

HUNGARY

Hungary: pension system in 2006

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)	1.99	7.53
	USD	9 500	35 800
Public pension spending	% of GDP	8.5	7.2
Life expectancy	at birth	73.2	78.9
	at age 65	80.3	83.4
Population over age 65	% of working-age population	25.3	23.8

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 end of 2009. In addition, 20 years' service is required for both the earnings-related pension and the minimum pension. For those retiring before the start of 2009, 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. Moreover, the obligation for new entrants to join a private pension fund was suspended 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 is currently net-gross pay (*i.e.* gross wage less employee's contribution) in all years since 1988, moving towards the full lifetime. This will be changed into net pay from 2008. Earlier years' earnings are valorised with economy-wide average earnings to a point two years before retirement. The last three years' earnings prior to retirement are entirely unvalorised. This will be changed from January 1, 2008, to full valorisation (to the year preceding retirement). The summary effect of the two changes will be about 8% reduction.

A ceiling to pensionable earnings was introduced in 1992. Roughly speaking, the ceiling is about three times the gross wage since 2005 but it is set in advance. The ceiling was HUF 17 330 per day in 2006.

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

There is currently an additional month's pension from 2006.

Minimum

There is a minimum pension, which was worth HUF 25 800 per month in 2006 (around 16% of gross average earnings and it is around 30% 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.

Defined contribution

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). The accumulated capital must be converted into an annuity on retirement. According to the current legislation the annuity must provide at least the same mixed (so called Swiss) indexation of the pension in payment as the public pension scheme. Unisex life tables must be used to calculate annuity rates. Since 2007, the employer's pension contribution rate has been raised from 18 to 21%, while employee's part has remained unchanged: 8.5%.

Variant careers

Early retirement

Early retirement is currently possible at age 60 for men and at age 57 for women without actuarial reduction. When pension ages are equalised at 62, early retirement will be available from 59 for both men and women. This early-retirement age will increase to 60 from 2013 subject to at least 37 years of service.

The reduction per month until reaching 62 years of age is as follows:

- After reaching 61 until reaching 62: 0.3% reduction per missing month.
- 3.6% + 0.4% per missing month until reaching 61.

Late retirement

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

Childcare

The pension systems provide varying degrees of protection for both periods of pregnancy and childcare. The benefits existing are: pregnancy confinement benefit, child care fee and child care allowance. Pension contributions now have to be paid when receiving these benefits, and if it is favourable the amount of benefit is included in the calculation of the pension base.

The pregnancy confinement benefit (*terhességi gyermekágyi segély*) is paid for 24 weeks (168 days) during pregnancy and after birth. The benefit is 70% of the daily average gross earnings of the previous year. The child care fee (*gyermekgondozási díj*) can be claimed by one of the parents after the expiry of the pregnancy confinement benefit; 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 87 500 per month in 2006). Child care allowance (*gyermekgondozási segély*) is paid to one of the parents who care for the child until the child's third birthday (maximum 36 months). The monthly amount is equal to the minimum old-age pension of HUF 25 800 in 2006, irrespective of the number of children in the family.

In 2006, pension contributions for child care benefits are paid by:

	Individual	Employer	Government
Child care fee	X	-	X
Child care allowance	X	-	X

Unemployment

The unemployed are covered by the earnings-related pension system. All 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.

The early pension scheme (*Előnyugdíj*) was paid to many long-term unemployed older workers during the economic transition but this is no longer significant. However, older unemployed people can receive special pre-retirement benefits if they satisfy a number of conditions: they have received unemployment insurance benefits for 140 days, will reach pensionable age within five years, exhausted their unemployment benefit entitlement within eight years before 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.

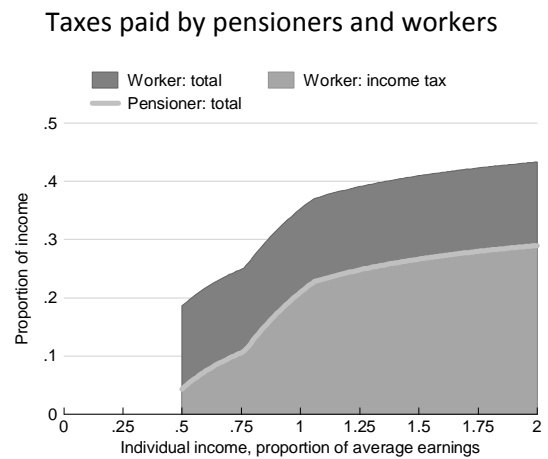
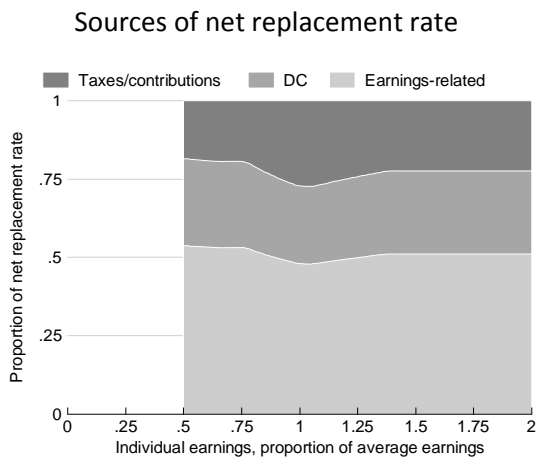
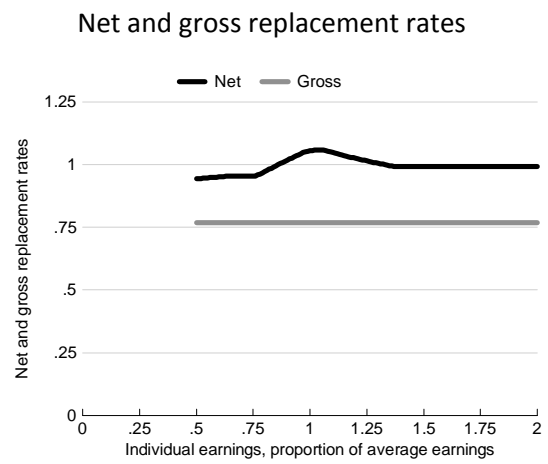
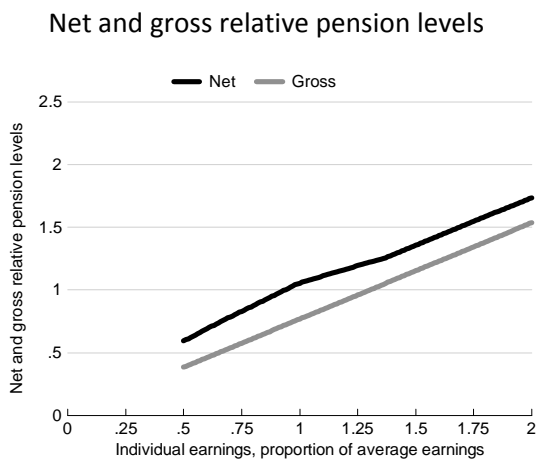
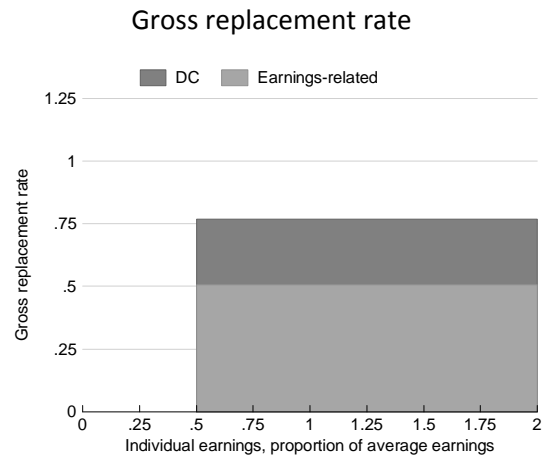
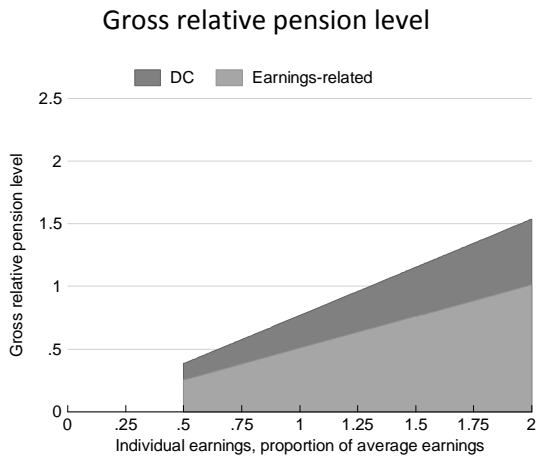
Taxation of pension income

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)	56.9	38.4	57.6	76.9	115.3	153.7
Net relative pension level (% net average earnings)	82.1	59.3	83.1	105.5	135.7	173.7
Gross replacement rate (% individual gross earnings)	76.9	76.9	76.9	76.9	76.9	76.9
Net replacement rate (% individual net earnings)	95.4	94.3	95.4	105.5	99.2	99.2
Gross pension wealth (multiple of average gross earnings)	12.4 15.4	12.4 15.4	12.4 15.4	12.4 15.4	12.4 15.4	12.4 15.4
Net pension wealth (multiple of average net earnings)	11.6 14.3	12.4 15.3	11.6 14.3	11.0 13.6	9.5 11.7	9.1 11.2