Poland

Poland: Pension system in 2012

The new 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 worker earnings (AW)	PLN	38 900	132 100
	USD	12 600	42 700
Public pension spending	% of GDP	11.8	7.8
Life expectancy	At birth	76.3	79.9
	At age 65	17.1	19.1
Population over age 65	% of working-age population	21.6	25.5

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Qualifying conditions

The minimum pension age has been 65 for men and 60 for women. From 1 January 2013 the retirement age will be increasing by a month in January, May and September each year until it reaches 67 for both sexes (women in 2040, men in 2020). 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 covered wage bill, and no less than price inflation. This notional interest rate is applied retrospectively to accounts from the year 2000.

However we must take into account the creation of additional sub-accounts in the Social Security Fund (ZUS) (this change is described below in "Defined contribution"). The indexation of contributions to sub-accounts is different from contributions to already existing accounts in the Social Security Fund (ZUS). Moreover they will be subject to inheritance.

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 modeling, actuarial data from the UN population database is used.

The ceiling to contributions and pensionable earnings is set at 2.5 times average monthly earnings projected for a given year in the state budget law. In 2012 the ceiling was PLN 105 780 and PLN 111 390 in 2013.

Pension benefits are subject to periodic indexation to account for inflation. As from 2008, the pension indexation has been carried out annually (from 1 March), based on the fixed indexation rate. The pension amount after indexation is calculated by multiplying an individual amount of the benefit by the indexation rate. The indexation rate is understood as an average annual index of consumer goods and services in the preceding calendar year, increased by at least 20% of real growth of average monthly earnings in the preceding calendar year. The indexation rate increase is subject to annual negotiations within the framework of the Tripartite Commission for Socio-Economic Issues. If members of the Commission are not able to reach consensus, the indexation rate is fixed by means of an Ordinance of the Council of Ministers. 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 2011, the indexation rate for pensions was equal to 103.1% (104.62% in 2010 and 106.1% in 2009). 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 104% (from 1 March 2013).

Minimum pension

There is a minimum pension under the pay-as-you-go scheme, which is about 25% of average earnings. The minimum pension was PLN 799.18 from 1 March 2012 and PLN 728.18 from 1 March 2011. The minimum pension is PLN 831.15 from March 2013.

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.

Defined contribution

Some 7.3% of the total contribution was 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 no regulation on institutions paying annuities.

From 1 May 2011 2.3% not 7.3% has been diverted to the funded scheme. The remaining 5% has been placed in a special individual sub-account. These amounts will be valorised by the average annual GDP growth rate (in current prices) of the last five years. The share of contributions allocated in the sub-accounts within the Social Security Fund (ZUS) and in the funded scheme will change until 2017, when it will reach 3.8% and 3.5% respectively. The accumulated capital can be inherited.

Pension contributions to the national and funded scheme

Period	National scheme		Funded scheme	
	%	Sub-account	OPF	Total
To 30 April 2011	12.22	-	7.3	19.52
From 1 May 2011 to 31 December 2012	12.22	5.0	2.3	19.52
From 1 January to 31 December 2013	12.22	4.5	2.8	19.52
From 1 January to 31 December 2014	12.22	4.2	3.1	19.52
From 1 January 2015 to 31 December 2016	12.22	4.0	3.3	19.52
From 1 January 2017	12.22	3.8	3.5	19.52

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 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 and below 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.

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 can not 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.

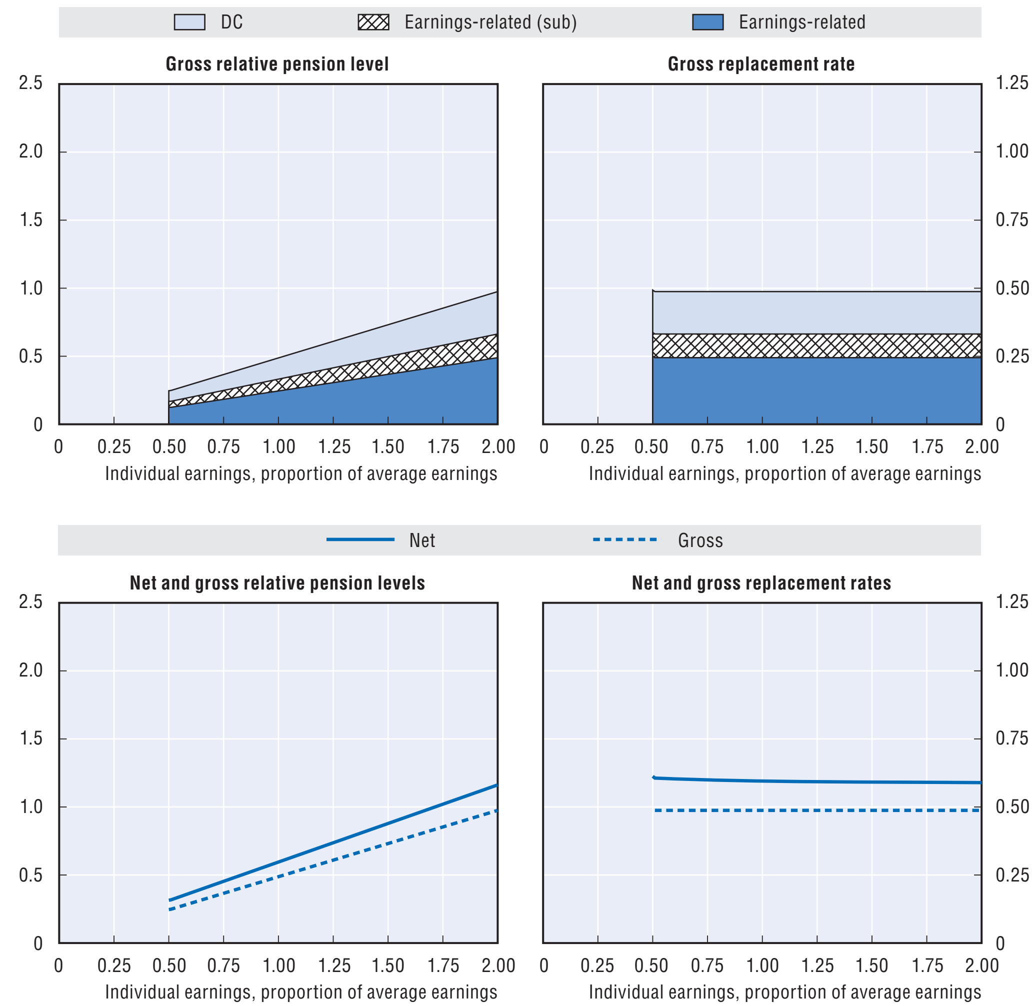
All periods for which contributions are paid qualify for the minimum pension guarantee.

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 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). From May 2011 5% will be paid to sub-account (as described above in the section "Defined contribution"). All the periods for which contributions are paid qualify for the minimum pension guarantee.

Pension modelling results: Poland



Men *Women (where different)*	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	39.0	24.6	36.6	48.8	73.1	97.5
(% average gross earnings)						
Net relative pension level	48.2	31.5	45.4	59.5	87.9	116.2
(% net average earnings)						
Gross replacement rate	48.8	49.3	48.8	48.8	48.8	48.8
(% individual gross earnings)						
Net replacement rate	59.8	61.3	59.9	59.5	59.1	58.9
(% individual net earnings)						
Gross pension wealth	7.0	7.1	7.0	7.0	7.0	7.0
(multiple of individual gross earnings)	*8.3*	*8.4*	*8.3*	*8.3*	*8.3*	*8.3*
Net pension wealth	6.2	6.5	6.3	6.2	6.1	6.0
(multiple of individual gross earnings)	*7.4*	*7.7*	*7.4*	*7.3*	*7.2*	*7.1*

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