

# Hungary

## Hungary: Pension system in 2020

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)	5.0	12.1
	USD	16 272	39 178
Public pension spending	% of GDP	8.5	7.7
Life expectancy	at birth	76.5	80.6
	at age 65	16.9	19.7
Population over age 65	% of working- age population	33.4	30.4

### Qualifying conditions

Qualifying conditions for an old age pension are reaching retirement age and obtaining the required minimum service period. Beginning with the people born in 1952, the statutory retirement age will gradually ascend six months for each cohort both for women and men until 65 years of age by 2022. The standard retirement age is 64.5 years in 2020 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 calculation of benefits is based on 1) the number of service years and 2) the average of wages earned since 1988. The earnings-related pension is calculated as 43% of average earnings for the first fifteen years of coverage. Each additional year of coverage adds 2% from years 15 to 25, 1% from years 25 to 36, 1.5% from year 36 to year 40 and 2% thereafter.<sup>1</sup>

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. As from January 2012, pensions are indexed to consumer price index. Pension benefits are increased accordingly to the level of consumer price index planned for the relevant economic year and defined in the annual budgetary act. A retroactive correction takes place every year in November, if the CPI data exceeds the planned CPI in the budget (pensioners CPI should be used if it is higher).

In 2021 a 13th monthly pension has been reintroduced. In 2021 pensioners receive an extra one-quarter monthly pension, in 2022 they will receive half a monthly pension, in 2023, three-quarters and from 2024 one month extra pension is paid as long as they are entitled to benefits.

<sup>1</sup> Calculation of benefits:

- Step 1: Calculation of net wages for each year: Earnings have to be reduced by employees' social security contributions and personal income tax.
- Step 2: Valorisation of net wages for each year: Thereafter, all earnings are revalued (valorised) by the growth of nationwide net average earnings up to one year before the retirement (i.e. in 2020 to year 2019).
- Step 3: Calculation of the average pensionable monthly income: For higher levels of the accordingly calculated average valorised net wages, there is a progressive reduction to be applied.
- Step 4. Taking into account the number of service years: Finally, the average of these adjusted earnings is multiplied by a rate pertaining to the number of service years the pension has acquired (for example, this rate is 80 per cent for 40 service years). The rates belonging to the number of service years are not linear.

## **Minimum**

There is a minimum amount of pension, which is worth HUF 28 500 per month. The minimum amount of pension is for those who are eligible to full pension (having minimum 20 service years) and according to the benefit calculation their pensions do not reach this amount. This is a very rare case. 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. Eligibility period means any service period gained with gainful activity (work) or benefits connected to child raising or nursing fee and child home care fee. At least 32 years of gainful activity is needed besides the periods of child raising (30 years in case of nursing fee, child home care 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). In this scheme, women are entitled to full pension benefits, i.e. benefits are not reduced because of early retirement.

### **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.

Child care fee (*gyermekgondozási díj*) could be claimed by one of the parents on the day after the expiry period of infant care allowance and it is provided until the child reaches two years (maximum 84 weeks), or in case of twins, until the children reach three years (maximum 136 weeks). It can also be claimed by parents who are university students and grandparents who are not pensioners (and are insured). After the 6<sup>th</sup> 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 up to the maximum of twice the minimum wage (that is HUF 225 400 gross per month in 2020). If the parent has more children under the age of two who are not the same age, the parent can be eligible to more child care fees. For bachelor degree university students the amount of the benefit is 70% of the minimum wage, and for master degree students it is 70% of the guaranteed minimum wage. It's obligatory to pay the individual pension contribution rate, 10% in 2020. The child care fee is subject to taxation.

Child care allowance (*Gyermekgondozást segítő ellátás*) is for one of the parents who cares for the child until the child's third birthday (maximum 36 months), or in case of twins 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 mentioned 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 2020.

Child raising support (*gyermeknevelési támogatás*) is for one of the parents who cares for the child and who raises three or more minor children in 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 2020.

The total amount of period 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.

### **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 one 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 161 000 in 2020). 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 64 400 in 2020) 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.

### **Self-employed**

For the self-employed in "regular" self-employment, pension contributions and entitlements are based on the so-called entrepreneurial withdrawals, which are net of social security contributions. Employees also accrue pension entitlements on net wages. Pension contribution rates are the same for employees and the self-employed.

As of 2020, almost 60% of the self-employed followed the so-called KATA tax rules which allowed them to pay pension contributions at a flat rate of HUF 50 000, which might be voluntarily increased to HUF 75 000. The self-employed taxpayers can choose KATA if their annual revenue is not higher than HUF 12 million per year (more than twice the gross average wage). In case of the HUF 50 000 flat-rate contribution the gross contribution base of the self-employed taxpayer is lower than in case of the statutory gross minimum wage, thus according to the current legislation in force, the value of one working year is only equal to 0.61 service year (instead of 1 year) thus in case of e.g. assuming 40 working years in KATA only 24 service years will be taken into account during pension calculation.

In case of the HUF 75 000 flat-rate contribution the gross contribution base reaches the level of the statutory gross minimum wage thus the value of one service year in KATA is one year during pension calculation.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

There is no additional Personal income tax relief for pensioners.

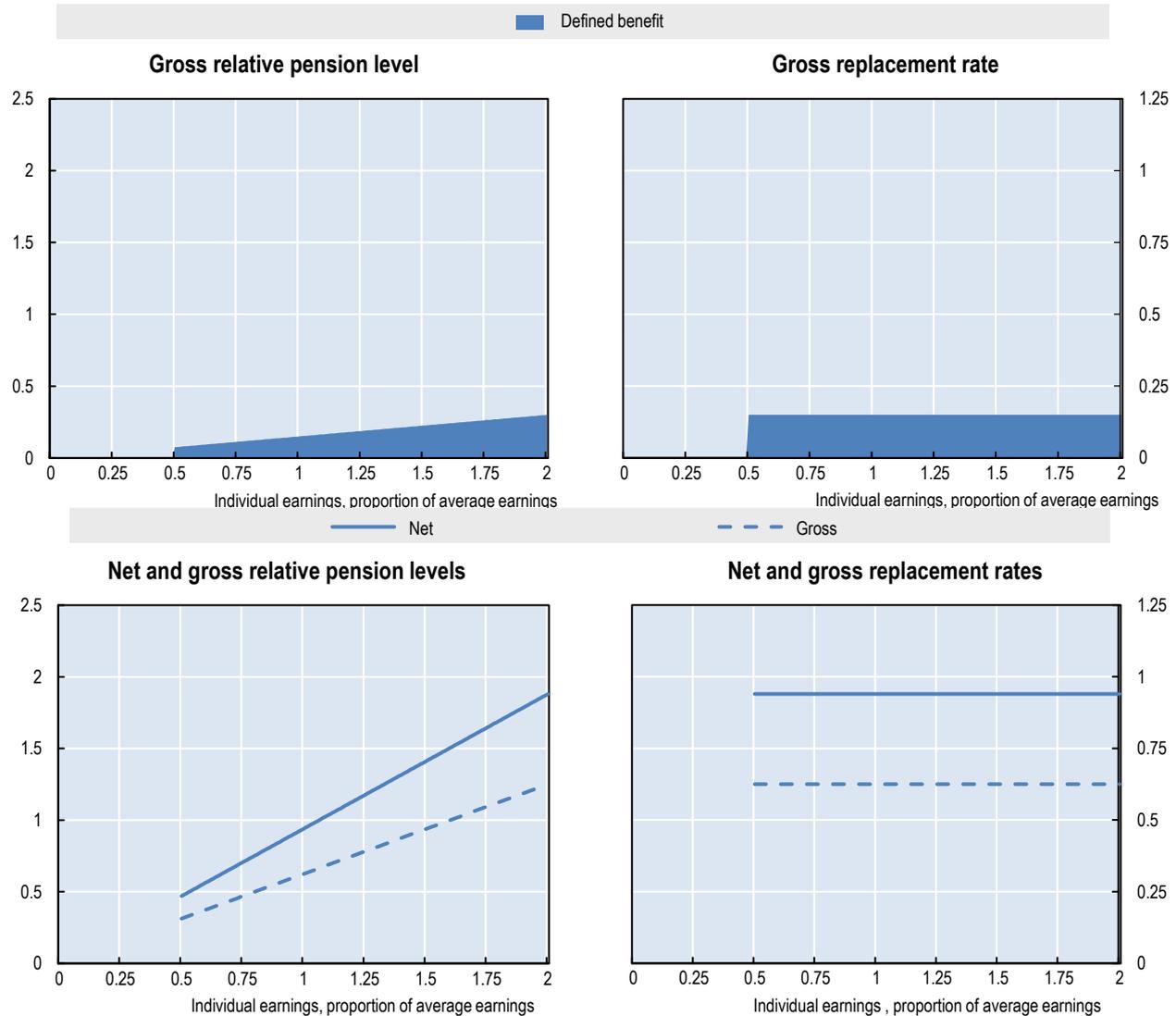
### ***Taxation of pension income***

Pension income is exempt from tax.

### ***Social security contributions paid by pensioners***

Social security contributions are not levied on pension benefits.

## Pension modelling results: Hungary in 2063 retirement at age 65



	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
<b>Men</b>						
<i>Women (where different)</i>						
Gross relative pension level (% average gross earnings)	31.2	46.9	62.5	93.7	125.0	187.5
Net relative pension level (% net average earnings)	47.0	70.5	94.0	141.0	188.0	281.9
Gross replacement rate (% individual gross earnings)	62.5	62.5	62.5	62.5	62.5	62.5
Net replacement rate (% individual net earnings)	94.0	94.0	94.0	94.0	94.0	94.0
Gross pension wealth (multiple of individual gross earnings)	10.4	10.4	10.4	10.4	10.4	10.4
Net pension wealth (multiple of individual net earnings)	15.6	15.6	15.6	15.6	15.6	15.6

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 22 in 2020. Tax system latest available: 2020.