



Reversing the 2013 retirement age reform in Poland

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The Polish President and government have proposed a reversal of the scheduled increase of the legal retirement age to 67 years. If and when the proposal will come into force, the pension age in Poland will again be lowered to 60 for women and 65 for men. This decision is likely to result in lower pensions, stagnation of the employment of older workers and a worsening of the financial sustainability of the pension system.

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Description

The Polish government's new proposal aims at lowering the retirement age to 60 years for women and 65 years for men, which is a step back from previous reforms.

In recent years, Poland introduced two major reforms increasing the actual and statutory retirement age. The first reform, in 2009, was to reduce retirement before the statutory pensionable age. Though the statutory retirement age was 60 (women) and 65 years (men), there were many possibilities to retire earlier. Polish workers could retire at age 55 (women) or 60 (men) if they had a long work career or if they worked in a job covered by the broad list of conditions giving access to early retirement. The 2009 reform significantly tightened the list of working conditions that give right to early retirement. As a result, the actual retirement age in Poland increased from around 59 to 61 for men and from around 56 to almost 60 for women. At the same time, between 2008 and 2014 the employment rate for people aged 55-64 increased from 31.6% to 42.5% (Eurostat figures).

The second reform was to increase the statutory retirement age. From 2013, this age was increased gradually by 4 months per year; it should have reached 67 for men in 2020 and for women in 2040. The expected outcome of this reform was an improvement in the adequacy of pensions. According to

the previous government estimates, the reform should have led to an increase in the pension level of up to 20% for men and up to 70% for women. Even with this reform fully in force, the challenge of pension adequacy would have remained severe in Poland. The projected net theoretical replacement rate (TRR) at standard pensionable age in 2053 is estimated at 43.4% - i.e. an average wage earner who started his career in 2013 at the age of 25 could expect 43.4% of his last wage as a pension payment. By way of comparison, the net TRR for retirement age at 65 (instead of 67) would be 37.7%; it would be 35.9% for a retirement age of 63. In both cases, there is a noticeable decline of the net TRR for a person retiring in 2013, amounting to 74.2% (European Commission, 2015).

The increase in the retirement age to 67 would also have improved the financial stability of the pension system, by extending working lives, and therefore increasing revenue from social security contributions. The change would also have contributed to a rise in the employment rate for the population aged 55 and over, resulting in an annual increase of Polish Gross Domestic Product of 0.1 percentage point.

The increase in the retirement age was not supported by society. According to an opinion poll, 83% of Poles did not approve of it (CBOS, 2011). This issue was therefore one of the important

topics raised during the presidential and parliamentary election campaigns in Poland in 2015.

The return to the previous retirement ages (60/65) was announced by the Prime Minister, Beata Szydło, in her speech on November 18th, 2015 (Prime Minister of Poland, 2015). The draft law reducing the retirement age was proposed by the President (President of Poland, 2015) on November 30th, 2015. The main arguments presented in the proposal include the following:

- The current socio-economic situation in Poland, including the functioning of the labour market and the healthcare system, does not justify an increase of the retirement age in Poland.
- The traditional family model in Poland justifies a lower retirement age for women.

In the impact assessment, the proposal suggests that the reduction of the retirement age will help to find jobs for young people as well as improving access to family care for children, provided by the grandmothers. The fiscal impact of the change for years 2016-2019 is estimated at 40 bn PLN (around 9 bn EUR).

The legislative process has been initiated and the public hearing of the law took place on January 12th, 2016.

Outlook & Commentary

The proposed reversal of the increase in the retirement age is a response to current societal expectations; it is not based on a careful consideration of future social and economic

consequences. Since Poland has one of the fastest-ageing populations in the EU (the old-age dependency rate is projected to almost triple from 20.5 in 2013 to 61 in 2060), an increase in the retirement age is inevitable. Frequent changes in the pension system can potentially lead to a reduced trust in the system and its institutions (according to a Social Diagnosis survey 42% of Poles don't trust the Social Security Institution).

The proposed reversal raises many concerns among employers' organisations and experts. The Polish Employers' Association Lewiatan points out that it will reverse the trend of a rising employment rate for older workers and lead to discrimination against women, as well as reducing incentives for life-long learning. Experts also point out that the change will deepen the deficit in the social insurance system. It would also not lead to the creation of new jobs for young people.

The change runs counter to the recommendations presented in the European Commission's White Paper on Pensions (2012), which underlines the necessity to prolong working lives. Maintaining different retirement ages for men and women will also significantly increase the risk of low pension levels and of a higher share of minimum pensions being paid to women in the future (Chłoń-Domińczak & Strzelecki, 2013). This proposal does not refer to the increased risk of poverty for women.

Further reading

CBOS. (2012). Nadal nie przekonani - Polacy o podniesieniu wieku emerytalnego. http://www.cbos.pl/SPISKOM.POL/2012/K_057_12.PDF

Chłoń-Domińczak, A., & Strzelecki, P. (2013). The minimum pension as an instrument of poverty protection in the defined contribution pension system – an example of Poland. *Journal of Pension Economics and Finance*, (April), 1–32.

European Commission. (2015). The 2015 Pension Adequacy Report: current and future income adequacy in old age in the EU Country Profiles (Vol. II).

President of Poland. (2015). Przedstawiony przez Prezydenta Rzeczypospolitej Polskiej projekt ustawy o zmianie ustawy o emeryturach i rentach z Funduszu Ubezpieczeń Społecznych oraz niektórych innych ustaw.

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