

## *Analysis and assessment of changes in the statutory retirement age in Poland*

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*Abstract.* The aim of the article is to analyse and evaluate the anticipated consequences of the changes to the statutory retirement age in Poland, which will be introduced starting 1 October 2017. Despite the lengthening life expectancy in Poland, the Polish government decided to reduce the statutory retirement age and set it at the level of 60 years for women and 65 years for men. This was the realization of promises of president Andrzej Duda and of the ruling Law and Justice party (PiS) made in the election campaigns of 2015. It was also a reversal of the reform by the previous government, which had introduced a gradual extension of the statutory retirement age starting in 2011. The reduction of the statutory retirement age in Poland will have a significant impact on the economic and social situation in the country, as well as on the sustainability of the Polish pension system. The expected impact on the labour market, the dynamics of GDP and the general macroeconomic situation will be negative. Also, the deficit in the Social Insurance Fund will increase. Microeconomic analysis shows significant threats (for example lower pension benefits, lower replacement rates in the pension system, greater poverty risk in old age). Evaluation of the social impact of changes in the retirement age is more complex. Due to their individual life situations, many Polish citizens are ready to accept even lower pension benefits if they then have a chance to retire at the age of 60 or 65, but many others are ready to work longer. The introduction of a minimum retirement age of 60 for women and 65 for men does not imply an obligation, but a right to retire which one may take advantage of or not. The author points out the public educational activities that should be introduced to make decisions about retirement or working longer more rational.

*Keywords:* statutory retirement age, employment, pension rights.

*JEL Codes:* J32, J38, H55.

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## 1. Introduction – the statutory retirement age as one of the basic parameters of the pension system

The statutory retirement age is one of the main and relevant parameters of pension systems [Pacud 2016; Żukowski 2013; Blake 2006; Barr, Diamond 2006]. The State is responsible for the determination of the age, but this raises a number of controversies both for the theory of social policy, as well as for different groups of stakeholders. It especially concerns employers, employees, current and future retirees, as well as politicians, who are all too familiar with this important social problem. Establishing the retirement age has both economic and financial dimensions closely related to demographic and legal ones (the realization of the pension entitlement), as well as an institutional one (the obligation of state institutions to pay benefits for the elderly in an efficient and effective manner).

The literature of social policy highlights the need to take different circumstances into account in determining the statutory age of entitlement to receive pensions. The predicted state of public finances should not be the only prerequisite, albeit a very important one. At stake are also legal conditions (compliance with the Constitution, European law and international law), as well as important social considerations (e.g. the question of whether the statutory retirement age should be fixed at the same level for all, or take into account the different life situations of women and men, or of persons engaged in certain occupations, etc.). Obviously, the State is obliged to alter the statutory retirement age in a way to adjust the legal system to economic, demographic and social conditions. One of the basic questions regarding the retirement age has been very aptly formulated by Radosław Pacud in the form of the following dilemma: „... *Shall we raise the retirement age as a rule, including that of men and women, or change other factors in insurance technique?*” [Pacud 2016, p. 2]. After all, different scenarios are possible. These are based on changes in other parameters of a pension system without increasing the statutory retirement age. For example, this may be by lengthening the required insurance period, increasing pension contributions (or general taxes) for financing public pension systems, perhaps the least popular solution, reducing retirement benefits without increasing the statutory retirement age, or mixing different means to keep the pension system financially sustainable.

An additional impulse for the discussion about the statutory retirement age in Poland<sup>2</sup>, which has long been underway in the scientific community involved in public policy and pension economics, has become a presidential project and the now enacted legislation to return to the previously applicable statutory retirement age (65 years for men and 60 for women). At the time of writing of this article (April 2017) one of the key slogans of the presidential election campaign and

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<sup>2</sup> The current retirement age (valid until 30 September 2017) was determined by the [Act of 11 May 2012]. Based on that, beginning on 1 January 2013, the public pension scheme began the process of gradual extension and equalization of the pensionable age of 65 years for men and 60 for women, until the pensionable age reaches 67 for both sexes.

the parliamentary elections in Poland has already been implemented. The Sejm (Polish parliament) passed a law, which provides for a reduction starting on 1 October 2017, of the retirement age to 60 years for women and 65 years for men. This is a reversal of the scheduled increase of the legal retirement age to 67 years for both genders.

Lowering of the statutory retirement age will soon be applied, in spite of many critical opinions, especially from economists and pension experts [e.g. Chłoń-Domińczak 2016]. This does not mean that further discussion about this subject is pointless. Still, there is a need for serious analysis and discussion on the economic and social consequences of the changes of this basic parameter of the pension system, which also has an impact on the situation on the labour market, on the state of economy and public finance in the short and long run.

The aim of this article is to examine and evaluate the impact of the anticipated changes in the statutory retirement age in Poland on the state of the economy and public finances (evaluation from a macroeconomic perspective) and on the amount of pension benefits for future retirees (microeconomic perspective). The economic consequences of the changes will be compared with the results of a social nature (the issue of acquired rights, the right to take the decision to retire or to continue the work according to individual preferences and circumstances of the participant in the pension system).

## **2. Overview of the theoretical concepts concerning changes to the statutory retirement age**

Research on changes to the statutory retirement age in Poland is carried out mostly on the basis of economics and the social security law. The first kind of considerations – carried out within the framework of the pension economics – present the consequences of the restoration of the retirement age previously in force (60 years for women and 65 for men) for the public finances and the labour market (macro), and for the various participants in the pension system (micro). Representative for this group are the works of Marek Góra [Góra 2016], Joanna Rutecka [Góra, Rutecka 2013], Agnieszka Chłoń-Domińczak [Chłoń-Domińczak, Góra, Rutecka-Góra 2016], Kamila Bielawska [Bielawska 2015], Sylwia Pieńkowska-Kamieniecka [Bielawska, Pieńkowska-Kamieniecka 2015] or Magda Malec, Joanna Tyrowicz [Malec, Tyrowicz 2017]. The second group consists of the works on social security law, exposing such issues acquired rights and other specific problems of regulations related to the statutory retirement age [Andrzejewski, Pacud 2016; Pacud 2016].

The dependence of benefits on the retirement age (the schedule) is an important indicator in any public pension system. In the literature on pension issues, a consensus can be observed concerning the positive impact of extension of the minimum statutory retirement age on the long-term sustainability of pension systems and reduction of subsidies to social security systems. Demographic and economic forecasts suggest that making workers accept the necessity of working longer is

indispensable if public Pay-As-You-Go (PAYG) pension schemes are to provide adequate income for the elderly in the decades to come [e.g. European Commission (EC) 2012a; 2012b]. The old-age dependency ratio<sup>3</sup> is to increase by the year 2060 from an EU-wide average of approximately 29% to just above 50% [Eurostat 2016a]. This means that the proportion of persons of working age in relation to the number of persons of post-working age will change from about 3:1 in 2016 to only about 2:1 in 2060. In this situation, promoting a longer working life and increasing workers' productivity is crucial for the sustainability of pension systems, but also for national economies as a whole [Demonkos 2015, p. 134]. Extending the statutory retirement age in response to the increase in life expectancy has been also recommended by experts of international organizations (EC, OECD). For example, in an OECD comparative study of pension systems, it was stated that *“the most popular measure was to strengthen the incentives to work by increasing the minimum retirement age and/or the main retirement age, thereby enlarging the contribution base while preserving adequacy for those who are able to work longer”* [OECD 2015a, p. 20]. Such pension reforms have been evaluated as *“progressive”* for the prospect of the improvement of financial sustainability.

However, there are also analyses that indicate negative consequences of extending the statutory retirement age for certain demographic cohorts and labour groups. For example, Andras Simonovits describes an interesting paradox of pension schemes with a defined contribution formula, such as the Polish pension system since 1999: *“The nonfinancial defined contribution (NDC) pension system has recently become popular mainly because of its alleged [sic] actuarial fairness. Using the framework of mechanism design with adverse selection, these systems have theoretically been criticized because they neglect the resulting regressive intracohort redistribution: longer lived workers retire later and are rewarded as if their life expectancies were average”* [Simonovits 2013]. Behind the close link between lifetime contributions and annual benefits, there is a hidden regressive lifetime redistribution from the poorer to the richer. Upper-income people enter the labour force later in life and live longer after retirement [Breyer, Hupfeld 2009]. Comparative studies conducted in Denmark, France, Germany, Italy, the Netherlands, Poland, Sweden and the United Kingdom proved that only a minority of employers have applied measures to recruit or retain older employees [Conen, Henkens, Schippers 2012].

### 3. Current pensionable age in selected EU countries

Most countries in the EU and many other developed countries have already extended their statutory retirement age or at least started a process of change aimed at this direction (see Table 1).

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<sup>3</sup> The old age dependency ratio is the ratio between the number of persons aged 65 and over (age when they are generally economically inactive) and the number of persons aged between 15 and 64. The value is expressed per 100 persons of working age (15-64).

Table 1. Current (2017) and future retirement age in EU Member States

	Current general retirement age		Future retirement age			
	men	women	men		women	
	age	age	age	year	age	year
<b>AT</b>	65	60	65	2033	65	2033
<b>BE</b>	65	65	67	GP 2030	67	GP 2030
<b>BG</b>	65	62	65	2020	63	2020
<b>CY</b>	65	65	65+	2018	65+	2018
<b>CZ</b>	63 <sup>2</sup> / <sub>12</sub>	58 <sup>4</sup> / <sub>12</sub> - 62 <sup>4</sup> / <sub>12</sub>	67	2041	67	2041
<b>DE</b>	65 <sup>5</sup> / <sub>12</sub>	65 <sup>5</sup> / <sub>12</sub>	67	2031	67	2031
<b>DK*</b>	65; 67	65; 67	67	2022	67	2022
			67+	2030	67+	2030
<b>EE</b>	63 <sup>3</sup> / <sub>12</sub>	63 <sup>3</sup> / <sub>12</sub>	65	2026	65	2026
<b>EL</b>	67	67	67+	2021	67+	2021
<b>ES</b>	65 <sup>5</sup> / <sub>12</sub>	65 <sup>5</sup> / <sub>12</sub>	67	2027	67	2027
<b>FI*</b>	63-68; 65	63-68; 65	65	2027	65	2027
			65+	2030	65+	2030
<b>FR</b>	65 <sup>4</sup> / <sub>12</sub>	65 <sup>4</sup> / <sub>12</sub>	67	2023	67	2023
<b>HR</b>	65	61 <sup>9</sup> / <sub>12</sub>	67	2038	65	2030
					67	2038
<b>HU</b>	62 <sup>6</sup> / <sub>12</sub>	62 <sup>6</sup> / <sub>12</sub>	65	2022	65	2022
<b>IE</b>	66	66	68	2028	68	2028
<b>IT</b>	66 <sup>7</sup> / <sub>12</sub>	65 <sup>7</sup> / <sub>12</sub>	67+	2022	67+	2022
<b>LT</b>	63 <sup>6</sup> / <sub>12</sub>	62	65	2026	65	2026
<b>LU</b>	65	65	na.			
<b>LV</b>	62 <sup>9</sup> / <sub>12</sub>	62 <sup>9</sup> / <sub>12</sub>	65	2025	65	2025
<b>MT</b>	62	62	65	2027	65	2027
<b>NL</b>	65 <sup>9</sup> / <sub>12</sub>	65 <sup>9</sup> / <sub>12</sub>	67+	2022	67+	2022
<b>PL**</b>	65 <sup>7</sup> / <sub>12</sub>	60 <sup>7</sup> / <sub>12</sub>	65	10.2017	60	10.2017
<b>PT</b>	66 <sup>3</sup> / <sub>12</sub>	66 <sup>3</sup> / <sub>12</sub>	66+	2020	66+	2020
<b>RO</b>	65	60 <sup>6</sup> / <sub>12</sub> - 60 <sup>8</sup> / <sub>12</sub>	66.3	2030	61.3	2030
<b>SE*</b>	61-67; 65	61-67; 65	na.			
<b>SI</b>	65	65	na.			
<b>SK</b>	62 <sup>2</sup> / <sub>12</sub>	59 - 62 <sup>2</sup> / <sub>12</sub>	62+	2017	62+	2017
<b>UK</b>	65	63 <sup>7</sup> / <sub>12</sub> - 64 <sup>3</sup> / <sub>12</sub>	67+	2028	67+	2028
			68	2046	68	2046

Source: Author's own elaboration based on MISSOC data base [state from 30.04.2017].

Notes: GP: Government proposal or plan of equivalent administrative level; \* FI, SE, DK: the retirement age of the earnings-related pension has been separated from that of the national pension with a semicolon. \*\* PL – starting 1 October 2017 retirement age 60 years for women and 65 years for men. +: Retirement age rising along with the increasing life expectancy. na: not available.

As previously mentioned, increasing the statutory retirement age is one of the methods to adapt pension systems to extended life expectancy. Other methods of adapting social protection systems to demographic processes and changes in the labour market are, among others [OECD 2016]:

1. diversification the sources to finance retirement;
2. development of funded private pension arrangements is complementary to public pensions;
3. moving from defined benefit (DB) schemes to defined contribution (DC) schemes;
4. improvement of the design of DC pension plans.

It is easy to state that the law restoring previous retirement age in Poland – meaning *de facto* reduction of the minimum retirement age – aims in the opposite direction than most of the pension reforms in EU and in the world (with the regard to retirement age).

#### **4. Macro-and micro-economic consequences of the reduction of statutory retirement age in Poland**

From the macroeconomic point of view, a pension system can be defined as a mechanism for division of the current production or Gross Domestic Product (GDP) between the working and post-working generations (pensioners). The other alternative would be to store production for future use, which is practically not possible: “*The alternative is for individuals to exchange current production when younger for the claim on future when older*” [Barr, Diamond 2010, p. 37].

Each participant in the pension system accumulates pension rights (the right to participate in GDP) through the payment of contributions [Chłoń-Domińczak, Góra, Rutecka-Góra 2016, p. 2]. The relative reduction of the number of people participating in the creation of GDP has a significant impact on the status and condition of the pension system and public finances [Góra, Rutecka 2013 p. 735]. This impact will be negative. In the long term, it would deepen the projected deficit of the Social Insurance Fund (SIF). Estimates of the financial situation of the SIF suggest that even assuming a gradual raising of the target and setting the legal retirement age for women and men at 67 years, SIF in the medium and long term will remain in deficit (cf. Table 2). Reduction of the statutory retirement age will only deepen the deficit. Full assessment of the financial consequences of shortening the statutory retirement age will be possible after 1 October 2017, when it will already be known how many people actually make use of the opportunity for retirement at the age of 60 (women) or 65 years (men).

Table 2. The balance of the Social Insurance Fund (SIF) in 3 variants of revenue and expenditure forecasts of the SIF for the years 2016-2020\*

indicator		2016	2017	2018	2019	2020
variant 1: basic	SIF balance billion PLN	-54.0	-56.0	-59.0	-62.0	-62.0
	SIF balance in % of GDP	-2.9	-2.8	-2.7	-2.6	-2.6
variant 2: pessimistic	SIF balance billion PLN	-61.0	-66.0	-70.0	-75.0	-79.0
	SIF balance in % of GDP	-3.4	-3.4	-3.5	-3.5	-3.6
variant 3: optimistic	SIF balance billion PLN	-47.0	-46.0	-46.0	-44.0	-43.0
	SIF balance in % of GDP	-2.5	-2.3	-2.1	-1.9	-1.4

Source: [ZUS 2014, pp. 28-30].

Notes: \*This projection has been prepared under the assumption of extension of the statutory retirement age in Poland, although parliament has passed a law for reduction from 1 October 2017. In all three scenarios, a greater deficit could be expected if the shortened pensionable age will last until 2020.

The justification for the presidential project [Chancellery of the President 2016] of decreasing the statutory retirement age submitted in the previous Sejm's term of office indicated that the total cost of lowering the retirement age to public finances in the years 2016-2019 will amount to approximately 40 billion PLN, of which approximately 30 billion PLN would go to the State budget.

The projection of the balance of SIF presented in Table 2 does not include the cost of the shortening retirement age from 1 October 2017. Neither does the most up to date projection prepared by actuaries of Social Insurance Institution (SII) for the period 2018-2022 [SII 2017]. This is understandable, because the projections of SII were developed on the basis of legislation in the time of their preparation. But it is difficult to understand that in the justification of the presidential project for the shortening of the statutory retirement age there are no long-term forecasts of the impact of this fundamental change on the balance of the SIF and on the state of public finances.

The document lacks any specific calculations and many experts say that the real cost will be much higher. It would also be essential to prepare a long-term forecast of the cost of restoring the general retirement age from 2017 at least for the next 30 years, or even better until 2050. The effects of pension reforms should be considered in such long-term perspectives. According to government estimates, the lower retirement threshold will cost the budget an estimated 10 billion PLN a year starting in 2018, with costs set to approach 20 billion PLN a year by 2021 [Strzelecki 2016]<sup>4</sup>.

<sup>4</sup> According to the budget law for 2018, state budget revenues in Poland will amount to over 325 billion PLN and spending - more than 384 billion PLN; the maximum level of the deficit will not exceed PLN 59.3 billion PLN.

From the micro-economic point of view (the perspective of an individual participant of pension system), the impact of lowering the statutory retirement age on future pension benefits will be negative. In the new pension system in force since 1999, which is based on individual retirement accounts, the amount of a pension is determined by the following two factors: the balance of individual retirement accounts and the age when receipt of benefits begins [Góra 2008, p. 78]. Thus, early retirement automatically reduces the benefits. Early retirement in DC systems means a reduction of benefits in case of postponement of this decision and further work.

The projected net theoretical replacement rate (TRR) at standard pensionable age in 2053 with extended pensionable age has been estimated at 43.4% – i.e. an average wage earner who started his or her career in 2013 at the age of 25 could expect 43.4% of his last wage as a pension payment [Chłoń-Domińczak 2016]. According to the projections of OECD, net replacement rate (% of individual earnings) for men with average salary, who will retire at the age of 67, will amount to 50.7% [OECD 2015a, p. 323]. After lowering the statutory retirement age in Poland, the net TRR for retirement age at 65 (instead of 67) would be 37.7% [Chłoń-Domińczak 2016]. For a person retiring at age 60 years, the replacement rate, according to estimates, will be approximately 34% of the previous wage, and by extension to age 62 or 65 years, respectively, 39% or 47% of the salary [Chłoń-Domińczak, Góra, Rutecka-Góra 2016, p. 1]. Reducing the retirement age will also lead to financing a larger number of minimum pensions. About 70% of demographic cohorts born at the turn of 1980s and 1990s can count only on the lowest pension. The burden of maintaining these retirees will move to the State budget, which is to say for all tax-payers [Malec, Tyrowicz 2017]. Therefore, there are no strong economic arguments in favour of lowering the retirement age in Poland.

## **5. Social and legal aspects of the reduction of the statutory retirement age**

While the assessment of the economic consequences of lowering the statutory retirement age is – from the perspective of pension economics and public finance – unambiguously negative, the evaluation of the legal and social aspects of this crucial change in one of the main parameters of pension system is not so clear.

It is worth remembering that the extension of the statutory retirement age was introduced without any sound public consultation and without social consensus for such far-reaching changes affecting millions of people and their families. One of the arguments against increasing the statutory retirement age is a claim that the period of healthy life after crossing the threshold of old age in Poland is shorter than in many other European countries, where the statutory retirement age has already been extended or prolonged, but the difference in the second decade of the 21<sup>st</sup> century is much smaller than it had been in the 20<sup>th</sup> century. Life expectancy has continued to rise systematically in all of the EU Member

States in recent decades<sup>5</sup>. Nevertheless, there are considerable differences in life expectancy both between and within Member States (see Table 3).

Table 3. Life expectancy at birth in EU Member States, 2014

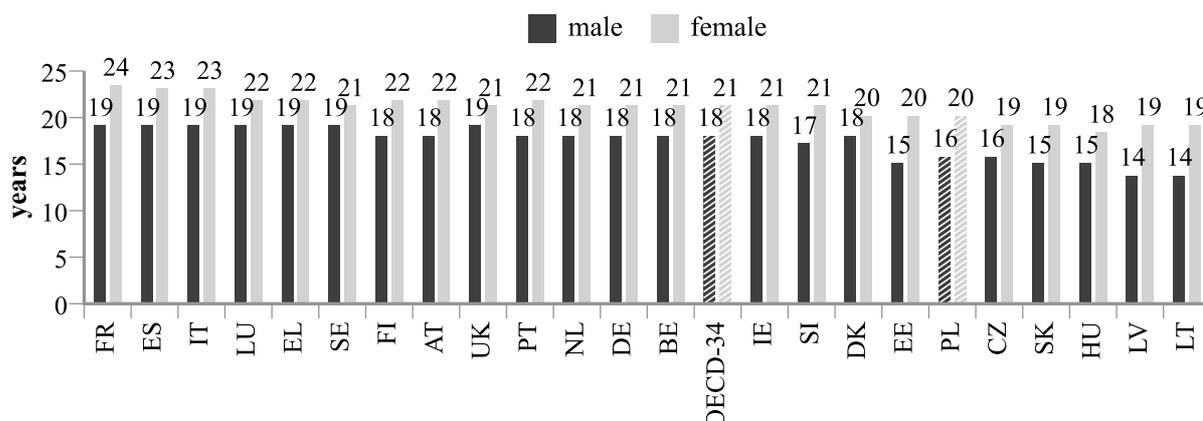
Country	Total	Males	Females	Country	Total	Males	Females
<b>EU-28</b>	<b>80.6</b>	<b>77.9</b>	<b>83.3</b>	<b>HR</b>	77.5	74.4	80.5
<b>EU-27</b>	80.6	77.9	83.3	<b>HU</b>	75.7	72.3	79.0
<b>EA-19</b>	81.6	78.9	84.2	<b>IE</b>	81.5	79.6	83.4
<b>EA-18</b>	81.7	79.0	84.2	<b>IT</b>	82.7	80.3	84.9
<b>AT</b>	81.3	78.8	83.7	<b>LT</b>	74.6	69.2	79.7
<b>BE</b>	81.1	78.7	83.4	<b>LU</b>	82.4	80.0	84.7
<b>BG</b>	74.7	71.2	78.2	<b>LV</b>	74.8	69.7	79.5
<b>CY</b>	81.8	79.9	83.7	<b>MT</b>	81.9	79.7	84.0
<b>CZ</b>	78.7	75.7	81.6	<b>NL</b>	81.6	79.9	83.2
<b>DE</b>	80.7	78.3	83.1	<b>PL</b>	<b>77.5</b>	<b>73.5</b>	<b>81.6</b>
<b>DK</b>	80.8	78.8	82.7	<b>PT</b>	81.3	78.1	84.3
<b>EE</b>	78.0	73.2	82.2	<b>RO</b>	75.0	71.5	78.7
<b>EL</b>	81.1	78.5	83.7	<b>SE</b>	82.2	80.4	84.1
<b>ES</b>	83.0	80.1	85.8	<b>SI</b>	80.9	77.8	83.9
<b>FI</b>	81.6	78.7	84.4	<b>SK</b>	76.7	73.1	80.2
<b>FR</b>	82.4	79.2	85.5	<b>UK</b>	81.0	79.2	82.8

Source: Eurostat.

Life expectancy at birth in Poland (average for men and women) in 2014 was shorter than the average life expectancy in EU by 3 years. Much greater differences can be estimated for demographic cohorts from the past. For example, total life expectancy in Poland in 1990 was 70.7 years (66.3 years for males and 75.3 for women); at the same time in Germany it was 75.4 years (72.0 for men and 78.5 for women) [Eurostat 2016b]. Also, the number of healthy years after reaching the age of 65 in Poland is shorter in international comparison (in relation to the OECD average) but the difference has also become relatively small (see Figure 1).

<sup>5</sup> Historically, the main reason for this was declining infant mortality rates, although once these were reduced to very low levels, the increases in life expectancy continued, largely as a result of declining mortality rates for older people, due for example to medical advances and medical care, as well as improved working and living conditions [Eurostat, n.d.].

Figure 1. Healthy life years at age 65, selected European countries, 2013



Source: Author's own elaboration based on [OECD 2015b].

Note: Countries are ranked in descending order of healthy life expectancy for the whole population.

Analysis of the presented statistical data from Eurostat and OECD does not positively verify the hypothesis of much shorter life expectancy and much shorter period of healthy life in Poland in comparison with other EU countries and OECD countries. Both life expectancy and healthy life are lower in Poland than in most other EU countries, but it is expected that this difference will significantly narrow in the future. This argument used to support the need to reduce the statutory retirement age is not justified in the light of empirical data.

From the standpoint of social security law, serious arguments against the increase of the statutory retirement age in Poland have been made by Andrzejewski and Pacud [2016]. It is – first of all – about the violation of acquired pension rights. The systemic increase of the retirement age for men and women from 2013 has been applied to the already working population, and not only to those demographic cohorts beginning their professional career. As Mariusz Andrzejewski and Radosław Pacud correctly point out: “An increase in the retirement age was particularly unfair for those women, who in 2012 were roughly 40 years of age. This group of women which was at that time in the middle of their professional life (counting an average of twenty to sixty years of age), overnight the prospect of further work has been extended from 20 to 27 years, which is about 35%. Meanwhile, the retirement age should be raised for people who are just starting their professional life” [Andrzejewski, Pacud 2016]. Admittedly, the Constitutional Court stated that the increase of the statutory retirement in Poland was consistent with the Constitution (Judgment of 7 May 2014). The judgment of the Constitutional Court has been issued by majority vote. The opinions on the subject among lawyers, especially social security law experts, are divided. Trade unions sharply protested against this decision.

An issue of fundamental importance was the lack of consensus for the introduction of the unpopular changes. The opinion polls in Poland on extending the retirement age and to align the retirement age in Poland show that the public is still in the vast

majority (80%) opposed to equalization of the retirement age for women and men. Just about every sixth Pole (17%) is in favour of such a solution [Public Opinion Research Center (CBOS) 2005, p. 1]. Repeated studies have confirmed the social resistance to the raising of the retirement age [CBOS 2012]. An increase in the retirement age arouses strong resistance. 84% of adult Poles are against the increase of the retirement age to 67 years for men, with 64% rejecting this proposal in the way determined. Against the increase of the retirement age for women to 67 years are up to 91% of those polled, including 75% – strongly opposed. In this respect, Polish citizens are (mostly) no different from nationals of other European Union countries. For example, a Eurobarometer survey requested by the European Commission proved that most EU citizens – aware of the aging population – are against the increase in the statutory retirement age: “*Only one in three Europeans actually believe that the official retirement age will have to increase by 2030*” [EC 2012c, p. 6].

Another argument in favour of reducing of the statutory retirement age would be another unfavourable change in the situation of the generation now working in relation to current retirees, who have acquired the right to pension benefits under the previous pension scheme, with a DB formula. Too many changes in a pension system undermine the trust in the social security system and in the State [Andrzejewski, Pacud 2016]. Such arguments are problematic, because pension systems must be adjusted in response to demographic, economic and social challenges.

Analysing the legal and social aspects of lowering the statutory retirement age, it must be stated that this change relates to a change in the minimum retirement age. Persons who reach retirement on 1 October 2017 or later have a right to, but no obligation to retire. They can work longer, if they wish. The statutory protection of people approaching retirement age will remain extended (as if they had to work longer, according to regulations of retirement age introduced in 2013). This means more choice for people who are reaching retirement age. Taking into account different life situations (e.g. individual financial and family situation, taking care for grandchildren etc.), many participants in the pension system may prefer to use the opportunity for retirement at age of 60 (woman) or 65 (men) accepting lower pension benefits, and others could choose to work longer and receive better pension benefits. Some other people may retire and keep working simultaneously, often in the shadow economy. This is a problem quite often neglected in the public debate.

## 6. Conclusions

The analysis of the possible effects of a reduction in the statutory retirement age in Poland shows that it will have a negative impact on the financial stability of the pension system – both in the short, medium and longer term. Assessment of the social and legal aspects of the reduction of the retirement age in Poland is more complicated and less clear. It would be better if extension of the retirement age

introduced starting in 2013 would have been applied only to the population entering the labour market, without prejudice to already acquired pension rights. Giving Polish citizens the choice of retirement at the age of 60 (women) or 65 years (men), or working longer in exchange for higher benefits seems to be a more fair solution. Whether this solution is more fair from the point of view of intergenerational justice in the pension system (which should be analysed also from the viewpoint of pension economics) – remains questionable. Lowering the statutory retirement age means more spending on the pension system and public finance and a greater burden for the working generation in relation to the (increased) post-working generation. A significant danger involved with lowering the statutory retirement age as of 1 October 2017, is the situation that employers could start to push women aged 60 and men aged 65 out of the labour market, even though they would prefer to work longer. The choice for citizens whether to continue working or retire should be real and guaranteed by the State.

Moreover, it seems that the lowering of retirement age should be encased in concrete incentives to collect additional voluntary pension savings under the third pillar, which in Poland remains extremely underdeveloped<sup>6</sup>. These incentives for additional retirement savings of course entail certain costs to the State budget (e.g. tax, one-off or periodic payments to savers), but they are economically justified. Appropriate design of the supplementary pension schemes (for example occupational pension schemes with automatic enrolment) may promote the development of the 3<sup>rd</sup> pillar of pension system in Poland.

In addition, the participants in the public pension system in Poland should receive detailed, binding information regarding their pensions from ZUS or KRUS (Agricultural Social Insurance Fund), for example, what amount a person would receive if they retired at 60 or 65 years of age and what would happen if they decided to continue to work longer, assuming the current salaries and payment of pension contributions. Many people may voluntarily decide to work longer, but they must have reasonable grounds for doing so. Vague information is insufficient.

It seems that in the long term, re-extension of the retirement age in Poland will be necessary, and will be forced by both demographic and economic factors. It is necessary to start a serious discussion on the adaptation of the overall pension system to projected demographic and economic changes, considering good and bad experiences with the implementation of the pension reform introduced in 1999 and retrenchments from this reform since 2011. Poland is not the only country in which the process of reforming the pension system is unending and, in fact, has become permanent. It is most probable that the demographics and rising costs of subsidizing pension schemes will force re-extension of the statutory retirement age in Poland in the future.

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<sup>6</sup> Proposals in this regard have already found their way to the Presidential Chancellery. They are worth knowing, even if they were prepared during the term of the previous president [see Rutecka et al. 2014].

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**Abbreviations**

DB – Defined Benefit, DC – Defined Contribution, EA – Euro Area, EC – European Commission, GDP – Gross Domestic Product, KRUS – Agricultural Social Insurance Fund (*Kasa Rolniczego Ubezpieczenia Społecznego*), NDC – Nonfinancial Defined Contribution, PAYG – Pay-As-You-Go, PiS – Law and Justice Party (*Prawo i Sprawiedliwość*), SIF – Social Insurance Fund, TRR – Theoretical Replacement Rate, ZUS – Social Insurance Institution (*Zakład Ubezpieczeń Społecznych*).