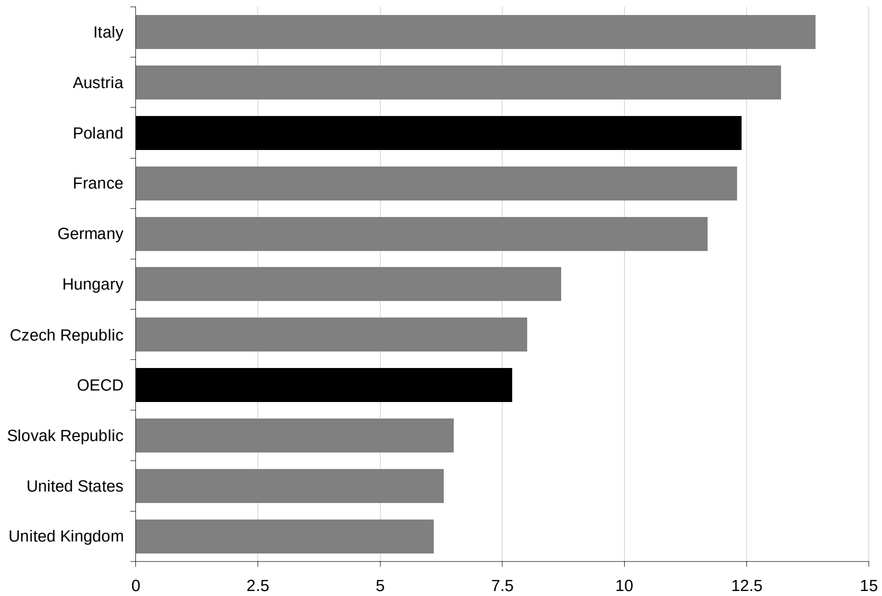
- Poland currently has the third highest spending on public pensions relative to national income in the 30 OECD countries.
- Recent pension reforms have significantly improved the long-tem financial position of the retirement-income system.
- But they have cut the target for future retirement benefits for low earners while increasing them for high earners.

Poland has the third highest current spending on pensions in the OECD, behind only Austria and Italy. Expenditure amounts to 12.5% of national income (GDP), well above the average spending in the 30 OECD countries of 7.7% of GDP.

Much has been done to put the future finances of the pension system on a sustainable footing, especially limiting pathways to early retirement for favoured groups of workers.

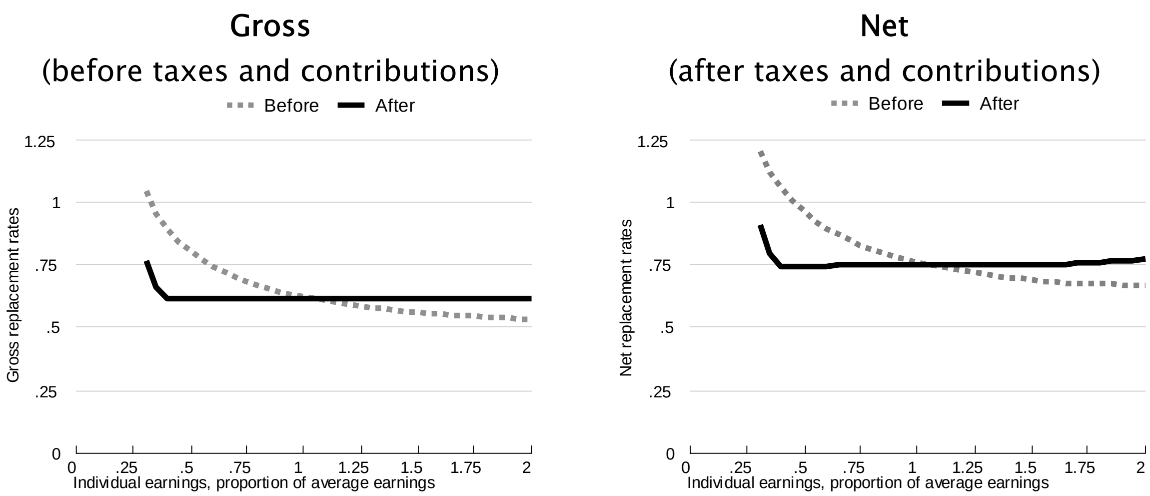
Figure 1. Public spending on pensions in 10 OECD countries, 2003



Source: OECD Social Expenditure database; OECD *Pensions at a Glance*

Recent pension reforms cut the target for future retirement benefits for most workers. Benefits are measured using the replacement rate: pension during retirement relative to earnings when working. For an average earner with a full career, the gross replacement rate from the public scheme is about 60% before and after the reform (see the left-hand panel of Figure 1). Slightly more than half of this will come from the new individual accounts. However, benefits will be lower for low earners after the reform. For someone with half average earnings, for example, the net replacement rate (after taxes and contributions) will fall from nearly 100% to 75% (see the right-hand panel of Figure 1).

Figure 1. **Replacement rate in Poland by earnings, full career under pre- and post-reform rules**



Source: OECD pension models: see OECD *Pensions at a Glance*

There is a risk that the rebalancing of benefits away from low and middle earners towards high earners risks an increase in old-age poverty in the future or increased pressure on the social-assistance system, thereby compromising the long-term fiscal gains.

Table 1. **Net replacement rate in 10 OECD countries at 50%, 100% and 150% of average earnings**

	50%	100%	150%
Austria	90.4	90.9	89.2
Czech Republic	98.8	64.4	49.3
France	63.4	63.1	58.0
Germany	53.4	58.0	59.2
Hungary	94.7	102.2	98.5
Italy	81.8	77.9	78.1
Slovak Republic	66.4	72.9	75.4
United Kingdom	66.1	41.1	30.6
United States	67.4	52.4	47.9
Poland			
Pre-reform	96.1	76.0	69.0
Post-reform	74.5	74.9	75.0
OECD	83.2	69.7	60.6

Source: OECD *Pensions at a Glance*