

8.

PENSION SYSTEM AND RETIREMENT

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MAJOR FINDINGS

- At the beginning of 2009 those in Hungary who received pension or some pension-type benefit numbered 3.030.000. The largest group of pensioners was that of those above retirement age receiving old-age pension. They numbered 1.423.000. Old age pensioners below retirement age totalled 308.000. 779.000 persons received disability pension, over half of them (54 per cent) not yet reaching retirement age.
- During the past 20 years the number of persons receiving a kind of pension or pension-type benefit grew considerably. The growth was not constant. The number of pensioners was the highest in 1999, then a slow decrease and later stagnation could be observed.
- In contrast with the situation 20 years ago, the majority of pensioners today are below retirement age. The timing and mode of retirement is influenced by the conditions of the labour market, by the state of health of the person concerned, by the current retirement age, and by several other factors.
- In 2008 pension expenditure amounted to about 12 per cent of the Hungarian GDP for that year, i.e., to 3,062.6 billion forints. The average pension was 69,600 forints, which was 69 per cent of the average net income for that year. This can be considered high in European comparison and also as compared to earlier Hungarian pensions.
- Old age and old-age type pensions represented the highest sums among this type of benefits. In 2008 the average old-age pension for those above retirement age was 79,000 forints and for those below retirement age 98,000 forints. The average of disability pensions below retirement age was 59,000 forints and that of those above it was 72,000 forints. Survivors' benefits and pension-type annuities were much less than that.
- The disparities between the incomes of pensioners are less marked than those among the active population. The inequalities follow partly from the fact that the various provisions are regulated by law, partly from the careers of the individuals in the labour market prior to retirement. It is a peculiarity of the Hungarian pension system that pensions depend strongly also on the calendar year of retirement. The rate of those living in existential (or income) poverty is much lower among pensioners than the national average. In 2006 only 8 per cent of them lived below the poverty line, while this rate was 10 per cent for the whole population.
- The general age at retirement is lower than the current retirement age defined by law. This is due partly to the conditions of the labour market, partly to the state of health of the elderly, and partly to the attitude of the population.

RETIREMENT AND THE PENSION SCHEME

In Hungary and in the majority of the European countries one of the most severe problems in the past few decades was the sustainability of the pension system. The ageing of the society characteristic of the majority of the EU countries and the problems of the labour market lay a heavy burden on the overall system of provisions, the pension system included. In early 2009 3,031,000 persons received pension, annuity or regular pension-type benefit in Hungary. This amounts to 30 per cent of the population. The majority, almost three quarters of them received old-age pension or old-age type pension. 308,000 of these people were below retirement age (ONYF–Central Administration of National Pension Insurance, 2009).

The number of those receiving pension and pension-type benefit is determined not only by the number of the relevant age group or the conditions in the labour market but also by the legal background governing pensionability and the attitude

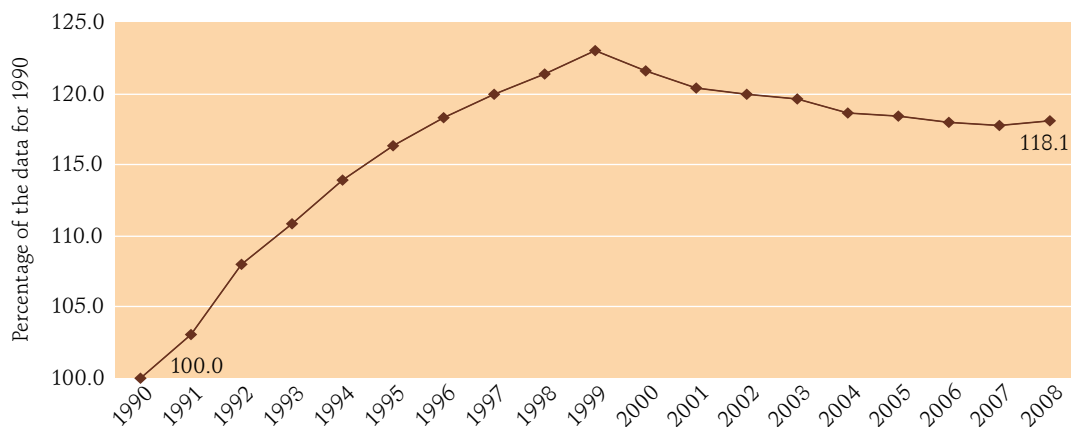
of the population governing the timing of retirement. The personal state of health is of primary importance since it determines the person's possibility to cope in the labour market. The deterioration of health is an outstanding motivation for entering the pension system. In the following this factor will be analyzed, as well.

THE NUMBER OF PENSIONERS

In the 20 years since the change of regimes the number of pensioners increased by over half a million. Whereas in 1990 2,520,000 persons received some kind of pension, in early 2009 their number was already 3,031,000. Due to the dynamic growth after the change of regimes the number of pensioners was the highest in 1999 with 3,184,000 persons involved. Later a slow decrease and finally stagnation could be observed (*Fig. 1*).

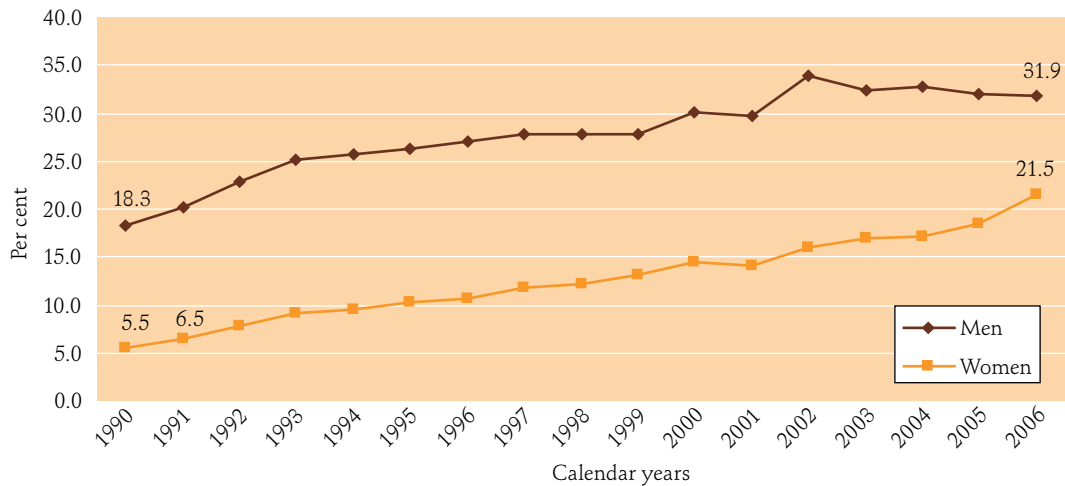
The dynamic growth between 1990 and 1999 goes back primarily to the situation of the labour market. Due to the economic crisis many people lost their jobs and were

Fig. 1. Number of persons receiving pension and pension-type benefits, 1990–2008 (1990=100)



Source: ONYF (2009)

Fig. 2. Rate of pensioners below retirement age within the retired population, 1990-2006



Source: Central Statistical Office, Labour balance account. Author's calculations.

forced to leave the labour market for a certain period of time. Uncertainty was especially detrimental to the older generations who instantly turned to the pension system. This process was facilitated by the introduction of new types of pension like pre-pension and early retirement. These forms of making retirement easier stopped to exist in the late 1990s and the possibilities of retirement narrowed down substantially.

The dynamic increase of the number of pensioners stopped short at the end of the 1990s not only because of this fact but also because in 1998 the retirement age started to increase. The process took place between 1998 and 2009 and a separate retirement age was determined for each age group by year of birth and by gender. During the period of ten years the retirement age for women rose from 55 to 62 years and for men from 60 to 62 years. Thus the rising of the retirement age affected women more heavily than men.

At the same time, the dynamics of raising the retirement age was not followed by a similarly dynamic rise of the age in

which people generally retired. As parallel with raising the retirement age pre-pension was introduced, the age groups affected by the rise could retire before they reached full retirement age, after a required term of office. This fact slowed down the rise of the activity rate of the elderly and the postponement of the age at retirement, consequently the rate of pensioners above and below retirement age changed considerably (Fig. 2), especially among women.

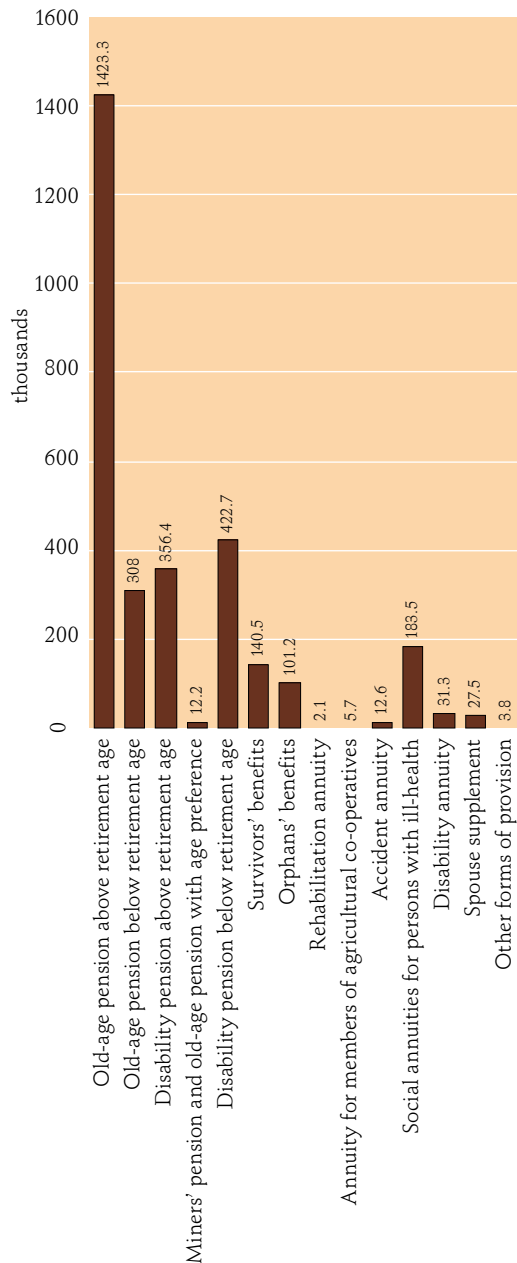
THE DISTRIBUTION OF THE RETIRED BY TYPE OF PROVISION

The most numerous group of people receiving pension and pension-type benefits is that of those above retirement age receiving old-age pension. In early 2009 they numbered 1,423,000 followed by the group of old-age pensioners below retirement age and that of those receiving disability pension (Fig. 3).

Fifty-four per cent of the persons receiving disability pension (423,000 persons) have not reached retirement age yet. The

rest (356,000 persons) are above the legal age now but entered the system already in their younger years.

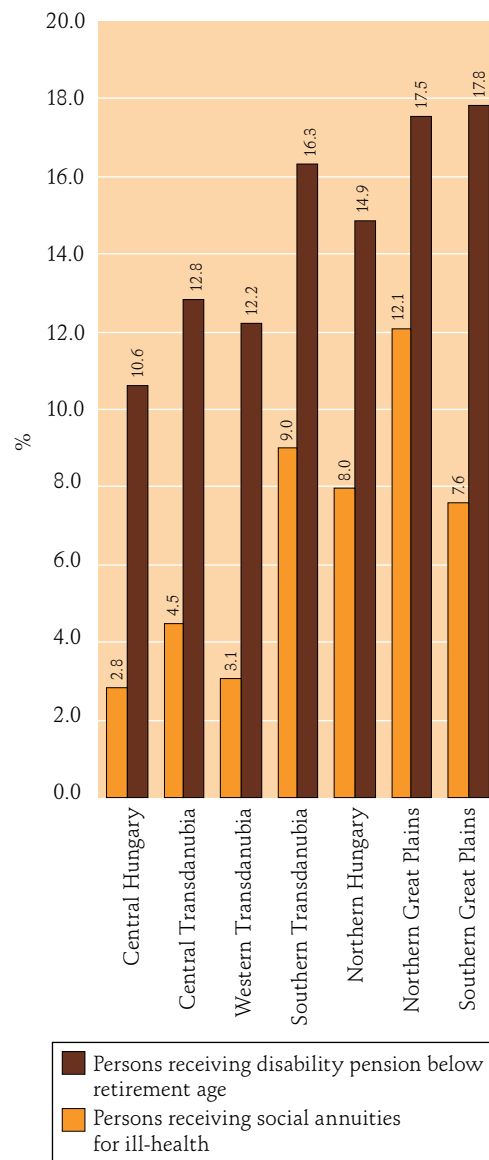
Fig. 3. Number of people receiving pension and pension-type benefits, January 2009 (thousands)



Source: ONYF (2009)

As it has been mentioned before, the number of pensioners depends not only on the number of the relevant age group but also on the position of these generations in

Fig. 4. Rate of persons receiving certain outstanding forms of provision within the overall population of pensioners, January 2009



Source: ONYF (2009)

the labour market. The high rate of pensioners below retirement age in certain jobs and the territorial differences call attention to the fact that increasing the possibility of employment for the older generations is a key element of the sustainability of the pension system. The regional differences in the distribution of pensioners indicate that the more backward a region is and the more problems it has in connection with the labour market, the greater the number of the persons receiving disability pension below retirement age and the social annuity for persons with ill-health (Fig. 4).

These provisions are in connection with bad health only partially. In the case of the majority of these people altered abilities due to changes in one's state of health usually go hand in hand with the small capacity of the labour market.

PENSION EXPENDITURES AND PENSIONERS' INCOMES

In 2008 state expenditures on pensions amounted to 3,062.6 billion forints, which was about 12 per cent of the GDP for that year. The average provision per person was 69,600 forints, i.e., 69 per cent of the average net income in the same year. The various forms of provision differed substantially. Old-age pension and old-age type pension were the highest. In 2008 the average amount of old-age pension for persons above retirement age was 79,000 forints and for those below retirement age 98,000 forints. Disability pension was lower than that: 72,000 forints for those above retirement age and 59,000 forints for those below. Survivors' pensions and benefits did not reach even that level.

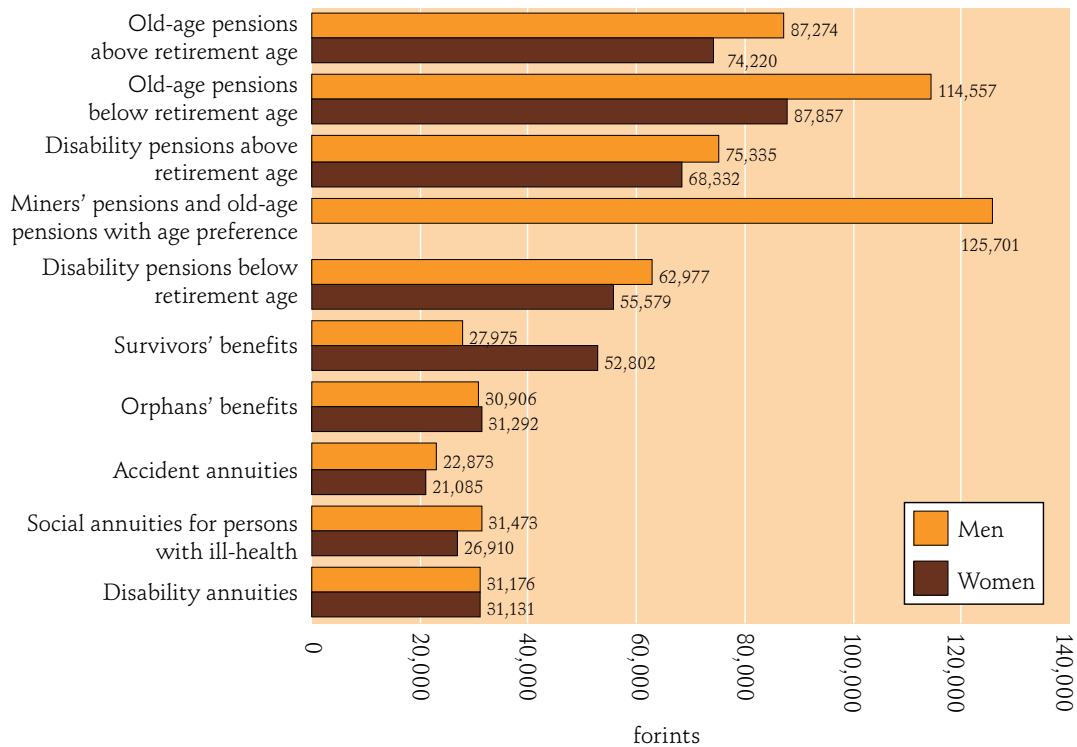
AGGREGATE REPLACEMENT RATIO IN THE EU MEMBER STATES IN 2007

The development of the sociopolitical targets as regards a sustainable pension scheme in the EU is documented by indicators using uniform methods. One of these indicators is the aggregate replacement ratio which is the ratio of the median pension of the age group 65-74 and the median income of employed people aged 50-59.

	Total	Men	Women
EU-25	0.49	0.52	0.49
EU-15	0.48	0.51	0.48
Belgium	0.44	0.46	0.45
Czech Republic	0.51	0.51	0.56
Denmark	0.39	0.38	0.43
Germany	0.45	0.47	0.48
Estonia	0.47	0.40	0.57
Ireland	0.47	0.41	0.53
Greece	0.40	0.46	0.42
Spain	0.47	0.52	0.48
France	0.61	0.61	0.54
Italy	0.49	0.56	0.37
Cyprus	0.29	0.34	0.34
Latvia	0.38	0.33	0.43
Lithuania	0.40	0.38	0.44
Luxembourg	0.61	0.59	0.58
Hungary	0.58	0.60	0.57
Malta	0.50	0.52	0.48
The Netherlands	0.42	0.49	0.54
Austria	0.61	0.62	0.68
Poland	0.58	0.64	0.57
Portugal	0.47	0.50	0.48
Slovenia	0.44	0.51	0.39
Slovakia	0.54	0.53	0.57
Finland	0.46	0.46	0.48
Sweden	0.61	0.63	0.54
Great-Britain	0.41	0.42	0.44
Iceland	0.43	0.43	0.47
Norway	0.49	0.54	0.42

Source: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde310&plugin=1>

Fig. 5. Monthly average of some outstanding forms of pension, 2008



Note: Pension for a '13th month' included.

Source: ONYF (2009)

The amounts received as pension by men and by women differ greatly, the average pension for women being only 86 per cent of that for men. The difference is the greatest in the case of old-age pensions. At the same time, survivors' benefits are higher in the case of women (Fig. 5).

There are considerable disparities within the pension system also by age cohorts, i.e., years of birth. This fact is explained by the way of calculating most pensions on the basis of a person's incomes at retirement, which is different year by year. Pensions and their disparities are determined by the relevant legal regulation as well, influencing the differences between the cohorts, too.

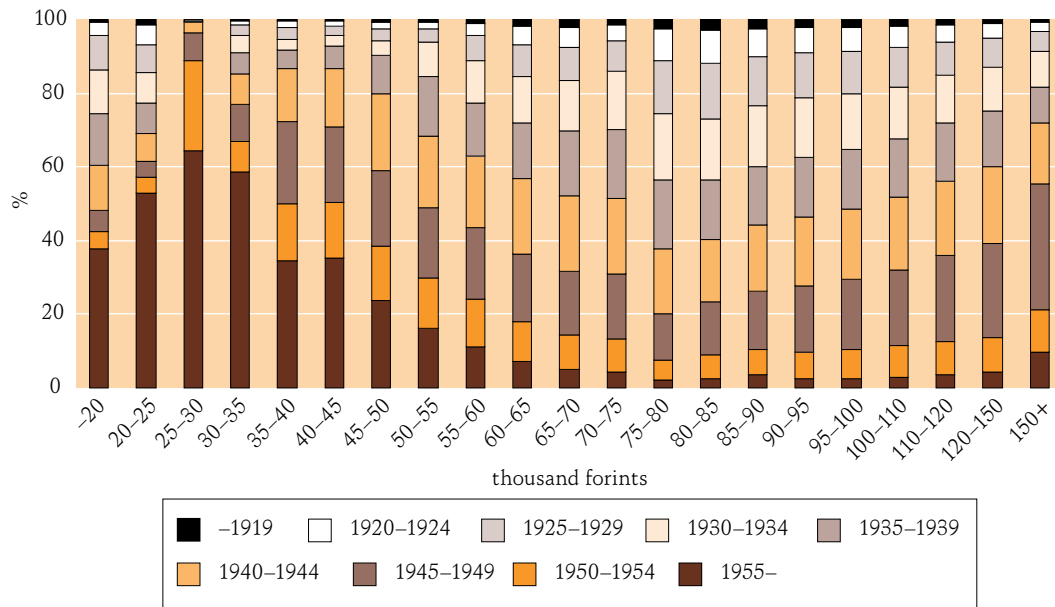
The smallest sums are given to the youngest of the newly retired as most of

them receive disability pension, orphans' benefit or annuity, which are relatively low-level provisions. The highest pensions go to those who have reached or approached retirement age and receive early pension or normal old-age pension at retirement age. This group is the youngest among old-age pensioners (Fig. 6).

EXISTENTIAL POVERTY AMONG PENSIONERS

Besides maintaining the sustainability of the pension system the other important sociopolitical target is to ensure safe subsistence for all pensioners. The level of pensions as compared to the level of incomes

Fig. 6. Distribution of birth cohorts within groups determined by the amounts received, January 2009



Source: ONYF (2009)

for the employed is higher in Hungary than the European average but the disparities behind this average and the number of those living below the poverty line are not negligible, either. The differences of incomes and the poverty rate for pensioners depends not only on the level of pensions as pensioners can have other sources of income as well, and the incomes of other members of their household also play a role in their standard of living. When calculating a person's income we apply the international norm of including the incomes of other members of the household and the ones linked not with persons but with the household itself.

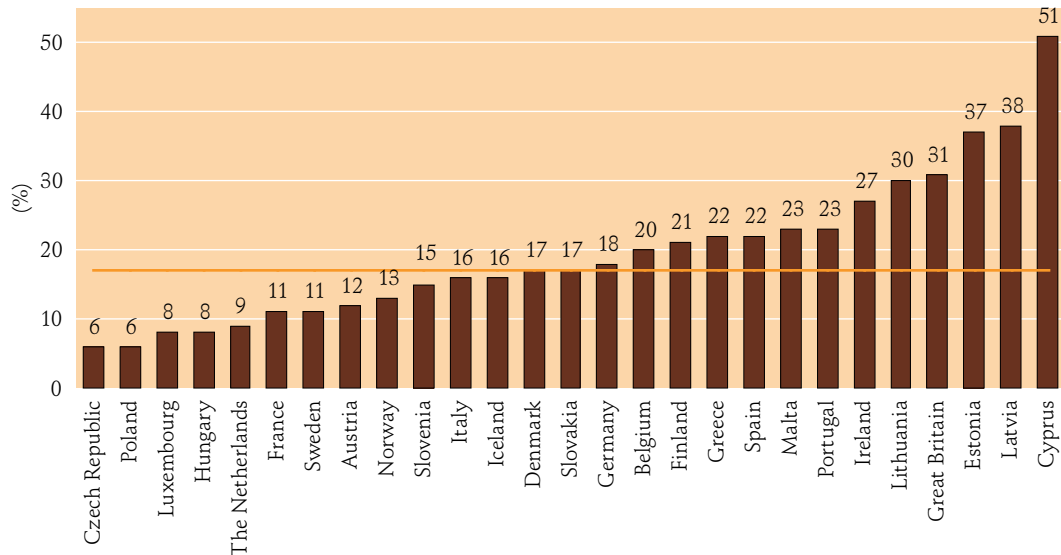
The poverty rate of Hungarian pensioners calculated according to international standards (i.e., 60 per cent of the median value of the equivalent income) is lower than that of the total population. The calculations for 2006 reveal that 8 per cent of pensioners aged 18+ live in existential poverty. This is

below not only the national average (10 per cent) but also the value characterizing pensioners in the EU member states to a great degree. In 2006 17 per cent of the pensioners in the average of 25 EU states lived below the poverty line (Fig. 7).

ATTITUDES AS REGARDS RETIREMENT

The timing of retirement is influenced by several factors. For most people it depends on the retirement age as old-age pension is available at that date or one or two years earlier. At the same time the term of office is also an important factor as it determines the type and amount of pension. The term of office is determined, in turn, by the state of the labour market, i.e., by the chances of a person to spend many years with work. The possibility of working parallel with re-

Fig. 7. Poverty rate among pensioners aged 18+ in 2006 (%)



Source: EUROSTAT, Pension indicators

http://nui.epp.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_pns68&lang=en

tirement is considered, too, just as the person's state of health. Those whose health has deteriorated to a degree that they can no longer work similarly decide for retirement. They will receive disability pension or the social annuity for persons with ill-health. Certain types of pension are given to those who have lost a spouse or a parent. Such are the widow's pension and the orphan's allowance.

Entering the pension system is thus the result of both choices and necessities.

The elderly age groups of the Hungarian society have a strong desire to retire. The rate of those who would gladly stop working and choose retirement is high. In 2001 80 per cent of the employed at best 10 years below retirement age wished to retire before that date. In 2004 this rate was 70 per cent (Monostori, 2008).

This preference for retirement was motivated in these layers by their aversion to the world of employment and by their positive

expectations as regards their retired years. The demographic survey entitled *Turning Points of the Life Course* by the Demographic Research Institute found among the reasons problems of health (fatigue, deterioration of health), a fear from unemployment, and positive elements like more free time to be spent with the family and the choice of a new occupation parallel with receiving pension.

Fatigue and deteriorating health are the most common reasons motivating a person to choose retirement below the legal age. Forty-three per cent of the employed population at best 10 years younger than retirement age preferring early retirement referred to these two factors with slightly more women among them than men. The respondents mentioned with similar emphasis that they wished to spend more time with their families and to have more free time. Three quarters of the women

and half of the men in this group indicated also the wish to be with their grandchildren as a reason. Seventeen per cent spoke of fear from unemployment, and 14 per cent wanted to work in another job after retirement (*Table 1*).

The different motivations of those preferring early retirement differed also by social groups. Manual workers mostly referred to fatigue and deteriorated health. Compared to intellectuals and businessmen this group was the most afraid of unemployment. They did not think of working after retirement or being gainfully employed in another form. As a contrast, 30 per cent of the businessmen preferred early retirement with view of another job. The main motivating factor for intellectuals, both men and women, was more free time and more time to spend with the family.

Table 1. Causes of preferring early retirement (persons at most 10 years below the age of retirement)

Causes	Percentages of mentioned causes		
	Men	Women	Total
1. Fatigue, deteriorating health	39.3	45.6	43.1
2. Wish to spend more time with his/her family and to have more free time	32.3	49.5	42.8
3. Fear from unemployment	18.0	17.1	17.4
4. Wishes to earn money after retirement, wishes another kind of work	18.1	11.0	13.8

Source: J. Monostori (2008).

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www.demografia.hu – Central Statistical Office, Demographic Research Institute
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 http://nyugdij.magyarorszagholnap.hu – documents and background studies for the Pension and Old-age Round Table
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