

HUNGARY

Hungary: pension system in 2008

The new system combines an earnings-related public pension with mandatory fully funded defined-contribution schemes. This applies to new labour-market entrants and people aged 42 or under at the time of reform. Older workers could choose between this mixed system or a pure pay-as-you-go, public pension. The modelling assumes that workers are covered by the mixed system.

		Key indicators	
		Hungary	OECD
Average earnings	HUF (million) USD	2.34 13600	7.00 40 600
Public pension spending	% of GDP	9.1	7.0
Life expectancy	at birth	73.3	78.9
	at age 65	79.9	83.1
Population over age 65	% of working-age population	25.6	23.6

Qualifying conditions

A phased increase in the pension eligibility age will equalise this at 62 for both men and women (from 60 and 55 respectively). The age for men reached 62 in 2000 and will reach 62 for women from the beginning of 2009. As from 2010, the statutory unisex retirement age will be increased gradually, reaching 65 by 2022. The first affected age cohort are those persons born in 1952. In addition, 20 years' service is required for both the earnings-related pension and the minimum pension. 15 years' service is required to receive a partial pension.

The reformed system was introduced in January 1998. People who switched voluntarily to the new, mixed system were allowed to return to the pure pay-as-you-go system until the end of 2002. The switch back option is available for a few people aged 52+ (only 3% of the total number of fund members) by the end of 2009. Moreover, the obligation for new entrants to join a private pension fund was suspended in calendar year 2002 but reintroduced in 2003.

Benefit calculation

Earnings-related

For those covered by the mixed system, the accrual rate is 1.22% of earnings for each year of service (subject to the contribution ceiling, see below). This compares with an accrual rate of 1.65% for those covered by the pay-as-you-go system alone.

The earnings base used to be net-gross (i.e. gross wage less employee's contribution) pay in all years since 1988, moving towards the full lifetime. This was changed into net pay from 2008. Earlier years' earnings were valorised with economy-wide average earnings to a point two years before retirement in 2006. The last three years' earnings prior to retirement were entirely unvalorised. This was changed from January 1, 2008, to full valorisation (to the year preceding retirement, in 2009 as well). The summary effect of the two changes will be about an 8% reduction.

A ceiling to pensionable earnings was introduced in 1992. Roughly speaking, the ceiling is about 3 times the gross wage since 2005 but it is set in advance. The ceiling was HUF 19 500 per day in 2008.

The pension in payment has been indexed half to wages and half to prices since 2001 but further ad hoc increases were applied.

As of 2010 indexation will be linked to GDP growth.

GDP growth	Consumer price	Net average monthly earnings
X – 3%	100 %	-
3 - 4%	80 %	20 %
4 - 5%	60 %	40 %
5% - X	50 %	50 %

There was an additional month's pension from 2006. Before 2009 all pensioners received the 13th month pension. As of 1 Jan 2009 the rules on eligibility to 13th month pension has been changed according to the following. The upper limit of the amount of 13th month pension is set at HUF 80000 and eligibility criteria has been tightened to only those persons who have reached the standard retirement age, 62 years of age. Under age pension recipients of their own right will not receive this 13th month benefit from 2009, while under age disability pensioners and survivor's pensioners – except temporary widow's pensioners - will receive this benefit. According to the new legislation adopted in May 2009, this option has ceased (recipients won't receive 2nd half of the benefit in November). As of 2010 the 13th month pension will be totally abolished.

Minimum

There is a minimum pension, which was worth HUF 28 500 per month in 2008 (around 15% of gross average earnings and it is around 18% of net average monthly earnings). The value is indexed in the same way as benefits under the earnings-related scheme, that is, half prices and half average earnings. Rules on minimum pension have also been modified according to the Dec 2008 amendments. According to the amendment the government decides upon the minimum amount of old age, invalidity pension and orphan's allowance as of 2009. According to former rules, the amount of minimum pension was increased with the annual (January) pension increase; new rules leave the decision of the amount to the government. The amounts remain unchanged in 2009.

Defined contribution

As of 2008 the contribution rate in case of pension fund members (mixed system):

	To the 1 st pillar PAYG, DB	To the 2 nd pillar funded, DC	Total
Employers' contribution rate	24%	0%	24%
Employees' contribution rate	1.5%	8%	9.5%
Total	25.5%	8%	33.5%

Some 8% of gross pensionable earnings are diverted to the funded plan from 2004 for people covered by the mixed public-private pension option (either by choice or by mandate). This represents an increase from 6% (1998-2002) and 7% (2003). For 2008, the employer' total pension contribution rate has been raised from 21 to 24%, the employees' total part has changed from 8.5% to 9.5%. The reason for the increase is only the rearrangement of the health and pension funds; the budget of the disability pension system was transferred from the Health Insurance Fund to the Pension Insurance

Fund. (The contribution rate for health insurance was decreased by the same percentage point, thus the total contribution burden of the employers and employees has not changed.)

The accumulated amount must be converted into an annuity on retirement. According to the current legislation the annuity must provide at least the same Swiss indexation of the pension in payment as the public pension scheme. Unisex life tables must be used to calculate annuity rates. Currently (end of 2009) Hungary is working on the new legislation of private pension system concerning to the annuities and those institutions. First payments from this pillar are expected to be provided from 2013.

Variant careers

Early retirement

In 2008 early retirement is possible for men at age 60 and at age 57 for women without actuarial reduction. When pension ages are equalised at 62 in 2009, early retirement (advanced pension eligibility) will be available from 59 for women and 60 for men. According to the new adopted legislation, the advanced retirement age will gradually increase to 63 years.

According to the new legislation, as of 2010 advanced pension rules are also tightened along with the increase in standard retirement age.

Men born after 31 Dec 1950 or women born after 31 Dec 1958 attaining at least 37 years of service and ceasing gainful activity can retire two years early with a reduction to the pension. The pension is reduced by 0.3% per missing month, if the claimant is 1 year younger than his/her relevant retirement age. If the claimant is more than 1 year younger than his/her relevant retirement age the amount is reduced by 3.6% plus 0.4% for every additional missing month.

Late retirement

It is possible to defer the earnings-related pension. The pension is increased by 0.5% for each month of deferral.

Childcare

Since 1998 pension contribution has to be paid after these benefits, and if amounts of childcare benefits are favourable for the insured, these benefits will be counted into the pension base.

People can take the following benefits: pregnancy confinement benefit, child care fee, child care allowance and child raising support.

Pregnancy confinement benefit (*terhességi gyermekágyi segély*) is for women in the pregnancy period or giving birth, for twenty-four weeks (168 days). The benefit is 70% of the daily average gross earnings of the previous year. Child care fee (*gyermekgondozási díj*) could be claimed by one of the parents on day after the expiry period of pregnancy confinement benefit and the entitlement runs to the second birthday of the child (maximum 24 months). The benefit amount is 70% of the daily average gross earnings of the previous year up to the maximum of twice of the minimum wage (HUF 96 600 in 2008). It's obligatory to pay individual pension contribution which rate was 9.5% in 2008. Child care allowance (*gyermekgondozási segély*) is for one of the parents who cares for the child until the child's third birthday (maximum 36 months), or in case of twin children until the end of the year they reach school age, or in case of a permanently ill or seriously disabled child until they are ten years of age (maximum 120 months). The monthly amount is equal to the minimum old-age pension of HUF 28 500 as from January 2008 irrespective of the number of children in the family, and in case of twins the amount is doubled, irrespective of the number of twins in the family. After the child's 1st birthday, also grandparents can claim the benefit. It's obligatory to pay the individual pension contribution which

was 9.5% in 2008. Child raising support (gyermeknevelési támogatás) for one of the parents who cares for the child and who raises 3 or more underage children for the period between the third and the eighth birthday of the youngest child (maximum 60 months). The monthly amount is equal to the minimum old-age pension, irrespective of the number of children.

The total amount of periods taken off work is not maximized and entitlements are not added up, though it depends on the age and number of the children and the composition of the family.

In 2008, pension contribution after child care benefits is paid by:

	Individual	employer	government
pregnancy confinement benefit	-	-	-
child care fee*	X	-	X
child care allowance	X	-	X
child raising support	X	-	X

Unemployment

The unemployed are covered by the earnings-related pension system. Generally, the periods of unemployment are qualified as a pensionable service. The earnings measure for the period of unemployment is the most favourable of (i) the amount of unemployment benefits or (ii) the average of previous and subsequent earnings.

Older unemployed people can receive special pre-retirement benefits if they have received unemployment insurance benefits for 140 days, will reach pensionable age within 5 years, have exhausted their unemployment benefit entitlement within 8 years of pensionable age and have contributed to the pension scheme for at least 20 years.

Personal income tax and social security contributions

Taxation of pensioners

There is no additional relief for pensioners beyond the standard tax credit that also applies to people of working age.

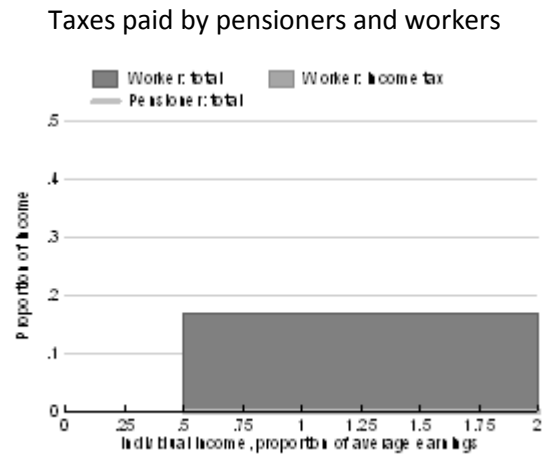
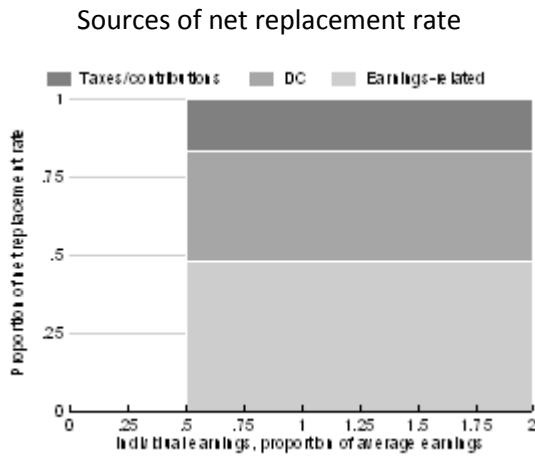
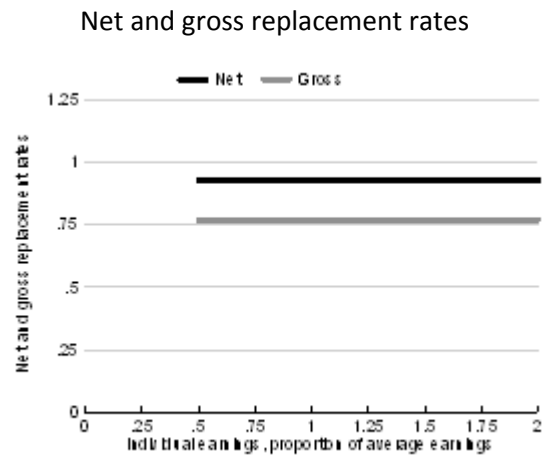
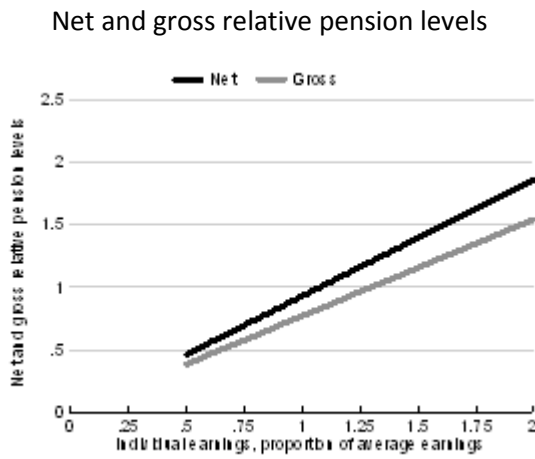
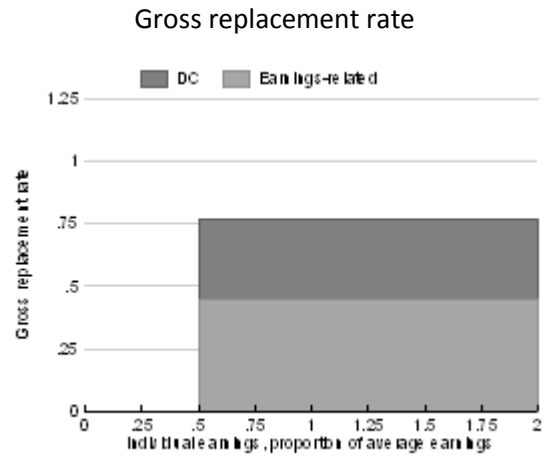
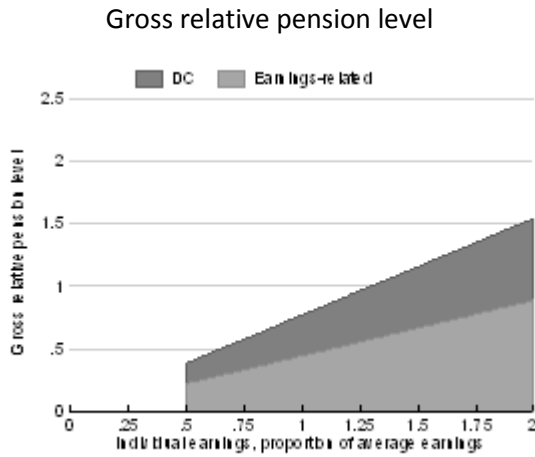
Taxation of pension income

The earnings-related pension was not taxable between 2002 and 2006. Before 2002 and after 2006 it had been and is taxed at a rate of zero, respectively. The social security pension is exempted from taxation and the pension is 'taxed' when it is awarded (it is calculated based on the net earning pension base). The modelling works on the assumption that the normal tax rules are applied at the point of award. It is planned that the taxation rules will be amended after 2013 in accordance with other changes in the pension systems, which will take place in that year.

Social security contributions paid by pensioners

Social security contributions are not levied on pension benefits, but earnings received by pension beneficiaries incur contribution liability (including pension contribution since 2007).

Pension modelling results: Hungary



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	56.1	37.9	56.9	75.8	113.8	151.7
Net relative pension level (% net average earnings)	83.6	59.8	84.5	106.0	139.8	178.5
Gross replacement rate (% individual gross earnings)	75.8	75.8	75.8	75.8	75.8	75.8
Net replacement rate (% individual net earnings)	99.5	96.3	99.9	106.0	103.2	102.9
Gross pension wealth (multiple of average gross earnings)	10.6 13.3	10.6 13.3	10.6 13.3	10.6 13.3	10.6 13.3	10.6 13.3
Net pension wealth (multiple of average net earnings)	9.8 12.2	10.3 12.9	9.7 12.2	9.2 11.4	8.0 10.1	7.7 9.6