

Review article

Scientific Review: Joanna Rutecka-Góra (Ed.), “Długoterminowe oszczędzanie. Postawy, strategie i wyzwania” [Long-term saving. Attitudes, strategies and challenges], Oficyna Wydawnicza SGH, Warsaw School of Economics, Warsaw 2016, 354 pages

Filip CHYBALSKI¹
Technical University of Łódź

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1. Introductory comments

At the end of 2016, the Publishing House of the SGH Warsaw School of Economics published a collective monograph under the editorship of Dr Joanna Rutecka-Góra, entitled “*Long-term saving. Attitudes, strategies and challenges*”. Dr Joanna Rutecka-Góra is an esteemed academic expert in the area of social insurance and pension economics. Over the last decade she has published numerous research papers in this area. Analysis of her academic achievements leads to the observation that her interests have evolved, but are still firmly grounded in the area of pension security. Although in the period of work on her doctoral thesis her interests were focused primarily on redistribution in pension systems (resulting in an academic monograph entitled *Zakres redystrybucji dochodowej w ubezpieczeniowym systemie emerytalnym [The Scope of Income Redistribution in the Pension Security System]* [Rutecka 2012]), her most recent publications indicate that the author devotes an increasing amount of her attention to pension schemes, e.g. [Rutecka-Góra 2017; Rutecka-Góra 2016; Rutecka 2015; Rutecka 2014; Rutecka et al., 2014]. This was the subject matter of a scientific conference entitled “*Long-term saving*”, organised at the Warsaw School of Economics under the direction of Dr Joanna Rutecka-Góra, held on 20 and 21 June 2016. The meetings during the Conference gave rise to a monograph, which is the object of this scientific review.

Pension systems, facing demographic, social and economic challenges, have evolved since their introduction in the 19th century. This evolution, however, has become more dynamic over the last few decades, the major reason being the aging of society. This problem affects a number of countries worldwide, including those in Europe. The goals of an open method of coordination, grouped under three headings: adequacy, sustainability and modernisation, delineate the dimensions of the reforms to be carried out in the retirement pension systems of the EU countries.

¹ Contact with Author: Filip Chybalski, Faculty of Organization and Management, Technical University of Łódź, Piotrkowska 266, 90-361, Łódź, Poland; e-mail: filip.chybalski@p.lodz.pl.

Especially the first two groups of goals feature a close cause-effect link. The income adequacy of the pension systems over the long term requires financial sustainability. The latter forces changes in the pension system, which make public finance more resistant to adverse demographic trends. This means that, on the one hand, the period of professional activity is growing longer, which leads to longer periods of pension capital accumulation or pension eligibility, with shorter periods of benefiting from pension, i.e. the period of de-cumulation (distribution) of the capital or pension eligibility. On the other hand, however, the security of public finance benefits from limiting the role of the state in the pension system through changes which lead to a limited pension commitment of the state. This drive toward financial sustainability with the simultaneous achievement of another goal, i.e. income adequacy, requires voluntary pension savings on the part of citizens, which are long-term by nature. At this point it should be emphasized that, from the perspective of an individual, pension benefits in a system featuring actuarial balance in a micro scale may be increased by extension of the period of vocational activity, an increase of the obligatory pension contributions (usually paid in publicly managed systems) or by an increased ratio of voluntary savings, which, being of a long-term nature, may but need not be used for consumption only by the elderly. Saving, construed to mean an antithesis to consumption, is in fact used for consumption (to a smaller or greater extent) deferred in time, planned (e.g. at the time of seniority) and unplanned (disease, job loss). This is consistent with consumption theories starting from Fisher's model of intertemporal choice [Fisher 1930], through the life cycle hypothesis of Modigliani, Ando and Brumberg [Modigliani, Brumberg 1954; Ando, Modigliani 1963], to the permanent income hypothesis formulated by Friedman [Friedman 1957]. On the grounds of empirical research, the issue of how individuals actually smooth consumption during the life cycle still raises a number of questions, especially given the outcome of numerous analyses which indicates that long-term household savings accumulated for pension purposes are inadequate.

2. General evaluation of the monograph

The monograph, just as many other post-conference proceedings, concerns to a wide spectrum of issues which can actually be considered under the general framework of its title. It is difficult to outline a single research problem which the authors would attempt to solve in this compilation. For this reason, in the first place, a general substantive evaluation is presented below, and then (in the subsequent section) the contents of each chapter are synthetically discussed and commented on.

The monograph comprises twenty-one papers dedicated more or less directly to the issue of saving. Most of them are empirical studies or systematising surveys based on the relevant context of economic theory and supported with review of research done by other authors. The most attention is given to additional forms of accumulation of pension capital. This dominant theme makes the book very up-to-date, as it addresses a broad debate over further reforms and the target

model of the Polish pension system. Moreover, the debate pertains primarily to the improvement of system operation in view of the criteria of income adequacy and financial sustainability by promotion of voluntary pension saving.

The approaches to the research problem shown by each author are quite varied. Some of the papers are of strictly theoretical nature, while others feature a purely analytical approach devoid of the relevant references to theory or experience of economics. A few papers are of primarily informative character. From the reader's perspective, what I find most interesting are those chapters in which the authors presented the subject matter in a broader theoretical context, and subsequently discussed it on a more in-depth basis sometimes supported with their own empirical studies. Where the authors used their own empirical research, they also used quantitative methods at different levels of advancement and with various effects, in addition to studying the relevant literature.

The organization of the monograph is worth noting: despite the broadly outlined research problem (long-term saving), the sequence is coherent, logical and ordered. The first chapters discuss more general issues, such as allocation of income during the life cycle, household savings, relations between demography and monetary policy. Subsequent papers discuss the motives and attitudes regarding saving and determinants of saving. The other authors tackle more detailed and specific research issues, such as forms of savings, or factors in the development of specific forms of pension capital accumulation.

3. Contents of the monograph

The monograph starts with a chapter by Marek Góra, which is introductory in nature and presents the issue of long-term saving in a broader context of income allocation over the life cycle. The author can see some dichotomy between rationality at the individual level (microeconomic approach) and at the level of the entire society (macroeconomic approach). As a consequence, inconsistent goals occur at the micro and macro levels.

In the next chapter, Barbara Liberda describes her own empirical research on household saving. The author's approach is noteworthy: she combines a cross-sectional analysis and an analysis of cohorts. The paper verifies the life cycle hypothesis using household data in Poland. This gives rise to the finding that savings do not follow a typical age profile consistent with the life cycle hypothesis.

There is a very interesting paper authored by Michał Gradzewicz which tackles the issue of the relationship between demography and monetary policy, usually disregarded in literature. The chapter is a systematising overview, and it puts forward a number of theoretical and empirical arguments to support the assumption that there is a link between demography and monetary policy, which is multidimensional in nature. The author concludes that demography will pose numerous challenges in the creation of an effective and efficient monetary policy.

The next chapter, by Paweł Strzelecki, also offers an analysis of issues from a macroeconomic perspective. It is a very insightful and interesting study of a defined research problem. The problem consists in an attempt to answer a question about the effects of changed macroeconomic assumptions on long-term forecasts of public spending used by the European Commission to assess the public finance sustainability of the EU countries. The conclusion formulated by the author, based on his own empirical studies, indicates that the essential changes in pension systems affect the pension forecasts to a lesser extent than do changes of the macroeconomic assumptions.

The next chapter opens a series of texts dedicated to approaches, motives, and determinants of the saving process. In the first of their collaborative chapters, Sylwester Białowąs and Iwona Olejnik attempt to define the typical temporal horizons for the goals and motives of saving. The research they have carried out confirms the existence of a link between the time horizons of saving and the amounts saved as well as the strong influence of income earned and the possibility of saving. The expected length of life is of considerable significance for the time horizons in saving. In the next chapter, Olejnik and Białowąs examine preferences of households in respect to ways to render secure the old-age period. In the course of the empirical study, the following determinants for pension saving are identified: education of the head of household, the perceived optimal amount of additional savings, the level of knowledge about the pension system, expectations about life on pension, and the level of confidence in the state. Gender also substantially affects the approach to saving, with the dominant income earned by men in the household budget being a stimulant of saving.

Izabela Zmudzińska, in an interesting paper discussing the attitudes of Poles to systematic and long-term saving, presents the outcome of her own empirical research carried out with a random sample of 100 Polish residents. Although the size of the sample can hardly be considered representative, the conclusions drawn by the author cannot be disregarded. They confirm the outcome of a number of other scientific and analytical studies indicating that the tendency among Poles to save is low, with income being an essential barrier to voluntary saving identified by the respondents. The author points out that the Polish society is dominated by the tendency of ongoing consumption, while saving, if any, is of short-term nature, which confirms the common opinion about the time horizon of saving in Polish households. However, one must not completely overlook the potential possibility of systematic rolling of such savings (e.g. by renewal of short-term bank deposits) to maintain the required liquidity by households, which is consistent with the motives of consumption smoothening, indicated in the life cycle hypothesis. It follows from the fear of having cash resources “frozen” in a long-term deposit, which may prevent their release when needed or trigger additional costs of such release (e.g. illness, job loss).

Robert W. Włodarczyk discusses the saving rates in Poland versus other EU countries. The empirical analysis based on data from the period of 1990-2015 leads

to the conclusion that despite a tendency toward an increasing saving rate in Poland, the rate is not satisfactory in view of the development needs of the country. In the next chapter, Michał Bużko approaches the problem of the low level of long-term household savings accumulated in the banking sector. Based on these considerations, a number of recommendations are formulated regarding the stimulation of long-term saving in banks, which include: a broader offer of products that ensure regular inflow of capital, a bonus for long-term saving in the form of a higher interest rate, tax relief for long-term saving, as well as simplicity and transparency of long-term saving products offered by banks. Agnieszka Huterska and Ewa Zdunek-Rosa assess the relation between the interest rate on deposits and the number of accounts opened within the framework of individual pension accounts (IKE) and individual pension security accounts (IKZE) and the volume of payments made to such accounts. The authors conclude that due to low interest rates, the IKE and IKZE accounts are a preferred choice. However, this conclusion must be taken with a dose of precaution, and it must not be treated in terms of cause and effect, as the research was primarily based on an analysis of diagrams which do not clearly confirm this link. Moreover, visual inspection of diagrams showing the examined variables does not offer grounds to conclude potential cause-effect links, the more so as it is not supported with the relevant premises of a theoretical or empirical nature. Additionally, the study did not take into account any control variables, such as income (e.g. average salary in the national economy).

In the next chapter, Tomasz Orlik tackles the problem of the role of investment funds in long-term saving. Starting with Poles' tendency to save, the author analyses changes in the structure of household savings triggered by the financial crisis. The paper authored by Anna Ostrowska-Dankiewicz is a more in-depth analysis based on selected measures of profitability, risk and investment effectiveness. It evaluates the effectiveness and risks of Polish equity unit-linked insurance funds. The data for 2006-2015 led to formulation of the conclusion that the Polish equity unit-linked insurance funds did not have a satisfactory rate of return for the investors. The subject of unit-linked insurance is also handled by Agnieszka Pobłocka, but her chapter is not such an in-depth study as the one discussed above. The author focuses on the problems of unit-linked life insurance and insurance related to the social security system. The conclusions formulated on the basis of description of the presented statistical data have no essential added value to the scientific or analytical background in the area of quantitative research on life insurance or social security system. Although a strong side is that the paper analyses sizeable statistical material and covers a wide time perspective (2002-2015).

A rarely noticeable problem of socially responsible investing (SRI) as a strategy of long-term pension saving allocation is discussed by Tomasz Jędynak. In his deliberations, well-supported by studies of literature, the author finds arguments in favour of a positive response to the research question posed, if the application of the SRI strategy by financial institutions which accumulate pension savings favourably will affect the building of long-term saving in Poland?

The goal of Maciej Szczepankiewicz's paper is to construct a model of an insurance service linked with long-term saving. Firstly, the author systematises the insurance and saving terms used, and then formulates assumptions for the proposed model, which eventually leads to presentation of its mathematical form. The summary presents strengths and weaknesses of the proposed model.

Robert Matusiak presents the idea of real estate investment trust (REIT) as an instrument of long-term investing. The author discusses both the essence of this type of funds, their genesis and growth in the United States and in Europe. He also presents the perspective for launching REIT in Poland, and emphasizes that the growth of this type of funds would constitute a premise for development of a transparent mechanism of stimulation of long-term investments on the real property market, related to the Warsaw Stock Exchange.

Mariusz Dybał analyses factors in the growth of private pension plans. Based on qualitative and quantitative data originating from OECD statistical databases, and relying on other research or analytical papers concerning pension systems, the author formulates interesting conclusions. The following factors are identified as primarily affecting the growth of private pension plans: compulsory participation, automatic enrolment, creation of financial incentives, financial education, simplification and facilitation of selection and operation of pension programmes as well as interactions between public and private pension plans. A decreasing replacement rate of the pay-as-you-go (PAYG) systems was also found to be an essential growth factor.

Sylwia Pieńkowska-Kamieniecka tackles the very up-to-date and important topic of pension schemes with automatic enrolment. The paper presents a review of research conducted by other authors and analysis of statistical data pertaining to this type of schemes in New Zealand. The author emphasises the efficiency of the auto-enrolment mechanism in increasing the universality of pension schemes which are not fully compulsory. The text also contains a review of the principles of operation of auto-enrolment schemes in selected countries and the estimated costs they generate for employers. The issue of changes in operation of the third pillar of the Polish pension system in the broader context of the "*Capital Building Programme*" proposed in July 2016 by Vice-Prime Minister Mateusz Morawiecki is continued by Magdalena Swacha-Lech. The author presents the proposed solutions and attempts to evaluate them, using a broader comparative context by referring to the experiences of other countries.

Ewa Cichowicz and Agnieszka K. Nowak discuss determinants of the growth of the market for long-term saving in Poland. The chapter is in fact a review of selected analytical studies devoted to saving in Poland. It compiles and systematises the outcome of research done by other authors. Still, the paper displays some informative or even cognitive value.

Certain aspects of the operation of long-term saving products are discussed by Bartosz Wyżykowski. In his paper, the author focuses on misselling. He analyses this practice from the perspective of the Financial Ombudsman. Assessment is made of selected requests lodged by service recipients with the Financial Ombudsman with

respect to activities of financial institutions which can be classified as misselling. This paper is different from other papers included in the monograph in being a legal analysis rather than an economic one.

4. Summary

The monograph edited by Dr Joanna Rutecka-Góra is a valuable work, which discusses up-to-date and valid subjects. For this reason, the work is valid contribution to both the academic discussion and public debate over the target pension system model in Poland and the strategy of building long-term savings. This is of essence from both the micro- and macro-economic perspective. Undoubtedly, the problems addressed in the work, analysed from multiple and varied research perspectives, are its essential strength.

The work displays some drawbacks, which primarily result from it being a post-conference product. With the multiple papers which make up the monograph, written by various authors, the research problem discussed in the monograph, even though it relates to a single theme of long-term saving, is strongly dispersed. The substantive level of the chapters is varied, and so is the level of methodological advancement of empirical research whose results are presented in the papers.

One has to admit that the said multiplicity of authors and variety of research perspectives presented in each chapter, even though it may have the aforesaid advantages and faults, seems to be very difficult to avoid in post-conference collective works. For this reason, the final assessment of the monograph edited by Dr Joanna Rutecka-Góra results from a combination of those strengths and drawbacks. There is no doubt that the former considerably outweigh the latter. Therefore, the monograph is worth recommending to all those who deal with long-term saving whether on account of their scientific or business activity, and who are interested in the issues of pension economics and finance.

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