

# Poland

## Poland: Pension system in 2016

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. Since 2014 participation in the funded scheme is voluntary.

## Key indicators: Poland

		Poland	OECD
Average worker earnings (AW)	PLN	47 782	153 306
	USD	11 414	36 622
Public pension spending	% of GDP	10.3	8.2
Life expectancy	at birth	77.8	80.9
	at age 65	18.1	19.7
Population over age 65	% of working- age population	24.3	27.9

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## Qualifying conditions

The pension age is 66 years for men and 61 years for women. The pension age had been due to gradually increase to reach 67 years for both sexes. The parliament decided in November 2016 to reverse the previous increase in retirement age, so that the long-term retirement age is 65 for men and 60 for women.

## Benefit calculation

### *Earnings-related*

A contribution of 19.52% of earnings (or 16.6% for workers born after 1948 who decided to continue their participation in the II 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, but not less than price inflation. This notional interest rate is applied retrospectively to accounts from the year 2000.

However, there are also 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 ZUS. Moreover they are 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.

The ceiling to contributions and pensionable earnings is set at 2.5 times the average base amount in the previous calendar year. In 2016 the ceiling was PLN 121 650.

Pension benefits are subject to periodic indexation to account for inflation.

### *Minimum pension*

There is a minimum pension under the pay-as-you-go scheme. The guaranteed minimum old-age pension was PLN 1 000.00 from 1 March 2017.

Indexation is the same as with pensions from the pay-as-you-go system.

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***

Since 2014 the public NDC scheme is the default option. 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 10 years prior to the retirement age.

Alongside 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.

### **Variant careers**

#### ***Early retirement***

There are no provisions for early retirement in the general pension 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. However, an employment contract has to be ended before the withdrawal of a full pension is possible. The pensioner can then 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 six weeks for one child. 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 a 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.

### **Personal and income tax and social security contributions**

#### ***Taxation of pensioners***

There are no special rules for the taxation of pensioners.

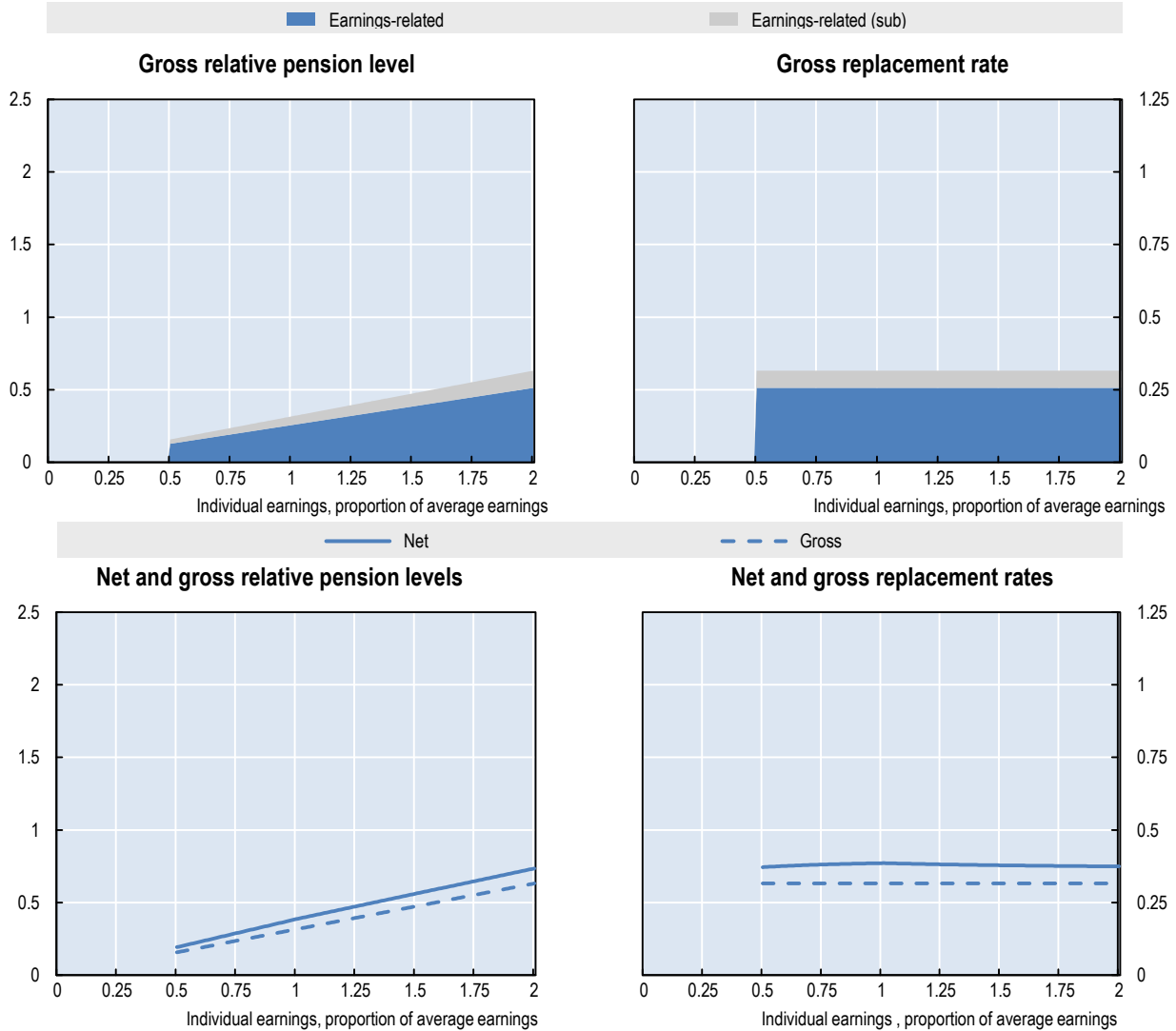
#### ***Taxation of pension income***

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 9%.

## Pension modelling results: Poland in 2061 retirement at age 65 (men)



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	15.8	23.7	31.6	47.4	63.2	80.4
Net relative pension level (% net average earnings)	19.3	28.9	38.6	56.1	73.5	92.5
Gross replacement rate (% individual gross earnings)	31.6	31.6	31.6	31.6	31.6	26.8
Net replacement rate (% individual net earnings)	37.2	38.1	38.6	37.9	37.5	31.2
Gross pension wealth (multiple of individual gross earnings)	5.4	5.4	5.4	5.4	5.4	4.6
Net pension wealth (multiple of individual net earnings)	6.4	6.5	6.6	6.5	6.4	5.4

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 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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