

Hungary

Hungary: Pension system in 2016

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

		Hungary	OECD
Average worker earnings (AW)	HUF (million)	3.31	10.78
	USD	11 255	36 622
Public pension spending	% of GDP	10.3	8.2
Life expectancy	at birth	76.0	80.9
	at age 65	16.7	19.7
Population over age 65	% of working- age population	27.9	27.9

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Qualifying conditions

Qualifying conditions for an old age pension are reaching retirement age, obtaining the required minimum service period and ceasing gainful activity. The standard retirement age is 63 years in 2016 and is gradually increasing to 65 in 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 without eligibility to the minimum pension.

Benefit calculation

Earnings-related

The earnings-related public pension system is a mandatory defined benefit system where the earnings-related pension is calculated as 33% of average earnings for the first ten years of coverage. Each additional year of coverage adds 2% from year 11 to 25, 1% from year 26 to 36, 1.5% from year 37 to year 40 and 2% thereafter.

The earnings base is monthly net salary (i.e. gross wage less employee's contribution and taxes). Earlier years' earnings are valorised with economy-wide average earnings to the year preceding retirement. Pension benefits are adjusted to changes in consumer price index.

Minimum

There is a minimum amount of pension, which is worth HUF 28 500 per month. The government decides upon the increases. The amount has remained unchanged since January 2008.

Those who have reached the standard retirement age, but are not eligible for social security pension and have no other source of sufficient income can apply for a means-tested old-age allowance. The allowance is tax-financed and a part of the social assistance system.

Variant careers

Early retirement

It is available for women regardless of age, who have at least 40 years of eligibility and cease gainful activity. Eligibility period includes periods 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 (30 years in case of Nursing Fee). The eligibility period is decreased by one year for each child in households with five or more children (a maximum of seven years is possible).

Late retirement

It is possible to defer the earnings-related pension. The pension is increased by 0.5% for each month of additional service time. The final pension may exceed the average monthly earnings if the insured person has sufficient long service period after retirement age.

Childcare

Since 1998 pension contributions have to be paid after the following benefits: child care fee, child care allowance and child raising support. Therefore these benefits will be taken into account for the pension base calculation in case the amounts of these benefits are favourable for the insured person. Childcare fee (*gyermekgondozási díj*) could be claimed by one of the parents on day after the expiry period of infant care allowance and it is provided as long as the insurance period the parent takes, but maximum to the age of two years of the child (maximum 84 weeks). After the 6th month of age of the child, the parent can pursue a gainful activity without time restriction. The benefit amount is 70% of the daily average gross earnings of the previous year up to the maximum of twice the minimum wage (HUF 155 400 in 2016). It's obligatory to pay the individual pension contribution rate, 10% in 2016. The child care fee is subject to taxation. 'Child home care allowance' (*gyermekgondozási segély*) (until 31 December 2015) and under the new name 'child care allowance' (*Gyermekgondozást segítő ellátás*) (from 1 January 2016) 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 the compulsory schooling age, or in case of a permanently ill or seriously disabled child until they are ten years of age (maximum 120 months). Entitlement is universal. 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. In case of multiple births the amount is multiplied according to the number of children (for example doubled in case of twins, tripled in case of triplets, etc.). The child care allowance can be paid for a maximum of 2 children if, after 1 January 2014 another infant is born into the family, after whom the parents are entitled to the said benefit again, or both of the children are born after 1 January 2014. (In that case, children born from the same pregnancy (e.g. twins) generate eligibility of allowance for one child when the next child will be born, and the allowance can be paid after the next child as well). After the child's first birthday, grandparents can also claim the benefit. After the 6th month of age of the child, the parent can pursue a gainful activity without time restriction. It's obligatory to pay the individual pension contribution which was 10% in 2016. Child raising support (*gyermeknevelési támogatás*) is for one of the parents who cares for the child and who raises three or more minor children for the period between the third and the eighth birthday of the youngest child. Entitlement is universal. The beneficiary can pursue a gainful activity up to 30 hours a week without time restriction at home. The monthly amount is equal to the minimum old-age pension, irrespective of the number of children. The amount of the benefit depends on the number of children. It's obligatory to pay the individual pension contribution which was 10% in 2016.

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 2016, pension contribution after child care benefits is paid by

	Individual	Employer	Government
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 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.

Job-seeker benefit

A job-seeker who has worked for at least 360 days in the 3 years before becoming a job-seeker is entitled to a job-seeker benefit of 1 day's benefit for every 10 days worked. This means that the minimum entitlement is for 36 days, and the maximum 90 days.

The law provides for the job-seeker benefit to be paid for a maximum of 90 days, and the allowance equals 60% of the previous average pay, but the amount cannot be higher than 100% of the minimum wage (i.e. HUF 111 000 in 2016). The amount of this benefit is calculated on the basis of the average pay in the four calendar quarters preceding the loss of the job. If the job-seeker has worked for more than one employer in that time, the amount of the allowance is calculated on the basis of the average pay received from all their employers.

Job-seeker aid before pension

In addition to job-seekers benefit older unemployed people can receive job-seeker aid before pension if they have received job-seeker benefit for 45 days, and have exhausted their jobseeker benefit entitlement or their job-seeker benefit was terminated due to employment and they are not entitled again to job-seeker benefit . Further condition is that the job-seeker shall reach retirement age in not more than 5 years, within 3 years of the termination of the job-seeker benefit and has a sufficient contribution period for retirement (15 years for partial and 20 years for full pension). The relevant legislation stipulates that job-seeker aid before pension can be paid until the person becomes entitled to the old-age pension. The amount of the compensation is 40% of the minimum wage (HUF 44 400) at the time when the application is made. If the calculation of the job-seeker benefit is based on a lower amount than the aforementioned sum, the aid will be equal to this lower amount.

Personal income tax and social security contributions***Taxation of pensioners***

There is no additional tax relief for pensioners.

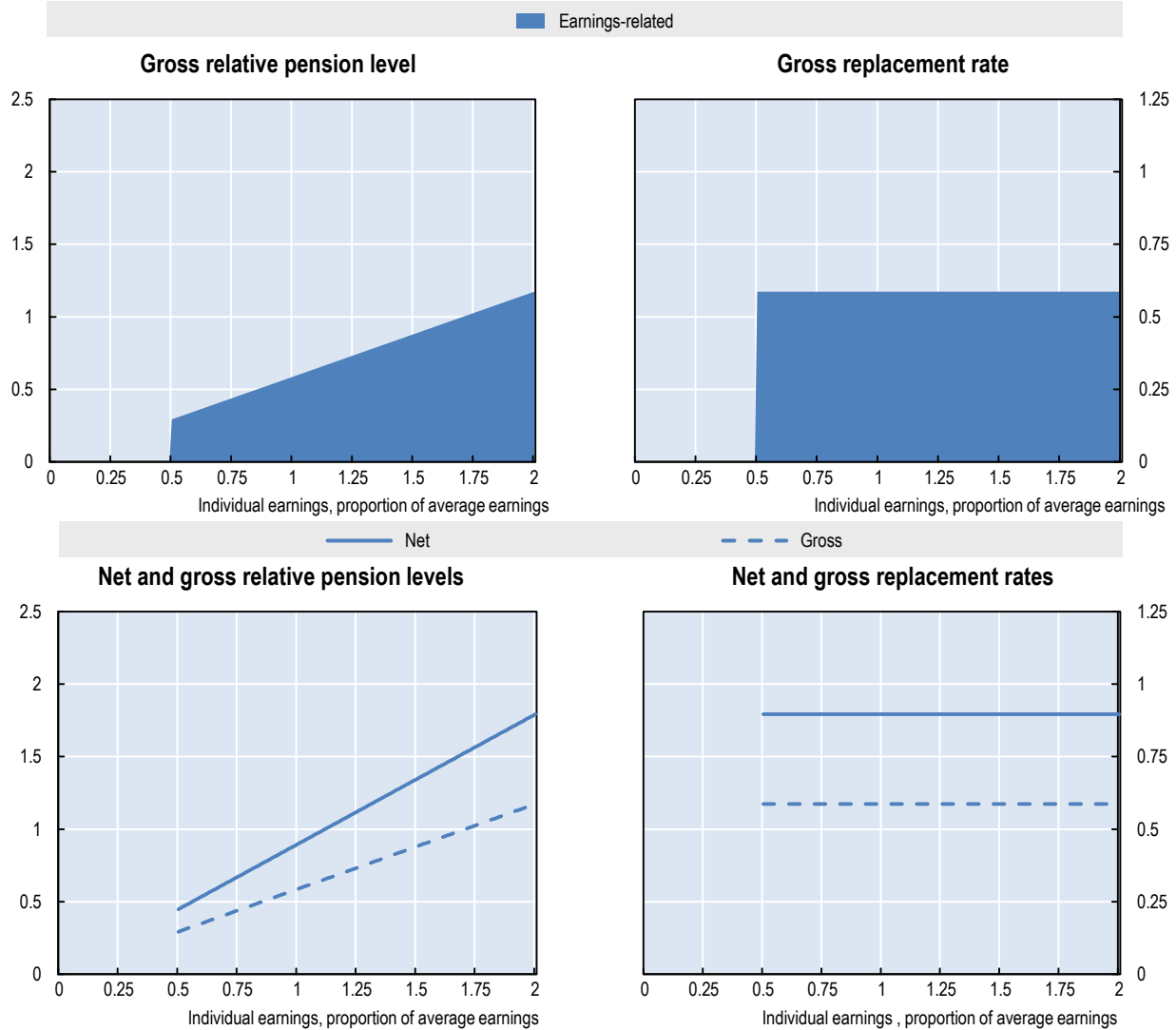
Taxation of pension income

Pension income is exempt from tax.

Social security contributions paid by pensioners

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

Pension modelling results: Hungary in 2061 retirement at age 65



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	29.3	44.0	58.7	88.0	117.4	176.0
Net relative pension level (% net average earnings)	44.8	67.2	89.6	134.4	179.2	268.7
Gross replacement rate (% individual gross earnings)	58.7	58.7	58.7	58.7	58.7	58.7
Net replacement rate (% individual net earnings)	89.6	89.6	89.6	89.6	89.6	89.6
Gross pension wealth (multiple of individual gross earnings)	9.4	9.4	9.4	9.4	9.4	9.4
Net pension wealth (multiple of individual net earnings)	14.4	14.4	14.4	14.4	14.4	14.4

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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