Poland

Poland: Pension system in 2014

The system is based on two notional accounts schemes. Since 2014 participation in the funded scheme is voluntary, as workers can opt in to allocate their contributions to the NDC sub-account to the private DC scheme.

Key indicators: Poland

		Poland	OECD
Average worker earnings (AW)	PLN	42 360	141 489
	USD	11 978	40 007
Public pension spending	% of GDP	10.8	7.9
Life expectancy	At birth	76.3	80.0
	At age 65	17.4	19.3
Population over age 65	% of population	15.3	16.2

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Qualifying conditions

The pension age is 65 years and three months for men and 60 years and three months for women in 2014. The pension age is gradually increasing from 1 January 2013 by a month in January, May and September until it reaches 67 years for both sexes, for women this will be in 2040 and for men 2020. The minimum pension requires 21 years' of contributions. This age is increasing to 25 years for men by 2020 and women by 2022.

Benefit calculation

Earnings-related

There are two notional account schemes. A contribution of 16.6% is credited to the main individuals' notional accounts. The notional interest rate is the growth rate of the covered wage bill but no less than price inflation. This notional interest rate is applied retrospectively to accounts from the year 2000.

A contribution of 2.92% of earnings is credited to the additional sub-accounts in the Social Security Fund (ZUS). The indexation of contributions to sub-accounts is different from contributions to already existing accounts in the Social Security Fund (ZUS). Moreover they are subject to inheritance. The notional interest rate is the annual growth rate of nominal GDP over the last five years.

Workers can opt-in to allocate 2.92% of their gross wages to the privately managed DC scheme (OFE).

On February 2014, 51.5% of the net assets of privately managed pension funds were transferred to the Social Insurance Institution (ZUS). Moreover, the assets of those who chose to stay in privately managed funds will be gradually transferred to the public system ten years prior to the retirement age. Alongside with the changes in functioning of privately managed pension fund a payout mechanism for assets accumulated in those funds has been set up. DC pensions are calculated and paid out by Social Insurance Institution as a combined benefit with the NDC part.

At retirement, accumulated notional capital is divided by the "g-value" to arrive at the pension benefit. The g-value is average life expectancy at retirement age: this process is equivalent to the process of annuitisation in funded pension systems. The g-value is calculated using life tables published by the Central Statistical Office.

The ceiling to contributions and pensionable earnings is set at 2.5 times the average base amount in the previous calendar year. In 2014 the ceiling was PLN 112 380.

Pension benefits are subject to periodic indexation to account for inflation. As from 1 March 2010, amounts of minimum pensions (including the social pension) have also been increased as a result of indexation. The indexation covers pension benefits awarded before the day fixed as the indexation date, that is, before 1 March. Indexation is carried out ex officio and covers all payable benefits. In 2012 there was an exception made to the indexation of pension benefits and on 1 March 2012 all the pensions were increased by PLN 71 instead. In 2013, the indexation rate for pensions was equal to 104% (from 1 March 2013), and in 2014 the indexation rate was set at 101.6%.

Minimum pension

There is a minimum pension under the pay-as-you-go scheme. The guaranteed minimum old-age pension was PLN 844.45 from 1 March 2014.

Indexation is the same as with pensions from the pay-as-you-go system. Additional lump-sum payments for those receiving low pensions were paid in those years where there was no regular indexation of benefits (2005 and 2007).

In the new pension scheme, the minimum retirement guarantee shall be financed by state budget and paid when total mandatory old-age pension is lower than the minimum.

Variant careers

Early retirement

There are no provisions for early retirement in the general pension system.

The old pension system (applicable to persons born before 1949) allowed various forms of early retirement for specific groups, such as miners, railway workers, teachers, people working in special conditions and women. From 2005 the miners had their early retirement pension system reinstated according to the pre-1999 rules.

The bridging pensions system that came into force from 2009 covers people working in special conditions, based on the new list (medically verified) – c.a. 270 000. Workers will receive a bridging pension for up to five years (ten years for some occupations such as: pilot, steel workers, etc.) before retirement age. This benefit is financed from state budget (since 2010 also from contributions paid by employers). Bridging pension is, as with the pension formula in the earnings-related system, based on unisex life expectancy for age 60.

Moreover under the new law, workers who are not entitled to receive the bridging pension and have reached 15 years in special conditions or with special characteristics before 1 January 2009 are entitled to compensation. This compensation will be calculated at the moment of retirement (women: at least 60 years, men: at least 65 years) and added to the initial capital.

From July 2009 compensation benefits are also possible for teachers, from the age of 55 for women and 55 increasing to 57 by 2018 for men if the covered work period is longer than 30 years (can include 20 years of part-time work) and they terminate their employment.

Late retirement

It is possible to defer both the notional and the funded, defined contribution pension component without any age limits. People who defer claiming pension after normal pension age contribute and earn extra pension.

It is possible to combine work and pension receipt. However, an employment contract has to be ended before the withdrawal of a full pension is possible. The pensioner can thereafter continue to work on a basis of a new contract and receive the full pension. There are some restrictions that apply to the combination of earned income and pension income if a person is working and receiving a pension before reaching the statutory retirement age, or if a person is also a recipient of a disability pensions and has been recognised as partly incapable of work. Income (including pension benefits) is subject to taxation.

Childcare

During periods of maternity leave, contributions to the pension system are paid from the state budget based on the maternity benefit, which is the average wage over the past 12 months, net of social security contributions. From 2009, the period of payment depends on the number of children and is 20 weeks for one child, 31 weeks for two children, 33 weeks for three children, 35 weeks for four children and 37 weeks for five or more children.

From 1 January 2010 the father or mother may take an additional parental leave period equal to a maximum of four weeks for one child (from 1 January 2012 to 31 December 2013) increasing to six weeks from 1 January 2014. In case of multiple births the parental leave is increased. Parents on additional maternity leave may work part time (but max. 50%). In this case the maternity leave is reduced proportionally to the work time. Since the retirement age equalisation process is in place the seniority condition for women will be raised to the level of 25 years in 2022. In 2014 the seniority condition for the minimum pension for women was set at the level of 21 years.

From 1 January 2010 father has the right to parental benefits for two weeks. Parental leave is possible for a period up to 36 months per child. During this time, pension contributions are paid for the schemes in which a person is a member and the amount of social welfare benefit was used as a base (PLN 420) for the pension, disability and health contributions. For 2009-11 the base for contribution payment is minimum wage (c.a. 40% of average wage) and from 2012 60% of average wage (however the base cannot be higher than the average wage over the past 12 months). In both cases, the government pays the contributions on behalf of the parent on leave.

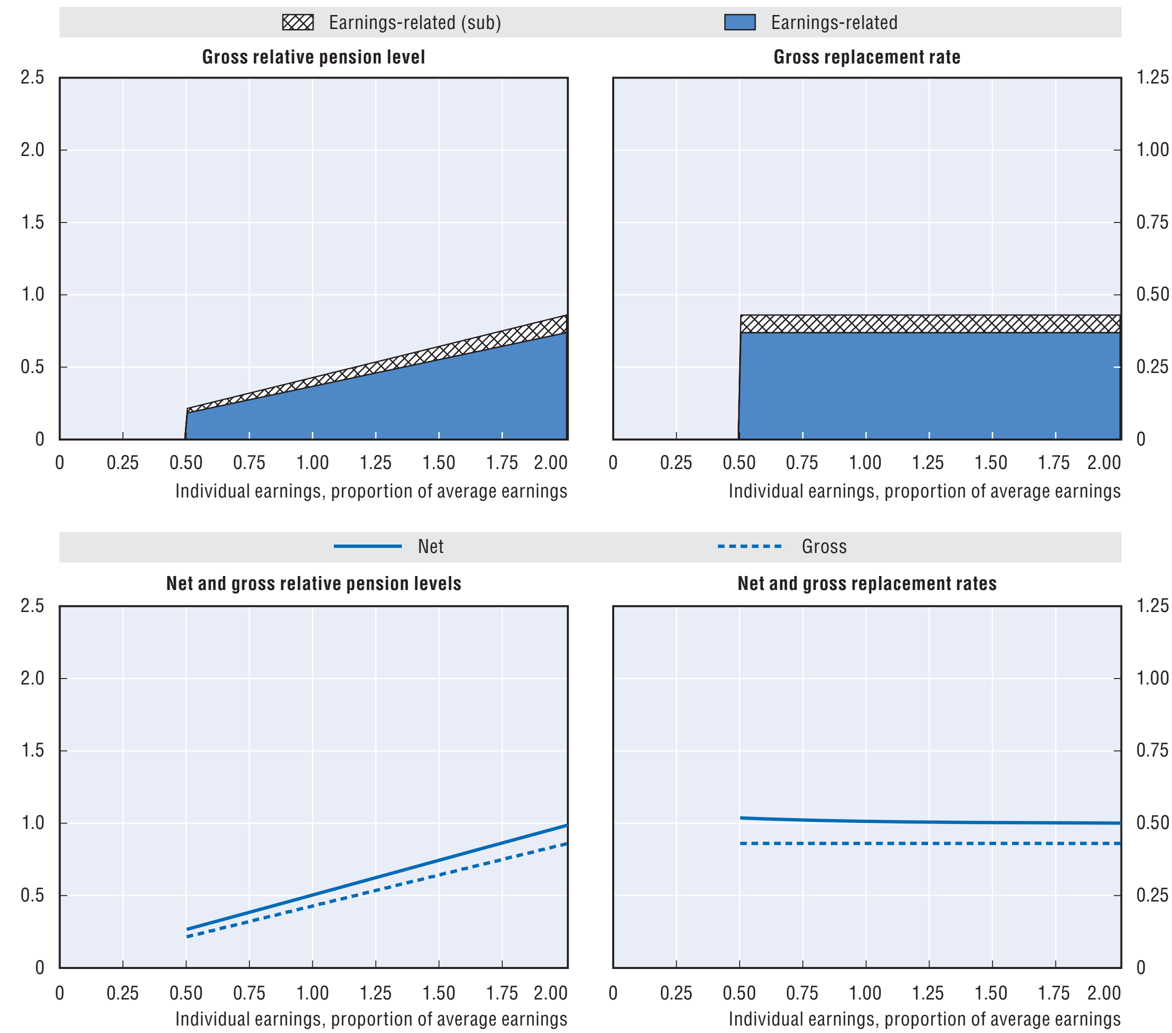
All periods for which contributions are paid qualify for the minimum pension guarantee.

Unemployment

There is a scheme of pre-retirement allowances, available to unemployed people who were laid off (for example, due to liquidation, bankruptcy or restructuring). Pre-retirement allowances are paid from the state budget to women from 55 and men from 60 until reaching pension age. These rules are in force from May 2004. Earlier pre-retirement benefits were granted to women from age 50 and men from age 55. Pre-retirement benefits are not subject to contributions to the pension scheme.

During periods of unemployment benefit receipt, the government pays the contributions to the pension system based on the size of the unemployment benefit. All the periods for which contributions are paid qualify for the minimum pension guarantee.

Pension modelling results: Poland in 2061, retirement at age 67



Baseline scenario: Legislation scenario (price indexation of safety-nets schemes)

Men	*Individual earnings, multiple of average*					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	21.5	32.3	43.0	64.5	86.1	114.2
(% average gross earnings)						
Net relative pension level	26.6	38.6	50.7	74.7	98.8	130.2
(% net average earnings)						
Gross replacement rate	43.0	43.0	43.0	43.0	43.0	38.1
(% individual gross earnings)						
Net replacement rate	51.9	51.1	50.7	50.2	50.0	45.6
(% individual net earnings)						
Gross pension wealth	6.5	6.5	6.5	6.5	6.5	5.7
(multiple of individual gross earnings)	*7.7*	*7.7*	*7.7*	*7.7*	*7.7*	*6.8*
Net pension wealth	6.0	5.8	5.7	5.6	5.6	4.9
(multiple of individual gross earnings)	*7.1*	*6.9*	*6.8*	*6.7*	*6.6*	*5.8*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

Pension modelling results: Poland in 2061, retirement at age 67 *(cont.)*

Alternative scenario: Wage indexation of safety-nets schemes

Men	Individual earnings, multiple of average					
Women (where different)	*0.5*	*0.75*	*1*	*1.5*	*2*	*3*
Gross relative pension level	23.9	32.3	43.0	64.5	86.1	114.2
(% average gross earnings)						
Net relative pension level	29.3	38.6	50.7	74.7	98.8	130.2
(% net average earnings)						
Gross replacement rate	47.8	43.0	43.0	43.0	43.0	38.1
(% individual gross earnings)						
Net replacement rate	57.1	51.1	50.7	50.2	50.0	45.6
(% individual net earnings)						
Gross pension wealth	7.2	6.5	6.5	6.5	6.5	5.7
(multiple of individual gross earnings)	*8.6*	*7.7*	*7.7*	*7.7*	*7.7*	*6.8*
Net pension wealth	6.6	5.8	5.7	5.6	5.6	4.9
(multiple of individual gross earnings)	*7.8*	*6.9*	*6.8*	*6.7*	*6.6*	*5.8*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

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