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HOW TO MAKE YOUNG POLES SAVE MORE FOR RETIREMENT – THE BEHAVIORAL FINANCE PERSPECTIVE

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Abstract:
The reform of pension system that took place in Poland in 2014 ended up with extensive discussion on the future of the public finance system as a whole and prospects of the future Polish pensioners for the forthcoming decades. Although demographic risk of aging society, increasing emigration and ineffectiveness of general government sector in the long term are expected to increase the hidden intention of 2014 reform in Poland was focused on short-term fiscal goals, rebalancing fiscal budget and shortening public debt below 50% of GDP with some creative accounting. No matter Poles will save for retirement with compulsory PAYG public pillar of the system only (with *the Public Insurance Fund*, *FUS*) or blended PAYG and capital pillars (with *FUS* and *Open Pension Funds*, *OFE*) estimations show that will not be enough to accumulate sufficient capital to cover retirement needs without voluntary savings. Recent projections announced in January 2015 show that almost half of the Polish pensioners in 2050, especially those who are receiving minimum wage today will be able to save for about 500 PLN (or 120 EUR) monthly pension. The remaining part securing at least basic social needs will have to be covered by the public system or all the economy. Yet only 5% of Poles declare to save with any form of the third pillar of the system (*Individual Retirement Accounts*, IKE/IKZE). After 25 years since economy transition started in 1989 and 15 years after the first reform of the pension system that introduced new capital possibilities we haven't yet simply acquired the habit to save more than is required by the obligatory system of transfers.

The critical issue is then to realize young society how important is starting to save for retirement early with voluntary saving instruments. That is a hard lesson to learn by young adults as most of them prefer current consumption over securing very distant needs they don't even think about. Behavioral finance researches explained some mechanisms underlying such behaviors that are presented in the article. Research of behaviors and attitudes regarding the accumulation of old-age security savings shows that most people are poorly motivated to decide on which pension scheme to choose or to engage in the subject (Benartzi and Thaler 1999; Hedesström, Svedsäter and Gärling 2007). Such approach results in most of the people choosing the default variant suggested by the system (Johnson, Hershey, Meszaros, & Kuhnreuther 1992), being passive, procrastinating with making the decision (Choi et. al. 2001, 2003) and sometimes even avoiding making the decision (Iyengar and Lepper, 2000). Lusardi (Iyengar and Lepper, 2000) learned that even people, who are supposed to retire in just few years, don't think much about the conditions they will live in. Knoll, Tamborini and Whitman (2012) examined pension saving habits of young Americans (22-35 years old) and proved that marital status is one of the crucial factors defining the habits. Young persons who were married were more likely to consider saving for retirement a vital matter than other groups (including other members of the household). They more often owned an individual retirement account and used other saving instruments. Single women came out the worst in this examination.

There are also other simple behavioral mechanisms that make people save more for retirement and one of them referring to availability bias is presented in the article. 211 students of the second year of Economics and Management were asked in January 2015 to declare how they would allocate extra 1000 PLN earned or found between four possible purposes: (1) buying something extraordinary for themselves, (2) buying something for someone close, (3) saving to current account or (4) saving for retirement. Half of the group was provided with excerpt of the article cited above saying that their pensions would probably be very low and below their expectations and after reading they were asked to allocate their 1000 PLN. The results were exceptional but yet expected. The average amount the first group wanted to allocate for retirement was 71.02 PLN or 88.82 PLN depending how they were provided with money (earned or won). In the second group averages were 208.48 PLN and 209.37 PLN respectively. The result of the experiment prove that the more young adults are aware of their future situation as pensioners and the more the image is explicit and even forcible the more they are willing to secure their future needs using voluntary actions. Similar experiment was provided by Hershfield (2011). Participants were stimulated there with pictures of their own faces in the age of 70. The results were similar. Based on his results, the researchers formed a hypothesis suggesting that general saving crisis may be partially caused by breaking the connection between 'current me' and 'future me'.

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