Pensions at a Glance 2019

How does Poland compare?

27 November 2019

Key findings

- Population ageing is accelerating, largely as a lagged consequence of low fertility and high emigration. Between 2020 and 2050, the number of people aged 65 and over per 100 people of working age (20-64) will increase from 30 to 60, shifting Poland from just below to substantially above the OECD average.
- The normal retirement age will be low, especially for women, who will be able to retire at 60. Poland is one of only five OECD countries which will retain different normal retirement ages for men and women.
- The notional defined-contribution PAYGO scheme (NDC) adjusts benefits to the effective age of retirement, and thus, low retirement ages contribute to much lower future pension replacement rates than in the OECD on average.
- The newly introduced occupational saving scheme (PPK) can improve pension prospects if it succeeds to rebuild confidence in private pensions, which was undermined by reversals in the mandatory funded scheme (OFE).
- Non-standard work accounts for more than one-third of total employment on average in OECD countries and even more than that in Poland. Some temporary contracts are excluded from pension protection.
- Most self-employed workers pay low contributions because only a flat-rate amount is mandatory, which automatically lowers future benefits in the NDC scheme. A self-employed worker can expect a future pension equal to 60% of that of an employee with similar income in the case of a full-career at the average wage, compared with an OECD average of 79%. Basing contributions on actual income would improve future pensions of the self-employed.

Low future pensions raise concerns

Pension prospects are weak in Poland. The future replacement rates from mandatory schemes are projected to be among the lowest in the OECD. A full-career average earner entering the labour market in 2018 at age 22 can expect a net pension of 35% or 27% of previous net earnings for men and women, respectively, against OECD averages of 59% and 58%. Only Lithuania, Mexico and the United Kingdom have lower values.

In 2017, the government reversed the decision to increase pension ages to 67 for both men and women by 2020 and 2040, respectively and cancelled the small increase that had already been implemented, reverting to age 65 for men and 60 for women. Lower statutory retirement ages tend to shorten working careers but pension benefits can be increased by postponing retirement beyond the statutory retirement age. For men or women at the average-wage retiring at age 67, i.e. two or seven years above the future statutory retirement age, the net replacement rate would reach 41%.

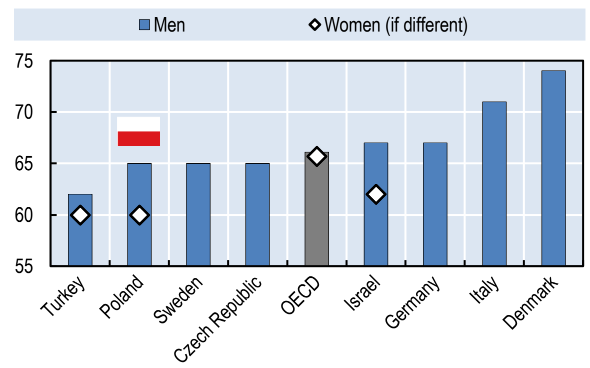
In one-third of OECD countries normal retirement ages are lower for women than for men, but only Hungary, Poland, Israel, Switzerland and Turkey are not planning to eliminate this gender gap, which at 5 years is the highest in Israel and Poland.

Population ageing will be faster in Poland than in the OECD on average because, on top of the expected increase in longevity, the size of population aged 20-64 is expected to shrink by 36% between 2020 and 2060, substantially more than the OECD average of 10%. Only Korea, Latvia and Lithuania expect larger declines in working-age population.

Both increases in longevity and shrinking aggregate employment lower pension benefits through automatic adjustments built into the NDC. Similar adjustment mechanism operate in NDCs in Latvia, Italy and Sweden as well as in other pay-as-you-go schemes in Germany, Japan and Spain.

The adjustment of benefits to employment size is expected to substantially lower future pensions in Poland. For example, were the aggregate employment constant over the next 40 years, the future net replacement rate would be 44% at age 65, compared to 35% in the baseline projection, which assumes the aggregate employment to decrease by 36%, following the dynamics of the working-age population.

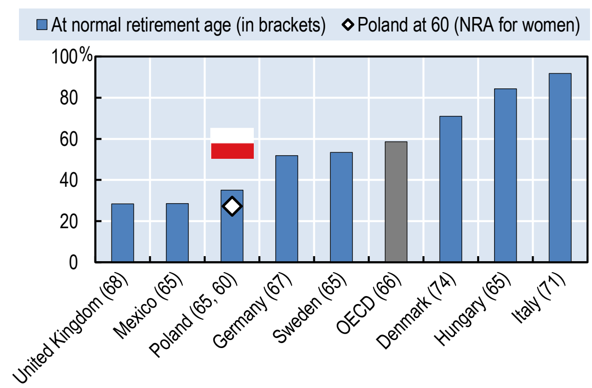
Future retirement age is low, especially for women



Source: [Figure 4.4]

Future pension prospects are weak

Net replacement rate, average-wage earners, full career



Source: [Figure 5.4].

So far, the shrinking employment base has not been observed in Poland due to surprisingly strong recent immigration. Between 2013 and 2018, the number of immigrants contributing to pensions increased by half a million, or around 3% of all workers. Still, to ensure stable population structure, the number of immigrants would need to soar ten times more to almost six million by 2028, according to a recent report of the Polish social-security agency.

The future pensions in Poland are low despite a high pension contribution rate. At 27.5%, the pension contribution rates are higher only in the Czech Republic and Italy. This high contribution rate covers old-age, disability and survivor pensions but only a 19.5% contribution rate builds up pension entitlements in the NDC, still above the OECD average of 18.4%.

The recent introduction of an auto-enrolment occupational savings scheme (PPK) might improve future pension prospects by adding another component to the pension pot. From 2019, large companies must enrol their employees into PPK. Smaller companies will follow from 2020 and 2021, but self-employed workers will not be covered. Unless opting out, employees will pay at least 2% of their wages which will be topped up with 1.5% contributions from employers and a flat-rate public subsidy of around 0.5% of average wage. Upon reaching 60 years, 25% of assets will be paid out in a lump-sum while the rest will be paid out in 120 monthly instalments. Thereby, PPK will not provide a lifelong stream of payments, unless voluntarily annuitised. If all the assets from PPK were annuitised at age 65, the net replacement rate of a full-career average earner would increase to 49%, following the standard OECD assumptions.

The challenge for the new scheme is to build up confidence in private retirement savings which has been undermined by previous reversals in Poland after the introduction of the funded scheme in 1999. Initially, around one-third of the total mandatory pension contributions of younger workers were paid into the so-called open retirement funds (OFE). Between 2011 and 2014, following a strong deterioration in public finances induced by the global financial crisis, two-thirds of OFE contributions and around half of assets (held in government bonds), with corresponding pension liabilities, were redirected to the NDC and the participation in OFEs became voluntary.

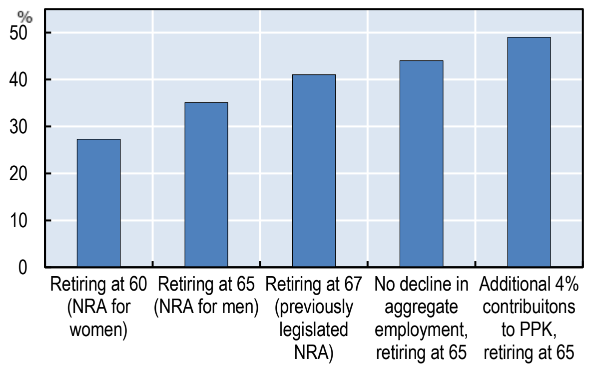
The government is planning to ultimately close OFE in 2020 by giving participants two options. They will be able to transfer their remaining assets to individual accounts in either the NDC or in private institutions. The latter option will be the default and it will result in a 15% one-off tax cut as the pay-outs from these private accounts will be tax-free while the initial contributions to OFEs were exempted from taxation.

Non-standard work accounts for more than one-third of total employment on average in OECD countries and even more in Poland. Temporary work boomed from 12% of dependent employment in 2001 to above 25% in 2007, i.e. to around twice the OECD average, and it has fluctuated slightly above this level ever since. By contrast, part-time employment shrank from 10% to 5% between 2000 and 2017, substantially below the OECD average of 15%. Similarly, the long-term downward trend of employment in agriculture led to a decline in self-employment to 18% of total employment in 2017, still above the OECD average at 15%.

Many non-standard workers can expect pension prospects to be even worse than for employees. Some temporary work results in no pension contributions and entitlements, and work tenure of less than 6 months might result in exclusion from the newly introduced PPK retirement scheme. The self-employed can expect even lower pensions than employees despite the fact that contributing to NDC is mandatory. The self-employed can choose the contribution base as long as it is lower than the ceiling and higher than the minimum, without any link to actual income. The minimum contribution base at 60% of average wage is, along with Slovenia, the highest among around half of OECD countries that set such a threshold. This design of contributions, as in Spain, means that low earners face high effective contribution rates while higher earners effectively pay very low contributions. For these reasons, Poland lowered the minimum contribution threshold for some self-employed workers with low revenues (as opposed to income) in 2019.

Long careers, high contributions and stable aggregate employment would increase future pensions in Poland

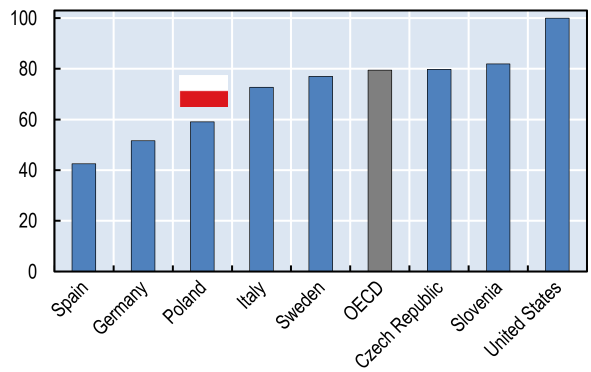
Net replacement rates for average earners, full career



Source: [Figure 5.4].

Self-employed workers will receive very low pensions

Gross pensions of the self-employed as % of employees, with similar careers and earnings



Source: [Figure 2.13].

Contact: Maciej Lis (+33 1 85 55 45 09; maciej.lis@oecd.org), Hervé Boulhol (+33 1 45 24 84 58 ; herve.boulhol@oecd.org)