POLAND

Poland: pension system in 2006

The new pension system was introduced in 1999; it applies to people born in 1949 or after. The new public scheme is based on a system of notional accounts. People under 30 (born in 1969 and after) at the time of the reform must also participate in the funded scheme; people aged 30-50 (born between 1949 and 1968) could choose the funded option. However, the choice had to be made in 1999 and it was irrevocable, with exception of those who could retire early in years 2007-2008 due to extension of possibility for early retirement granted by Parliament. This extension was a result of lack of proposed 'bridging pensions' system. Additionally, from 2005 the miners have their early retirement pension system reinstated according to the pre-1999 rules.

Key indicators

		Poland	OECD
Average earnings	PLN	29 300	111 000
	USD	9 400	35 800
Public pension spending	% of GDP	11.4	7.2
Life expectancy	at birth	75.3	78.9
	at age 65	81.7	83.4
Population over age 65	% of working-age population	21.1	23.8

Qualifying conditions

The minimum pension age in the new system will be 65 for men and 60 for women. For the minimum pension, 25 and 20 years' contributions are required from men and women, respectively.

Benefit calculation

Earnings-related

A contribution of 12.22% of earnings (or 19.52% for workers born between 1949 and 1968 who do not choose the defined-contribution option) will be credited to individuals' notional accounts. Initially, these contributions were uprated between the time they are made and the time of retirement by price inflation plus 100% of the growth of the real covered wage bill. From 2004 onwards, the notional interest rate has been defined as 100% of the growth of the real covered wage bill and no less than price inflation. This notional interest rate is applied retrospectively to accounts from the year 2000.

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. In the modelling, actuarial data from the UN/World Bank population database is used.

The ceiling to contributions and pensionable earnings is set at 2.5 times average earnings projected for a given year in the state budget law. It was PLN 68 700 or 2.5 times average earnings in 2004, PLN 72 690 in 2005, PLN 73 560 in 2006 PLN 78 480 in 2007, PLN 85 290 in 2008 and PLN 95 790 in 2009.

Between 1999 and 2004 pensions in payment were uprated in line with 80% of prices and 20% of average earnings, projected for a given year. Note, however, that from 2005 the minimum indexation is to prices from past years, in years when compounded inflation from the year preceding previous indexation is above 5%. From 2008 pensions in payment are uprated in line with at least 80% of prices and 20% of average earnings in the past year. Indexation of pensions above the minimum level is negotiated with the Tripartite Committee.

Minimum pension

There is a minimum pension under the pay-as-you-go scheme, which was PLN 597.46 per month from March 1, 2006, corresponding to 24% of average earnings.

Defined contribution

Some 7.3 percentage points of the total contribution are diverted to the funded scheme for those compulsorily covered or choosing this option. The law on annuities, adopted by the Parliament at the beginning of 2009 assumes that pension savings will be converted into the single annuity using unisex life tables at retirement age, but not before age of 65. Women, who retire before that year will receive payments based on programmed withdrawal until they reach age of 65. Annuities will be increased by 90% of returns from reserves on annuity companies

It is assumed that at retirement, the accumulated capital will be converted to an annuity, and at the minimum annuities will be price-indexed (used in the model calculation). It has been decided that annuity rates will have to be based on unisex life-tables.

Variant careers

Early retirement

There are no provisions for early retirement in the 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. Possibilities to early retirement have been postponed in years 2007-08 (previously 2006). This extension was a result of lack of proposed ‘bridging pensions’ system. Additionally, from 2005 the miners have their early retirement pension system reinstated according to the pre-1999 rules.

The bridging pensions system that comes into force from 2009 assumes that people working in special conditions (*c.a.* 270 000 workers) will receive a bridging pension up to five years before retirement age. This benefit will be financed from state budget and calculated following the pension formula in the earnings-related system.

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. For old-age pensioners below legal retirement age (in the old pension system), there are limits of income. If the work income is above 70% of average wage, the pension is reduced, if it is above 130% of average wage, the pension payment is suspended.

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 six months, net of social security contributions. From 2004, the averaging period has been extended to 12 months. Maternity leave period is 16 weeks for the first child, 18 weeks for the second child and 26 weeks for multiple births. From December 2006 maternity leave period is 18 weeks for the first child, 20 weeks for the second child and 28 weeks for multiple births. It has been decided that from January 1, 2009 maternity leave period will be 20 weeks for the first and the second child, while it will lasts 31 weeks, 33 weeks, 35 weeks, 37 weeks for multiple births depending on number of children.

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 which corresponds to about 18% of average earnings is used as a base.

In both cases, the government pays the contributions on behalf of the parent on leave.

All periods for which contributions are paid are qualified for minimum pension guarantee.

Unemployment

There is a scheme of pre-retirement benefits, available to unemployed people who were laid off (for example, due to liquidation, bankruptcy or restructuring). Pre-retirement benefits 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 50 and men from 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 (12.22% of the benefit to notional account and 7.3% to defined contribution scheme). All the periods for which contributions are paid are qualified for minimum pension guarantee.

Personal and income tax and social security contributions

Taxation of pensioners

There are no special rules for the taxation of pensioners. The one exception is that employees can deduct PLN 1 155.12 for 2002 (in 2003 it was PLN 1 199.52, between 2004 and 2006 – PLN 1 227, 2007 – PLN 1 302, 2008 - PLN 1335) from their incomes for work-related expenses (although this varies with the number of workplaces and whether the workplace is the same as the dwelling) and this deduction does not apply to pensioners.

Taxation of pension income

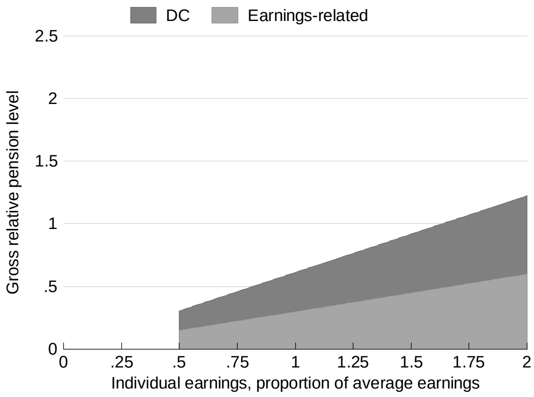
There is no specific tax relief for pensioners.

Social security contributions paid by pensioners

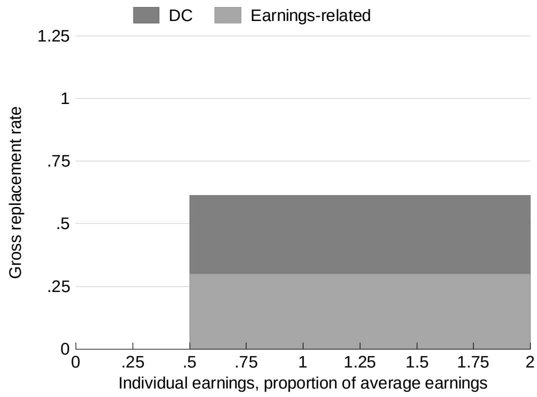
Pension income is not subject to contributions for pensions, unemployment insurance *etc.* However, there is a tax-deductible health-insurance contribution of 7.75%. This contribution started to increase by 0.25 percentage points each year from 2003 to reach the level of 9%, but only 7.75% will be tax deductible. The contribution is paid by both pensioners and workers.

Pension modelling results: Poland

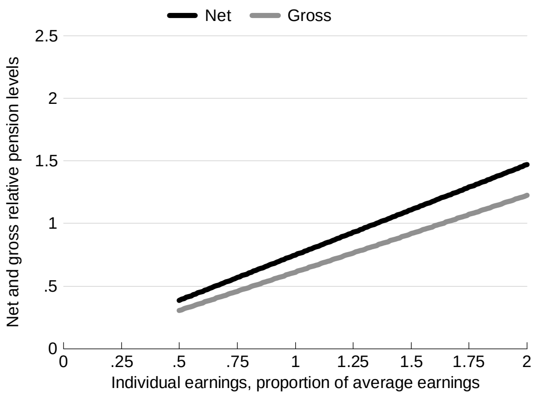
Gross relative pension level



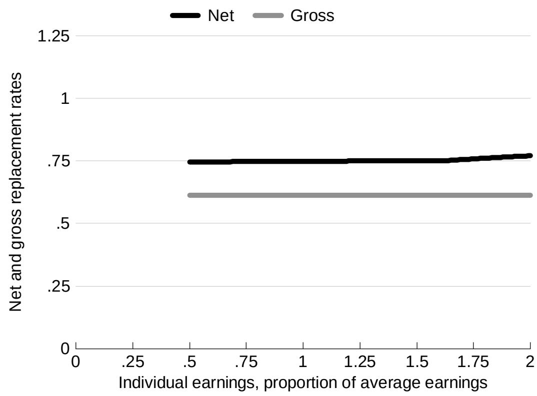
Gross replacement rate



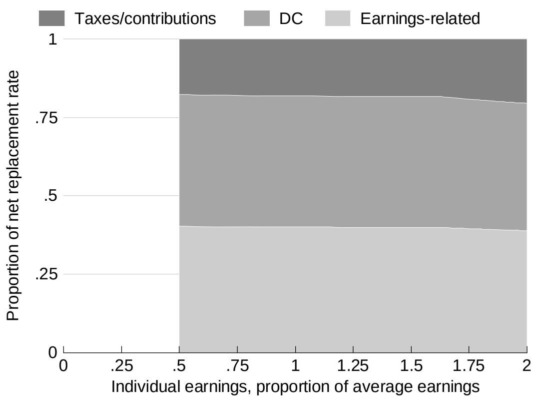
Net and gross relative pension levels



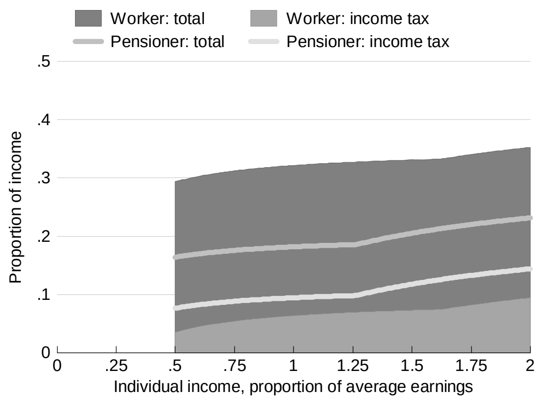
Net and gross replacement rates



Sources of net replacement rate



Taxes paid by pensioners and workers



Men *Women* (where different)	*Median earner*	*Individual earnings, multiple of average*				
		0.5	*0.75*	*1*	*1.5*	*2*
Gross relative pension level	50.2	30.6	45.9	61.2	91.8	122.4
(% average gross earnings)	*36.5*	*24.5*	*33.4*	*44.5*	*66.8*	*89.0*
Net relative pension level	61.9	38.8	56.8	74.9	110.9	147.0
(% net average earnings)	*45.7*	*31.6*	*42.0*	*55.2*	*81.4*	*107.6*
Gross replacement rate	61.2	61.2	61.2	61.2	61.2	61.2
(% individual gross earnings)	*44.5*	*49.0*	*44.5*	*44.5*	*44.5*	*44.5*
Net replacement rate	74.8	74.4	74.7	74.9	75.0	77.0
(% individual net earnings)	*55.2*	*60.6*	*55.3*	*55.2*	*55.0*	*56.4*
Gross pension wealth	8.4	8.4	8.4	8.4	8.4	8.4
(multiple of average gross earnings)	*8.6*	*9.5*	*8.6*	*8.6*	*8.6*	*8.6*
Net pension wealth	7.0	7.2	7.0	7.0	6.9	6.8
(multiple of average net earnings)	*7.3*	*8.3*	*7.3*	*7.2*	*7.1*	*7.1*