POLAND

Poland: pension system in 2008

The 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 the exception of those who could retire early.

Key indicators

		Poland	OECD
Average earnings	PLN	33 700	97 800
	USD	14 000	40 600
Public pension spending	% of GDP	10.6	7.0
Life expectancy	at birth	75.5	78.9
	at age 65	81.2	83.1
Population over age 65	% of working-age population	20.6	23.6

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 funded tier) will be credited to individuals' notional accounts. 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 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 is 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 were uprated in line with at least 80% of prices and 20% of average earnings for a given year. The actual indexation factor is negotiated with the Tripartite Committee. Until 2009, the Committee did not reach the agreement and minimum indexation was applied.

Minimum pension

There is a minimum pension under the pay-as-you-go scheme, which is about 25% of average earnings. From March 1 2008 it was PLN 636.29 and from March 1 2009 – PLN 675.10.

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). From 2008 the minimum pension is adjusted to 80% inflation plus 20% of wage growth, as with other pensions in payment.

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.

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 (temporary capital pensions) based on programmed withdrawal from their individual accounts until they reach age of 65, which are managed by Open Pension Funds. Upon reaching age 65, the balance in their individual accounts is used to purchase life annuities. The temporary pension will be calculated and indexed such as pension from the earnings related tier (used in the model calculation).

There is still no regulation on institutions paying annuities.

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. Eligibility to early retirement has been postponed until the end of 2008. Additionally, from 2005 the miners had their early retirement pension system reinstated according to the pre-1999 rules.

The bridging pensions system that comes 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 5 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.

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 to 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 6 months, net of social security contributions. From 2004, the averaging period has been extended to 12 months. January 1, 2009 maternity leave period will be 20 weeks for one child, while it will last 31 weeks for 2 children, 33 weeks for 3 children, 35 weeks for 4 children and 37 weeks for 5 or more children, depending on the number of children at one delivery.

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 - 2011 the base for contribution payment is minimum wage (c.a. 40% of average wage) and from 2012 60% of average wage. 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 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 qualify for the 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 – PLN1302, 2008 - 2009 – 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

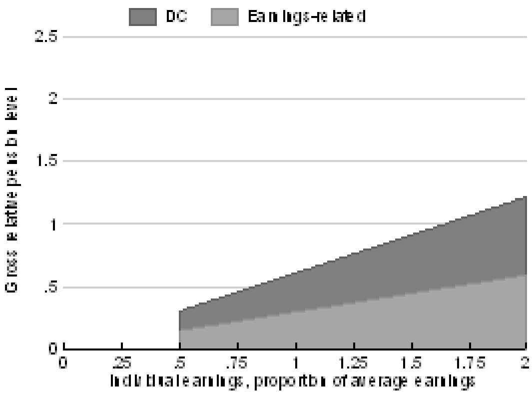
There is no specific tax relief for pensioners.

Social security contributions paid by pensioners

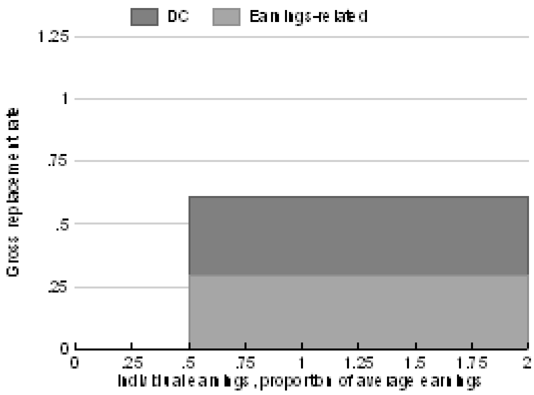
Pension income is not subject to contributions for pensions, unemployment insurance etc. However, there is a tax-deductible health-insurance contribution of 7.75%. This contribution started to increase by 0.25 percentage points each year from 2003 to reach the level of 9%, but only 7.75% will be tax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

Pension modelling results: Poland

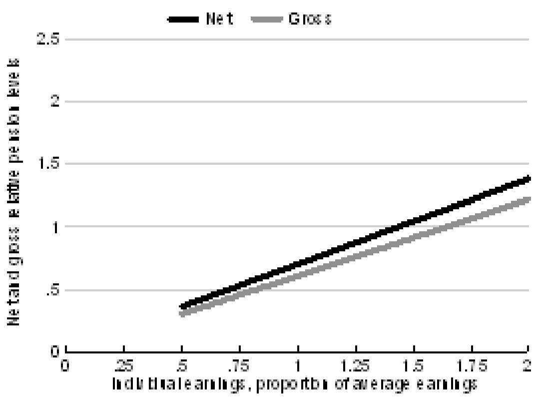
Gross relative pension level



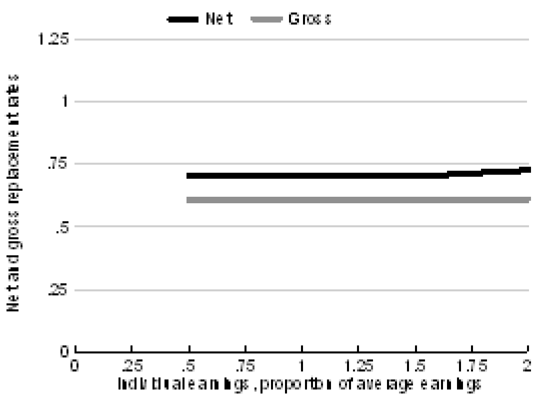
Gross replacement rate



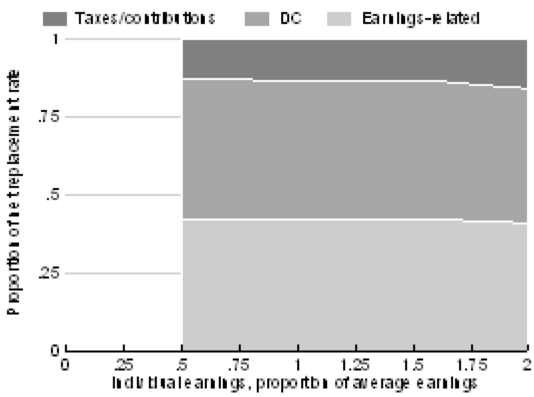
Net and gross relative pension levels



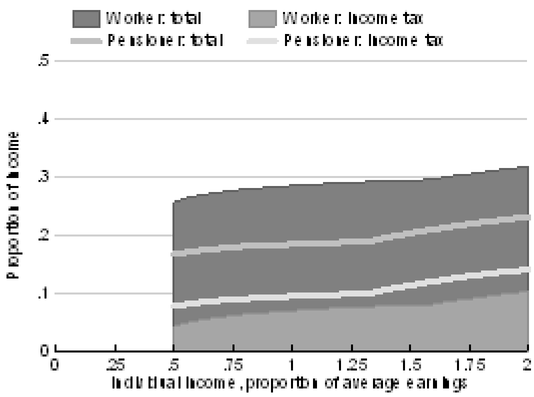
Net and gross replacement rates



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	47.2	29.5	44.2	59.0	88.5	118.0
(% average gross earnings)	34.6	22.6	32.4	43.2	64.8	86.4
Net relative pension level	55.1	35.3	51.8	68.2	101.1	134.0
(% net average earnings)	41.0	27.7	38.6	50.6	74.7	98.8
Gross replacement rate	59.0	59.0	59.0	59.0	59.0	59.0
(% individual gross earnings)	43.2	45.3	43.2	43.2	43.2	43.2
Net replacement rate	68.2	68.1	68.2	68.2	68.3	70.3
(% individual net earnings)	50.7	53.4	50.8	50.6	50.4	51.8
Gross pension wealth	8.4	8.4	8.4	8.4	8.4	8.4
(multiple of average gross earnings)	8.9	9.3	8.9	8.9	8.9	8.9
Net pension wealth	7.0	7.2	7.1	7.0	6.9	6.9
(multiple of average net earnings)	7.5	8.1	7.6	7.4	7.3	7.3