

# Hungary

## Hungary: Pension system in 2012

The Hungarian pension system is a mandatory, uniform, defined-benefit pay-as-you-go system with an earnings-related public pension combined with a minimum pension.

## Key indicators

|                              |                             | Hungary | OECD   |
|------------------------------|-----------------------------|---------|--------|
| Average worker earnings (AW) | HUF (million)               | 2.75    | 9.43   |
|                              | USD                         | 12 500  | 42 700 |
| Public pension spending      | % of GDP                    | 9.9     | 7.8    |
| Life expectancy              | At birth                    | 74.5    | 79.9   |
|                              | At age 65                   | 16.1    | 19.1   |
| Population over age 65       | % of working-age population | 27.2    | 25.5   |

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## Qualifying conditions

The standard retirement age is currently 62 years and six months for both men and women. The standard retirement age is currently increasing as from 2010 until reaching 65 by 2022. 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. Retirement is not necessary.

On 1 January 2012 the mandatory social insurance pension system was reformed. From this date and onwards the formerly early retirement pensions will not be paid as pensions, and a pension can only be awarded after reaching the standard retirement age.

## Benefit calculation

### Earnings-related

The earnings-related public pension system is a mandatory uniform, defined-benefit system, where the earnings-related pension is calculated as 33% of average earnings for the first ten years of coverage, adding 2% for each additional year from 11 to 25 years of coverage. For each additional year between 26 and 36 years of coverage each year adds an additional 1% and for between 36 to 40 years of coverage each year adds 1.5%. For each year of coverage above 40 years of coverage each year adds an additional 2%.

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 1 January 2008, to full valorisation (to the year preceding retirement, in 2009 as well). The pension in payment has been indexed half to wages and half to prices since 2001 but further ad hoc increases were applied. Annual adjustment rules are changed in effect from 1 January 2010. From 1 January 2012 pensions in payment are adjusted to changes in consumer prices, thus the indexation is inflation-based. Until 2012 there was a ceiling of HUF 21 000 per day of pensionable earnings, but from 1 January 2013 the ceiling has been abolished.

### **Minimum**

There is a minimum pension, which is worth HUF 28 500 per month (around 12% of average earnings). The government decides upon the discrete increases. The amount has remained unchanged since 2009.

### **Reversal of mandatory private pension**

From 1 November 2010 to 31 December 2011 all payments to the mandatory funded defined-contribution scheme were suspended, and all contributions were redirected to the public pension scheme. Members of the defined-contribution scheme had to decide by 31 January 2011 whether to remain in the scheme or transfer back to pay-as-you-go public pension system.

Before the reversal approximately 3.1 million people (more than 70% of the labour force) were members of the mixed system (end of 2010). After the reversal only 102 000 scheme members have decided to remain in the defined-contribution scheme. From 31 December 2011 all of the social security contributions (employee's and employer's contribution) go to the Pension Insurance Fund. The private pension fund members have had the possibility of doing voluntary contributions to their personal accounts. Members who previously have opted out have also had the possibility of returning to the public earnings-related pension (until 31 March 2012). The accumulated amount in the defined-contribution private pension scheme must be converted into an annuity on retirement. According to the current legislation the annuity must provide at least the same indexation of the pension in payment as the public pension scheme. Unisex life tables must be used to calculate annuity rates.

## **Variant careers**

### **Early retirement**

From 1 January 2011 a new early retirement option has been introduced with 40 years eligibility period for women. It is available for those women, regardless of age, who has gained at least 40 years of eligibility and ceasing gainful activity. Eligibility period includes: period gained with gainful activity or pregnancy-confinement benefit, child care fee, child home care allowance, and child raising support or nursing fee. At least 32 years of gainful activity is needed besides these periods due to child care; or 30 years of gainful activity in case of Nursing Fee. Eligibility period is decreased by one year for each child in households with five or more children; altogether a maximum of seven years is possible.

Before 1 January 2012 several generous early retirement options were available within the public pension system. Individuals with long service periods could claim advanced pension or advanced pension with reduced benefit. Persons working in jobs arduous to health could claim early retirement due to hazardous working conditions. Moreover, early retirement pensions could be claimed by artists or miners regardless of age and if the person had at least 25 years of service in the profession specified in the legislation. Special pension rules applied also to personal in the armed forces, who could retire very early, while generous rules applied to former mayors and members of the parliament. Transitional rules apply to those persons who currently are in receipt of the former early retirement options.

### Late retirement

It is possible to defer the earnings-related pension. The pension is increased by 0.5% for each month of deferral. Since 1 January 2008, adjustment is provided for gainfully employed pensioners after completing 365 days service period. As of 1 January 2011, adjustment equals 0.5% per month as a percentage of the annual income gained divided by 12.

### 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 receive 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 it is provided as long as the insurance period of the parent takes, but maximum to the age of two years of the child (maximum 84 weeks). 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 130 200 in 2013). It's obligatory to pay individual pension contribution which rate was 10% in 2012. 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 equal to the minimum old-age pension per child. After the child's first birthday, also grandparents can claim the benefit. It's obligatory to pay the individual pension contribution which was 10% in 2012. Child raising support (*gyermeknevelési támogatás*) for one of the parents who cares for the child and who raises three 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 maximised and entitlements are not added up, though it depends on the age and number of the children and the composition of the family.

In 2012, pension contribution after child care benefits is paid by:

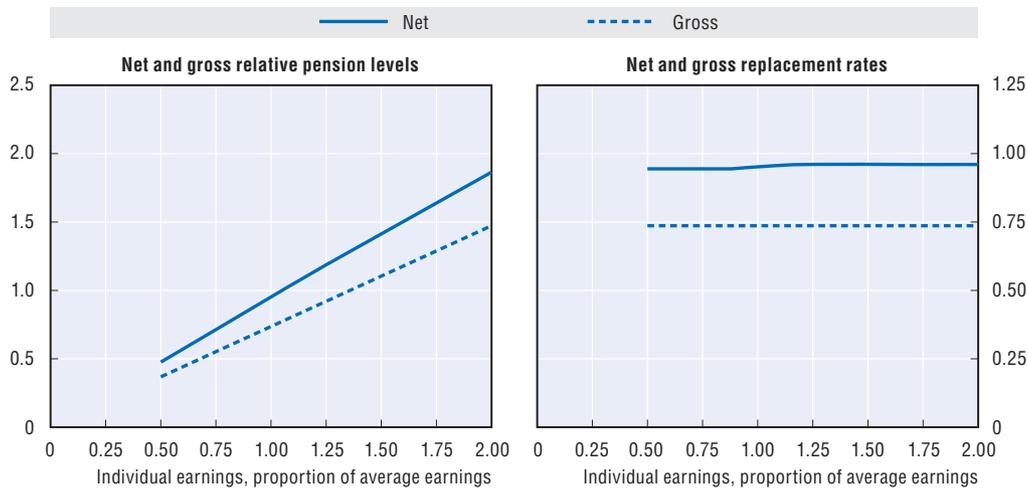
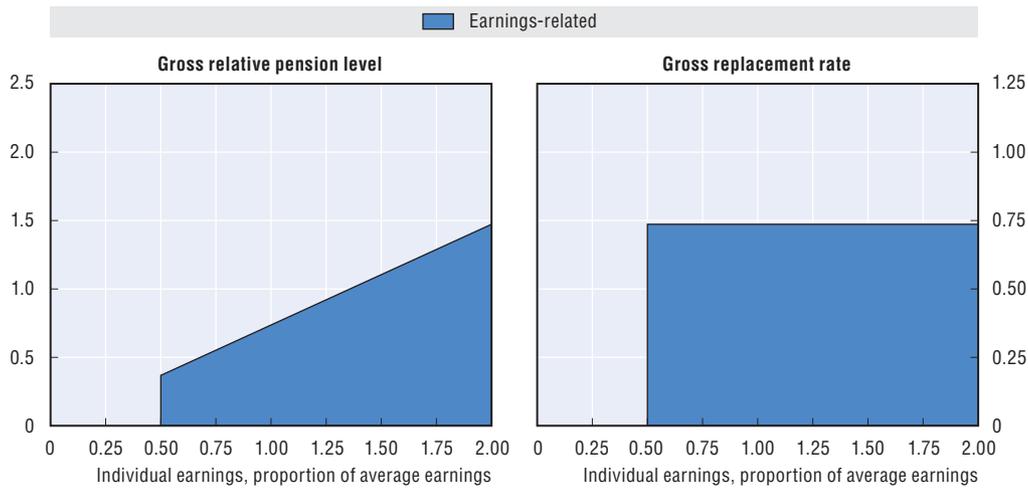
|                               | Individual | Employer | Government |
|-------------------------------|------------|----------|------------|
| Pregnancy confinement benefit | -          | -        | -          |
| Child care fee                | X          | -        | -          |
| Child care allowance          | X          | -        | -          |
| Child raising support         | 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 five years, have exhausted their unemployment benefit entitlement within eight years of pensionable age and have contributed to the pension scheme for at least 20 years.

### Pension modelling results: Hungary



| Men<br>Women (where different)                                  | Median earner | Individual earnings, multiple of average |      |      |       |       |
|---|---------------|--|------|------|-------|-------|
|   |               | 0.5                                      | 0.75 | 1    | 1.5   | 2     |
| Gross relative pension level<br>(% average gross earnings)      | 54.5          | 36.8                                     | 55.2 | 73.6 | 110.5 | 147.3 |
| Net relative pension level<br>(% net average earnings)          | 70.4          | 47.6                                     | 71.4 | 95.2 | 141.3 | 186.4 |
| Gross replacement rate<br>(% individual gross earnings)         | 73.6          | 73.6                                     | 73.6 | 73.6 | 73.6  | 73.6  |
| Net replacement rate<br>(% individual net earnings)             | 94.4          | 94.4                                     | 94.4 | 95.2 | 96.1  | 96.0  |
| Gross pension wealth<br>(multiple of individual gross earnings) | 10.5          | 10.5                                     | 10.5 | 10.5 | 10.5  | 10.5  |
| Net pension wealth<br>(multiple of individual gross earnings)   | 8.8           | 8.8                                      | 8.8  | 8.8  | 8.7   | 8.6   |
|   | 10.5          | 10.5                                     | 10.5 | 10.5 | 10.3  | 10.2  |

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