Pensions at a Glance 2017

How does POLAND compare?

5 December 2017

Key findings

- The pace of pension reform slowed down in OECD countries between 2015 and 2017 compared to the previous years; Poland, by contrast, undertook a reform with large repercussions.
- Poland restored the statutory retirement age of 65 years for men and 60 for women, thus withdrawing from the 2013 commitment to increase the retirement age to 67 by 2020 for men and by 2040 for women. Hence, in October 2017, the statutory retirement age decreased by 14 months.
- Poland is one of only three countries which will retain different normal retirement ages for men and women; the others are Israel and Switzerland.
- The decrease in the retirement age lowers replacement rates. A male full career, average earner starting work at age 20 is projected to receive 39% of net previous earnings from mandatory pension schemes; for women the rate is 34%; the OECD averages are 63% and 62%, respectively.
- Upon reaching retirement age, the Polish pension system provides incentives to work and defer pension as well as combining work and pension. No early retirement option exists for private-sector workers in the mandatory scheme.

Overview – Reduced retirement age puts pension adequacy at risk

Over the last two years Poland, Canada, the Czech Republic, Finland and Greece undertook pension reforms with potentially large impacts. Poland, like the Czech Republic, eliminated past commitments to increase the retirement age. Rather than raising the retirement to 67 years by 2020 for men and by 2040 for women, Poland decreased the current retirement age by 14 months to 65 for men and 60 for women from October 2017.

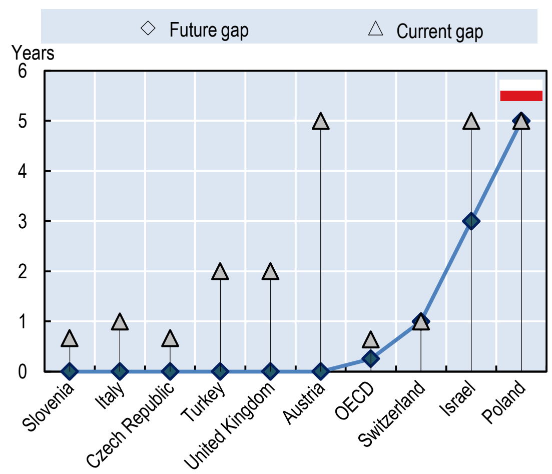
In nine OECD countries the retirement ages are lower for women than for men but only Poland, Israel and Switzerland are not planning to eliminate the gap for people entering the labour market in 2016; at 5 years the gender gap in Poland is the highest. This will hamper closing the employment gender gap at older ages: among the 55-64, the employment rates were only 38% for women and 56% for men in Poland in 2016 compared with the OECD average of 51% and 68%, respectively.

Retiring at the reduced statutory pensionable age lowers benefits. In Poland, the pension is determined by lifetime contributions and remaining life expectancy at the time of retirement. Retiring earlier lengthens the expected remaining life and therefore automatically reduces pensions by around 6% per year.

Lower pensions will result in a higher number of people, especially women, relying on minimum pensions, which will in turn weaken the financial balance of the public pension scheme. Contrary to the regular earnings-related pensions, minimum pensions are not fully covered by past contributions and require additional financing sources.

Gender gap in retirement age will be the highest in Poland

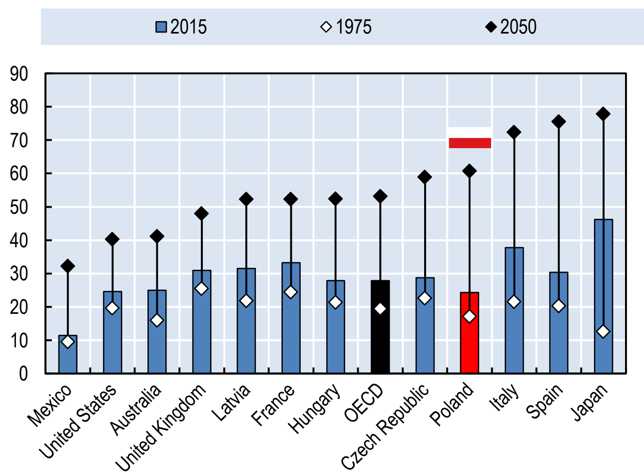
normal retirement age for those retiring in 2016 (current) and starting career at age 20 in 2016 (future)



Source: [Figure, page 94].

Population is ageing faster than OECD on average

Number of people older than 65 years per 100 people of working age (20-64), 1975-2050



Source: [Figure 1.1].

Poland offers no early retirement for private-sector workers in the mandatory pension scheme but the lowered retirement age provides flexibility to decide on the timing of retirement. Abolishing early retirement options for selected occupations contributed to a substantial reduction in the number of early retirees, from 16% of total pensioners in 2006 to 9% in 2014. Among European OECD countries, only Ireland and Italy observed larger falls.

Working after the statutory retirement age with or without claiming a pension is not restricted in Poland. Each year of working longer and deferring a pension results in a benefit increase of around 6%.

Moreover, Poland is one of the few European OECD countries that do not allow employers to set an age when an employee has to retire. Nevertheless, the employment rate among 65-69 year olds at 10% is much lower than the OECD average of 26%.

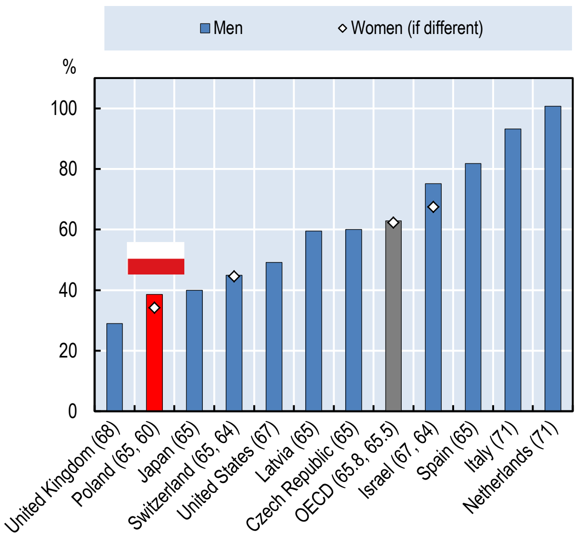
Population ageing is accelerating in Poland. Between 2015 and 2050, the number of people older than 64 per 100 people of working age (20-64) will increase from 24 to 60. As a result Poland's old-age dependency ratio will move from below to substantially above the OECD average. Due to automatic adjustments of both notional accounts to wage bill and GDP growth and pensions to life expectancy, population ageing will lower pension benefits unless workers fully compensate by working longer.

The future replacement rates in Poland are projected to be among the lowest in the OECD. A full-career average earner can expect the net pension to be 34% or 39% of previous earnings for men and women, respectively, against corresponding OECD averages of 62% and 63%. Those with shorter or patchy careers will have even lower benefits due to the very close link between contributions and pensions. Currently, the relative income of older people in Poland is high compared to other OECD countries. The average income of 66-75 year olds and those over 75 is only 9% and 8% lower, respectively, than for the population as a whole, while the corresponding values for the OECD are 7% and 20%. Similar incomes of the 76+ and the 66-75 are observed only in Poland, reflecting the reduction of the benefits caused by replacing the financially unsustainable defined benefit schemes with the notional defined contribution scheme in 1999.

Increasing labour market participation is key to increase future pensions without raising contributions or affecting public finances. Between 2000 and 2016 the employment rate of 55-64 year olds rose in Poland by 18 p.p. compared to the increase of 14 p.p. in the OECD on average. However, at 46%, it remains substantially below the OECD average of 59%. The decrease of the retirement age will make it even more challenging to increase employment of older workers further..

Replacement rates are among the lowest in the OECD

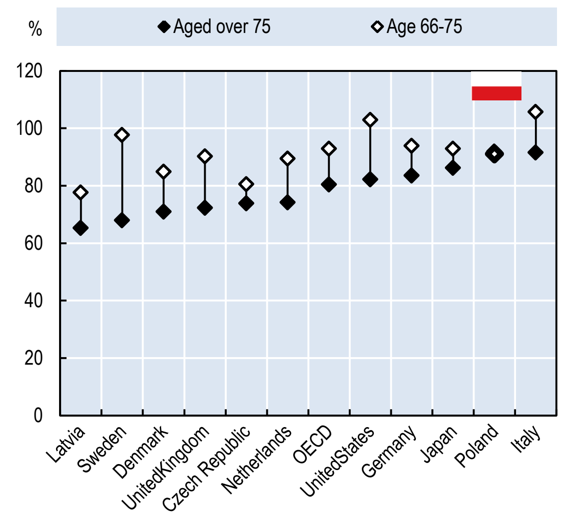
Net pension replacement rates from mandatory schemes for a full career average earner, retirement ages for men and women (if different) in brackets



Source: [Table 4.8].

Income increases with age among current pensioners in Poland

Average income of the selected age groups relative to the population average



Source: [Table 6.1].

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