Pensions at a Glance 2023

Hungary

Hungary: Pension system in 2023

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. The future of the supplementary, auxiliary pensions is not modelled by the OECD.

Key indicators: Hungary

		Hungary	OECD
Average worker earnings (AW)	HUF (million)	6.3	15.4
	USD	16 984	41 261
Public pension spending	% of GDP	7.6	7.7
Life expectancy	at birth	74.9	80.7
	at age 65	80.5	84.6
Population over age 65	% of working-age population	33.2	31.3

Qualifying conditions

Qualifying conditions for an old age pension are reaching retirement age and obtaining the required minimum service period. The statutory retirement age was gradually increased from 62 years of age to 65 years of age since 2014 by 2022. Since 1 January 2022 the statutory retirement age is 65 years for both women and men. In addition, 20 years' service is required, in this case the amount of the pension usually may not be lower than the amount of the minimum pension. 15 years' service is required to receive a partial pension. The partial pension has no statutory minimum amount.

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 until retirement. The earnings-related pension is calculated as 43% of average earnings for the first fifteen years of service period. Each additional year of service period adds 2% from years 15 to 25, 1% from years 25 to 36, 1.5% from year 36 to year 40 and 2% thereafter.[1]

[1] 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 2023 to year 2022).
- 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.

The earnings base is monthly net salary (i.e. gross wage less employee's contribution and taxes). Earlier years' earnings are valorised with national economy-wide average net 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 correction takes place retroactively to January 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 the last two years – because of the high inflation rate – a further correction took place before pension increase of November on the basis of the legislation in force.

After the elimination of the 13th monthly pension in 2009, it has been reintroduced in 2021. According to the original regulation the reintroduction of the 13th monthly pension would have been made gradually in four stages until 2024 but – due to the outstanding performance of the economy – in February of 2022 the full amount of 13th monthly pension and benefit was received by the recipients.

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, for persons retiring with 20 years of service period paying contributions after minimum wage the pension amount was more than HUF 70 000 in 2022.

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 ('women 40'). Eligibility period means any service period gained with gainful activity (work) or benefits connected to child raising or nursing fee on the rights of the child 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 on the rights of the child, 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 time of retirement. The pension is increased by 0.5% for each month of additional service time gained. The final pension may exceed the average monthly earnings if the insured person has sufficient long service period after retirement age.

- Step 4. Taking into account the number of service years: Finally, the average of these adjusted net 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.

Childcare

Since 1998 pension contributions have to be paid after the following benefits: childcare fee, childcare 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 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 6th month of age of the child, the parent can pursue a gainful activity without time restriction. The benefit amount is 70% of the calendar day based daily average gross earnings up to the maximum of twice the prevailing minimum wage per month (that is HUF 324 800 gross per month in 2023). If the parent has more children under the age of two who are not the same age, the parent can be eligible to more childcare 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 2023. The childcare fee is subject to taxation.

Childcare 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 10 years of age (maximum 120 months). Entitlement is universal. The monthly amount is equal to the social reference basis of HUF 28 500 in 2023. 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 childcare 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 is 10% in 2023.

Child raising support (gyermeknevelési támogatás) is for one of the parents who cares for the child in her/his own household 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 amount of the social reference basis per child, irrespective of the number of children. It's obligatory to pay the individual pension contribution which is 10% in 2023.

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 benefits are qualified as pensionable service periods (in case of 'women 40' pension scheme for women the period of unemployment should not be considered). 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 jobseeker who has worked for at least 360 days in the 3 years before becoming a jobseeker 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 daily amount of the minimum wage (i.e. HUF 7 733 in 2023). The amount of this benefit is calculated on the basis of the average wage in the four calendar quarters preceding the loss of the job. If the jobseeker has worked for more than one employer in that time, the amount of the allowance is calculated on the basis of the average wage received from all their employers.

Job-seeker aid before pension

In addition to jobseekers benefit older unemployed people can receive job-seeker aid before pension if they have received job-seeker benefit for at least 45 days within 3 years before the submission of the request for job-seeker aid and have exhausted their jobseeker benefit entitlement or their job-seeker benefit was terminated due to employment, and they are not entitled again to jobseeker benefit. Further condition is that the jobseeker shall reach retirement age in not more than 5 years 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 92 800/per month, HUF 3093/day in 2023) 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. Self-employed not having any other legal relationship (e.g. employment) has to pay the social security contribution at least after the minimum wage.

As of 2023 entrepreneurs using the flat-rate taxation scheme pay the social security contribution on a quarterly basis. The monthly base for the contribution is one third of the rolled up flat-rate income decreased by the contributions paid in the earlier quarter(s).

Self-employed following the so-called KATA tax rules (itemized taxation system) pay pension a flat rate of HUF 50 000 for each month, which amount covers all tax and social security liabilities (including the pension contribution). By the payment of this itemized amount the self-employed becomes covered under the social security system and after one working year gets one service year. The self-employed taxpayers can choose KATA if their annual revenue is not higher than HUF 18 million per year and if – due to the change of legislation in 2022 – the self-employed under KATA regulation shall market products or provide services only for natural persons. As the KATA rule determines a hypothetical contribution base of HUF 108 000 which is lower than in case of the statutory gross minimum wage (HUF 232000 in 2023), thus according to the current legislation in force, the value of one working year is only equal to 0.47 service year (instead of 1 year) thus in case of e.g. assuming 40 working years in KATA only 18 service years will be taken into account during pension calculation.

Personal income tax and social security contributions

Taxation of pensioners

There is no additional Personal income tax relief for pensioners.

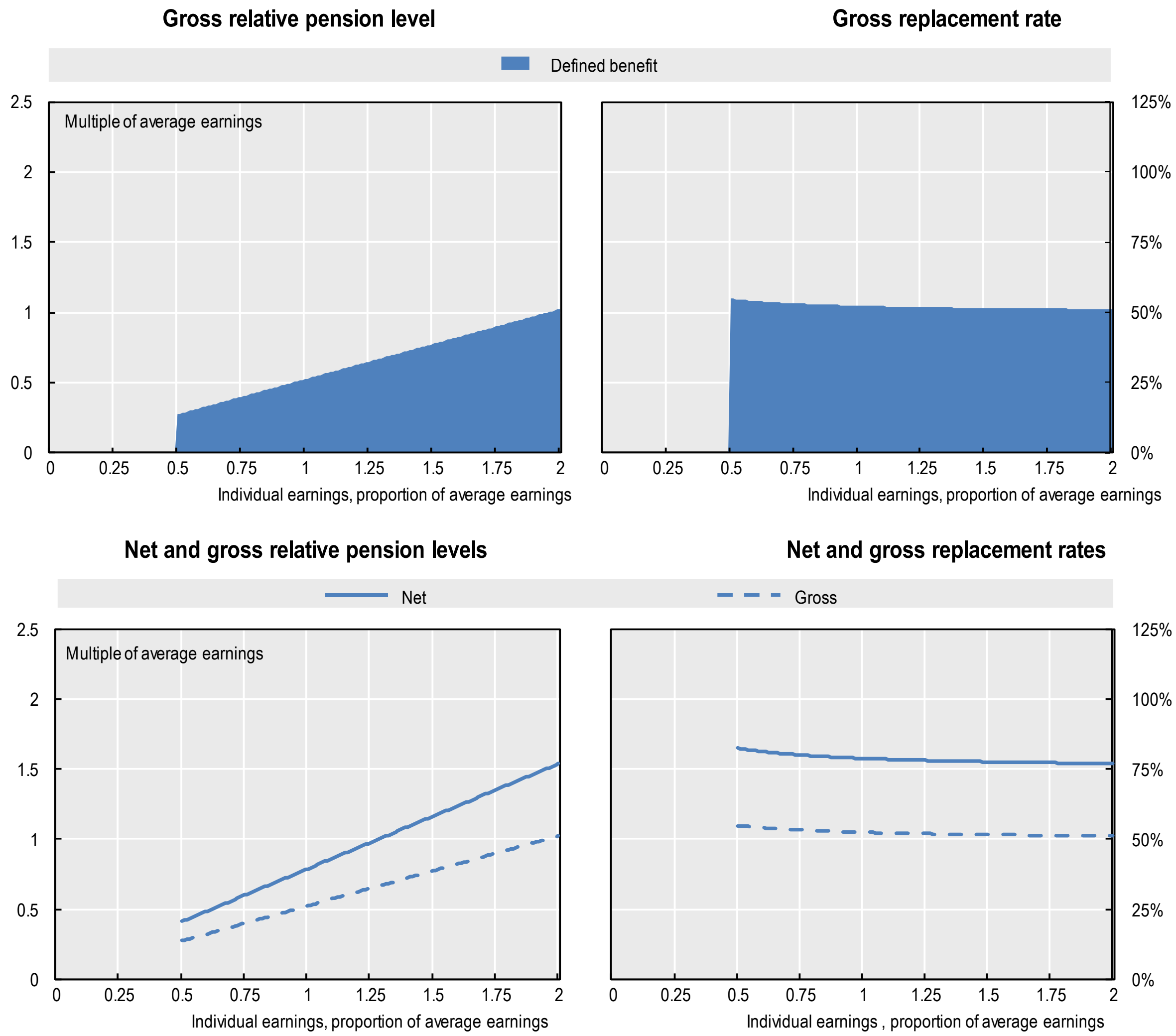
Taxation of pension income

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 2065 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	27.4	39.9	52.4	77.4	102.4	152.4
(% average gross earnings)	25.7	37.4	49.0	72.2	95.5	142.0
Net relative pension level	41.2	60.0	78.8	116.4	154.0	229.2
(% net average earnings)	38.7	56.2	73.7	108.6	143.6	213.5
Gross replacement rate	54.9	53.2	52.4	51.6	51.2	50.8
(% individual gross earnings)	51.5	49.8	49.0	48.2	47.8	47.3
Net replacement rate	82.5	80.0	78.8	77.6	77.0	76.4
(% individual net earnings)	77.4	74.9	73.7	72.4	71.8	71.2
Gross pension wealth	9.8	9.5	9.4	9.2	9.2	9.1
(multiple of individual gross earnings)	11.2	10.8	10.6	10.4	10.3	10.3
Net pension wealth	14.8	14.3	14.1	13.9	13.8	13.7
(multiple of individual net earnings)	16.8	16.2	16.0	15.7	15.6	15.4

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.