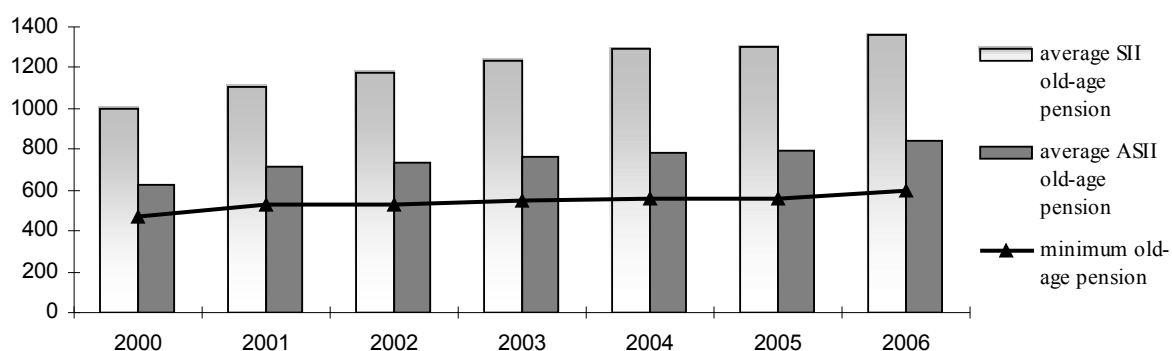


Figure 4. The average monthly old-age pension from the SII and ASII

Source: authors' own elaboration on the basis of the SII and ASII data, [www.wskazniki.pl](http://www.wskazniki.pl).

Between 2000 and 2006 the average monthly pension for incapacity for work paid by the ASII was lower than the average monthly pension for incapacity for work paid by the SII in the interval of 26.5%-59.6%. The average pension for incapacity for work paid by the ASII grew from 566.44 PLN in 2000 to 638.76 PLN in 2006 (Fig. 5). The highest growth of monthly benefit could be observed in 2001 in comparison to 2000 (by 12.8%) and its drop in 2005 (by 11.1%). The average monthly pension for incapacity for work paid from the PF was higher by

34.9% than the minimum pension for partial incapacity for work and by 15.3% than the minimum pension for incapacity for work.

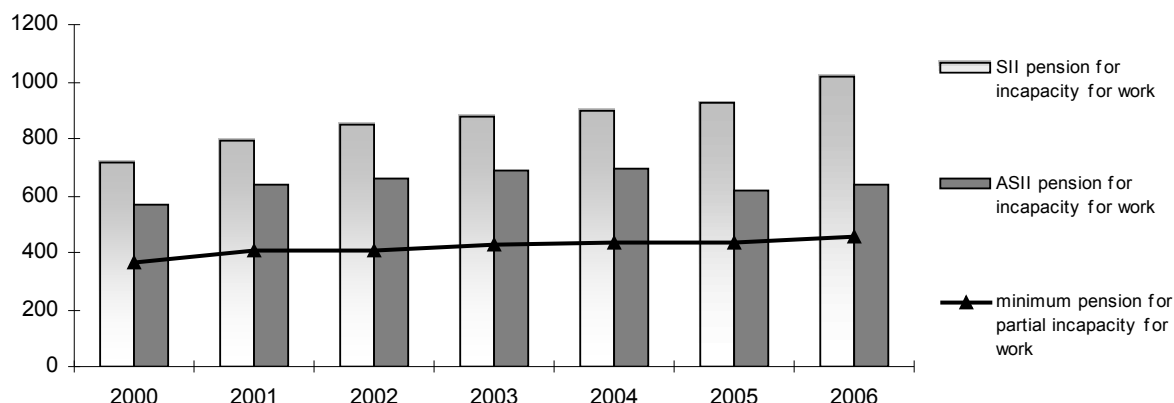


Figure 5. The average monthly pension for incapacity for work from ASII and SII

Source: authors' own elaboration on the basis of SII and ASII data, [www.wskazniki.pl](http://www.wskazniki.pl).

The median of the PF pension for incapacity for work amounted to 638.97 PLN, and the SIF – 877.59 PLN. In the analysed period the average SIF pension for incapacity for work grew by 42.2%. The highest benefit increase took place in 2001 in comparison to the previous year (by 10.8%) and the lowest one in 2004 (by 2.3%). The average pension for incapacity for work was higher than the minimum pension for partial incapacity for work in the interval of 48.6%-54.9% and higher than minimum pension for incapacity for work in the interval of 34.4%-41.4%.

According to the investigation conducted in 2000 in individual agricultural holdings, the share of the ASII benefits in total revenues of an agricultural family is decreasing together with the growth of holdings' area. In holdings consisting of 1-2 ha the ASII benefits share amounted 30.2% of total money revenues and in holdings consisting of more than 100 ha – only 0.7%. In holdings consisting of 1-2 ha that obtained benefits from the ASII, the share of benefits from social insurance constituted 71% of personal income, in which the ASII share was at the level of 35% (Goraj, Jagła, 2002).

In case of all households the average income obtained from pension insurance benefits was higher than the income gained from agricultural enterprise and non-agricultural economic activity. Only the average disposable income obtained from wage-earning work is slightly higher than the income from social insurance benefits.

## CONCLUSIONS

The range of long-term benefits in agricultural security system is close to the range of the general system. However the systems differ from each other in benefits level. The average pension paid by the ASII is much lower than the SII benefits, but higher than the minimum amount published in announcements of the President of Social Insurance Institution. The premiums paid for pension insurance in general system are much higher than the premiums in agricultural system. Nevertheless for small holdings the ASII premium constitutes great part of agricultural income and the ASII benefits play a significant role in money incomes of agricultural families. Together with the growth of agricultural holding, both share of the ASII premiums and share of benefits in money incomes are falling. Low level of premium and benefits indicate that there is a need for a reform of social insurance of individual farmers. Changes should refer to its basic elements, specially financing system, diverse subject and

object range, as well as premium level that ought to be related to the economic situation of the insured.

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