

PENSION SYSTEM AND RETIREMENT

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MAJOR FINDINGS

- At the beginning of 2011 the number of those receiving pension or some pension-type benefit was 2,921,000.
- The largest group of pensioners consists of those above retirement age receiving old-age pension. They numbered 1,462,000 in 2011. Old-age pensioners below legal retirement age totalled 238,000.
- The second largest group of pensioners consists of those receiving disability pension, numbering 722,000. 47 per cent of those belonging to this category had not reached the retirement age relating to them yet.
- With view to the tendencies of the past twenty years it can be established that the number of pensioners was steadily growing between 1990 and 1999, slowly decreasing and stagnating between 1999 and 2008, and drastically decreasing after 2008.
- In 2010 state expenditure on pensions in Hungary amounted to nearly 11 per cent of the GDP (3,043.8 billion forints).
- The average pension was 86,000 forints, which was 65 per cent of the average net income for that year. This rate can be considered high in European comparison.
- The highest sums fell in the category of old-age and old-age type pensions. In January, 2011, the average amount of old-age pension for those above retirement age was 97,000 forints, and for those below retirement age 115,000.
- The average of disability pensions below retirement age was 70,000, while for those above retirement age it was 85,000 in early 2011. Average survivors' benefits and pension-type annuities were much less than that.
- Disparities between incomes among pensioners are less marked than the national average. The inequalities follow partly from the fact that the various provisions are regulated and limited by law, and partly from the careers of the individuals on the labour market prior to retirement.
- The rate of those living in existential (or income) poverty is lower among the pensioners than the national average. In 2010, the rate of persons among them who lived below the poverty line was 4 per cent.
- According to a survey in 2008, 3 per cent of the pensioners said that they lived in privation, 13 per cent had financial difficulties each month, 53 per cent had just enough money to make both ends meet, 28 per cent lived on a level they considered acceptable, and 3 per cent received enough to make a good living.
- Besides the current legal regulations, the timing of retirement is influenced by several other factors like coercion on

the part of employers, the employees' fear of unemployment, favourable or unfavourable situations following from changing legal regulations, or family duties. The last two factors, namely the prospects of more free time for the family and of more favourable legal conditions play the most decisive part in determining the date of retirement.

persons involved greatly determine their possibility of staying in the labour market. The deterioration of health is one of the major reasons for a person's entering the pension system. These factors will be dealt with in more detail in the chapter on the pension scheme and retirement.

INTRODUCTION

In Hungary, just like in the majority of the European countries, one of the most severe problems in the past decades was the sustainability of the pension system. The ageing of the society, i.e., the ever growing rate of the old population characteristic of the majority of the EU states, as well as the low level of employment especially inflicting Hungary lay a huge burden on the overall system of provisions, with the pension system among them.

In early 2011, 2,921,000 persons received pension, annuity or regular pension-type benefits in Hungary. This amounts to nearly 30 per cent of the population. The majority, nearly three quarters of them, received old-age pension or old-age type pension but even they were not necessarily above retirement age. The number of old-age pensioners below retirement age was 238,000 in early 2011 (ONYF 2012).

The number of those receiving pension or pension-type benefit is determined not only by the changing number of the relevant age group and the conditions in the labour market but also by the legal background regulating pensionability and by the attitude of the population as to the timing of retirement. At the same time, the state of health of the

NUMBER OF PENSIONERS

As compared to the data for the year of the change of regimes, the number of retired persons increased considerably in the past twenty years. Whereas in 1990 2,520,000 persons received some kind of pension, in early 2011 their number was already 2,921,000.

The dynamic growth of the decade following the change of regimes reached its peak in 1999 with 3,184,000 persons in the pension system. Between 1999 and 2008 a slow decrease followed, then came stagnation, and in the past 3 years a considerable decrease can be observed (Fig. 1).

The dynamic growth in the period 1990 to 1999 was basically due to the changing conditions in the labour market. The economic crisis following the change of regimes brought with it for many people the loss of their jobs for a certain period or even finally. The ensuing uncertainty was especially painful for the older generations a considerable portion of which turned towards retirement. This process was facilitated by the introduction of several new types of pension like pre-pension and early retirement. These forms making the leaving of the labour market easier stopped to exist in the late 1990 and the possibilities of retirement narrowed down substantially.

The dynamic increase in the number of pensioners stopped short towards the end

of the 1990s not only because of this fact but also because in 1998 the retirement age started to increase. The first phase of the process took place in 1999–2009, and a separate retirement age was determined for each male and female birth cohort. During this period of ten years, the retirement age for women rose from 55 to 62 years and for men from 60 to 62. Subsequently, retirement age was equally high for both sexes and was rising further. However, the effects of this measure cannot be felt as yet, since it is the generation born in 1952 who will be the first to retire later than 62 years of age. But these people will reach the retirement age determined for them only in 2014 and 2015. If the present scheme prevails, retirement age will rise to 65 years. The generation born in 1957 will be the first who will be able to receive full old-age pension only at the age of 65, in case they fulfil all the requirements.

Besides the raising of retirement age, other factors similarly influence the number of old-age pensioners. The economic recession in the second half of the 2000s and the expected aggravation of the conditions of pre-pension increased the people's intention to retire. In these years a great number of people retired before the retirement age valid for them.

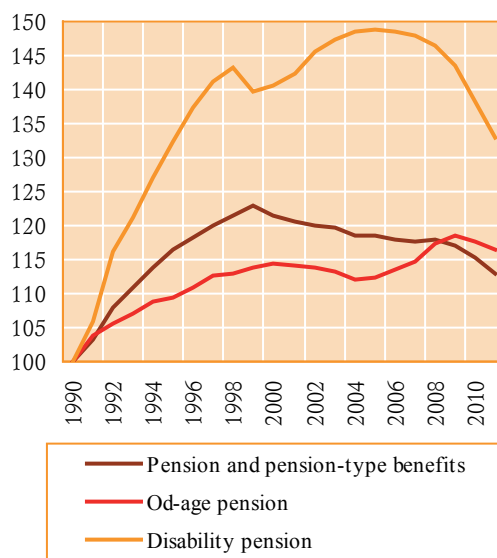
Persons receiving disability pension represent a large group of pensioners. Their number had been growing almost steadily since the change of regimes and by the mid-2000s it was one and a half times as high as in 1990 (Fig. 1), around 800,000.

The provision system for disabled persons was considerably transformed in the years following 2008. From that time on, only those could receive disability pension who were disabled to at least 50 per cent and could not be rehabilitated. The sums pensioners were entitled to when working parallel with receiving pension were lowered, too, which greatly decreased the

number of those entering the system. At the same time, the number of persons receiving disability pension similarly diminished to a large extent (Fig. 1).

Fig. 1. Changes in the number of persons receiving pension and pension-type benefits, 1990–2011

In percentage of the 1990 data



Source: ONYF Statisztikai Évkönyvek (Statistical Yearbooks of the Central Administration for National Pension Insurance).

The sustainability of the pension scheme is influenced not only by the changes in the number of pensioners but also by the number of persons still active in the labour market as it is they who make the money to cover pension expenditures. This is how the pay as you go pension system works. The number of pensioners per 100 employed persons took an unfavourable turn in the past decade. In 1990 52 pensioners fell to 100 active people, while in 2001 as well as in 2010 their number was already 79 (Table 1).

Table 1. Number of employed and retired persons, 1990–2011 (thousands)

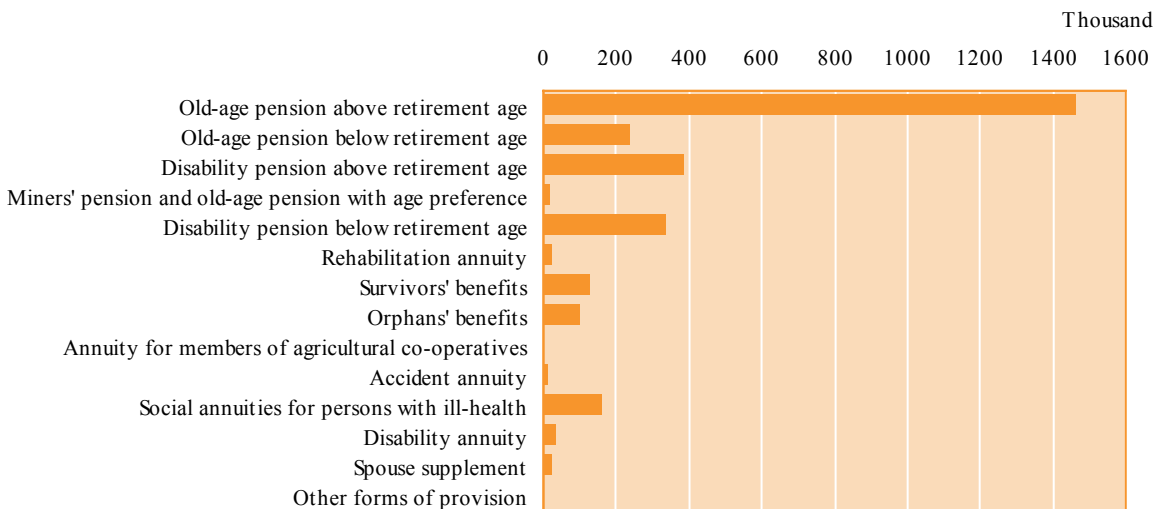
Year	Number of the employed	Number of persons receiving pension and pension-type benefits	Number of persons receiving old-age pension	Number of persons receiving disability pension	Per 100 active persons		
					pensioners	old-age pensioners	disability pensioners
1990	4880.0	2520.2	1461.7	542.8	52	30	11
2001	3883.3	3084.0	1667.9	772.3	79	43	20
2010	3781.2	2980.3	1719.0	750.3	79	45	20

Source: KSH and ONYF Statistical Yearbooks.

COMPOSITION OF THE RETIRED BY TYPE OF PROVISION

The most numerous group of people receiving pension or pension-type benefits consists of those above retirement age receiving old-age pension. In early 2011, they

numbered 1,462,000. Next in numbers are old-age pensioners below retirement age and persons receiving disability pension (Fig.2). 47 per cent of the latter are still below retirement age (338,000 persons), while the rest are above the legal age but entered the system already in their younger years.

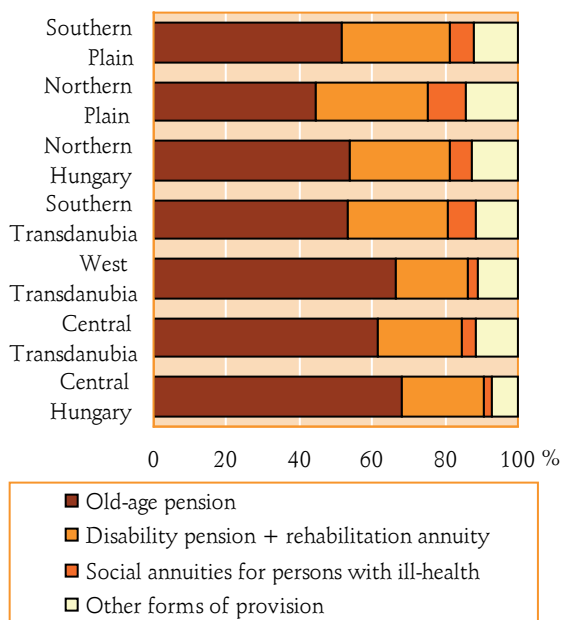
Fig. 2. Number of persons receiving pension or pension-type benefits, January, 2011

Source: ONYF Statistical Yearbook, 2012.

The distribution of pensioners by the type of the benefits shows territorial differences. The rate of those receiving disability pension

or one of the social annuities for persons with ill health is higher in the less developed regions of the country (Fig. 3).

Fig. 3. Regional distribution of persons receiving pension or pension-type benefits by form of benefit



Source: ONYF Statistical Yearbook, 2012.

PENSION EXPENDITURES AND THE AMOUNT OF PENSIONS

In 2010, Hungarian state expenditure on pensions amounted to 3,043.8 billion forints, which is about 11 per cent of the GDP. The average provision per person was 86,000 forints, i.e., 65 per cent of the average net income for that year. (The relationship of incomes and pensions is internationally measured among others by the so-called aggregate replacement ratio, see text in frame.)

The average amounts of the various forms of provision differed to a great extent. Old-age pension and old-age type pension were the highest. The average amount of old-age pension for persons above retirement age in January, 2011 was 97,000 forints, while for those

AGGREGATE REPLACEMENT RATIO IN THE EU MEMBER STATES, 2010

The development of the sociopolitical targets of the European Union with regard to a sustainable pension system is documented by indicators based on a uniform methodology. 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 the employed population aged 50–59.

	Total	Men	Women
EU (27 countries)	0.53	0.56	0.52
EU (15 countries)	0.53	0.55	0.51
Belgium	0.46	0.46	0.47
Bulgaria	0.43	0.51	0.40
Czech Republic	0.54	0.52	0.55
Denmark	0.44	0.42	0.46
Germany	0.49	0.49	0.52
Estonia	0.55	0.47	0.60
Ireland	0.47	0.46	0.54
Greece	0.42	0.48	0.44
Spain	0.53	0.61	0.47
France	0.67	0.71	0.61
Italy	0.53	0.58	0.44
Cyprus	0.35	0.39	0.37
Latvia	0.46	0.45	0.50
Lithuania	0.60	0.62	0.59
Luxembourg	0.68	0.65	0.74
Hungary	0.60	0.61	0.60
Malta	0.46	0.45	0.45
The Netherlands	0.47	0.53	0.49
Austria	0.64	0.68	0.59
Poland	0.57	0.64	0.55
Portugal	0.53	0.57	0.55
Romania	0.65	0.68	0.58
Slovenia	0.45	0.51	0.42
Slovakia	0.61	0.59	0.59
Finland	0.50	0.51	0.49
Sweden	0.60	0.65	0.56
United Kingdom	0.48	0.47	0.47

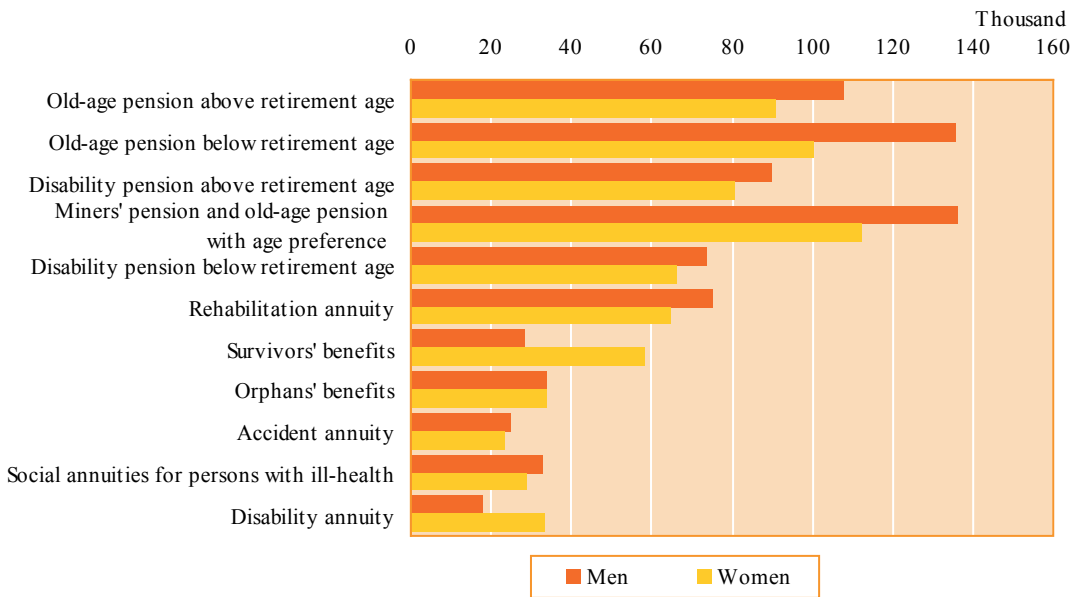
Source: EUROSTAT, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde310&plugin=1>

below retirement age it was 115,000 forints. The average of disability pensions was lower than that. For those above retirement age it was 70,000 forints, and for those below it was 85,000. Survivors' pensions and benefits were still lower.

The comparison of pensions for men and women shows that the average pension of

women is merely 84 per cent of that of men. The difference is the greatest in the category of old-age pensions mostly due to the fact that women generally spend a shorter period at work and their average income is also lower (Fig. 4).

Fig. 4. The average amount of selected important forms of retirement benefits, January, 2011



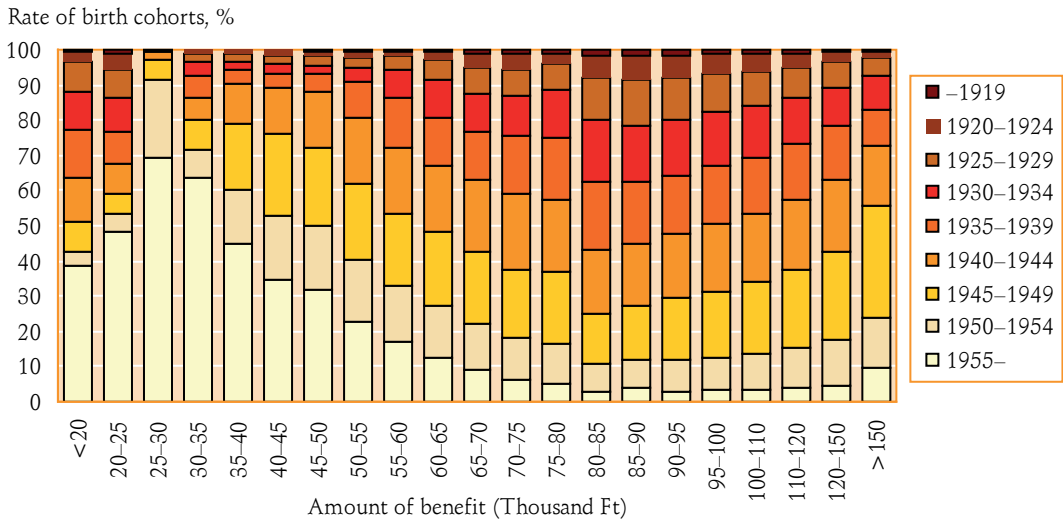
Source: ONYF Statistical Yearbook, 2012.

There are considerable disparities within the pension system not only by sex but also by birth cohorts. This fact is explained by the way of calculating most pensions on the basis of a person's incomes at retirement, which are different birth cohort by birth cohort. At the same time, pensions and their disparities are determined also by the relevant legal regulations, influencing the differences within the birth cohorts as well.

The smallest sums are given to the youngest cohorts among the newly retired.

This is due also to the fact that a considerable portion of the younger generations become pensioners as persons receiving disability pension, orphans' benefit or annuity, which are the lowest among the provisions. The highest pensions go to those who reached or approached retirement age in the past few years and receive early pension or normal old-age pension at retirement age. This group is the youngest among old-age pensioners (Fig. 5).

Fig. 5. Rate of birth cohorts in groups by the amount of benefits, 2011



Source: ONYF Statistical Yearbook, 2012.

FINANCIAL CIRCUMSTANCES AND LIVING CONDITIONS OF PENSIONERS

Besides the sustainability of the pension system, the acceptable living standard of the retired population is also an important target in social policy.

The income poverty rate of Hungarian pensioners is lower than the one calculated for the total population. All in all, the relative income of pensioners in Hungary is higher than the EU average.

According to calculations for 2010, only 4 per cent of Hungarian pensioners aged 18+ live in existential poverty. As a contrast, the average of the 27 EU states for that year was 13.8 per cent (EUROSTAT, Pension indicators).

One of the reasons of this favourable situation is that in relation to the wages, the pension of old-age pensioners constituting the largest group among all pensioners in the

country can be considered high in European comparison. The other reason is that the level of employment is very low, and large masses of persons in their active years are unemployed or economically inactive. The better relative conditions of income among the retired is due to the low income of these groups of society.

It should also be taken into account that income statistics can usually grasp the income of the pensioners more precisely than that of younger age groups with several sources of income. This latter figure is, therefore, underestimated. As a result, statistics show the relative income of pensioners as more favourable than it actually is.

From the point of view of livelihood, it is important to examine how the persons involved are able to live within their income, what they can afford and what not. Viewing things from this angle, the picture is less favourable than that offered by statistics. The maintenance costs of housing and the expenditure on

medicine constitute a serious burden for most pensioners.

According to the relevant research results, in 2008 3 per cent of the pensioners said that they were living in privation, and 13 per cent had financial problems month by month.

The persons working actively besides receiving old-age pension are in the most favourable position. This group made up 7 per cent of all pensioners. 13 per cent of them declared that they had no financial problems at all, and 47 per cent considered their conditions acceptable. A much smaller proportion of those not working in parallel to drawing a pension

felt their income satisfactory and said they had no financial problems. Only one third of this group chose one of these two categories. More than half of the inactive pensioners said they were just about coping, and one out of ten had financial problems every month (Table 2).

The living standard of persons receiving disability pension, with special respect to those not working parallelly, is much lower than that of old-age pensioners. 7 per cent of the inactive disability pensioners lives in privation, and nearly one quarter of them have bread-and-butter worries each months (Table 2).

Table 2. How far can various social groups live within their income

(%)

Economic activity	Live in privation	Financial problems each month	Economizing but still can cope	Live on an acceptable level	Live free from care	Total
Work	2.7	12.3	48.0	33.3	3.6	100.0
Work plus old-age pension	0.4	3.6	36.1	46.8	13.2	100.0
Work plus disability pension	3.4	10.2	54.4	30.6	1.4	100.0
Old-age pension	2.3	10.1	54.5	30.0	3.0	100.0
Disability pension	6.8	23.7	53.5	15.2	0.7	100.0
Other inactive persons	11.9	27.2	41.9	17.1	1.9	100.0
Total	4.0	14.2	49.4	29.2	3.2	100.0

Source: Turning Points of the Life Course, demographic datasurvey, Demographic Research Institute, HCSO, 3rd wave, 2008. Author's calculations.

FACTORS INFLUENCING 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 return, by the state of the labour market, i.e., by the chances of a person to stay employed. The timing of retirement is influenced also by the possibilities of working parallel with receiving pension and also by the state of health of the individual. Those whose health has deteriorated to a degree that they must give up their jobs similarly decide for retirement. These people will receive

disability pension or the social annuity for persons with ill health. Certain types of pension are given to those who have lost their spouse or a parent. Such are the widows'

pension and the orphans' allowance.

Entering the pension system can thus be the result of the pressure of circumstances and of personal choices.

Table 3. Factors influencing retirement among old-age pensioners retiring between 2000 and 2008 (%)

Factors influencing retirement	Uninfluenced	Slightly influenced by these factors	Greatly influenced
Workplace/superiors decided for their retirement and they accepted it	77.0	6.8	16.2
Were afraid of being fired and becoming unemployed if they postpone retirement	86.0	5.8	8.2
Felt unable to keep up with the growing demands, requirements and constraints of their jobs	88.3	6.0	5.7
It became possible to go on working in their old jobs after retirement	75.3	6.9	17.7
Opportunity presented itself for new occupations with more flexible working hours	85.7	6.6	7.7
Heard that the conditions of retirement would turn for the worse in the future	59.2	12.4	28.4
Preferred having more free time to rest	47.5	24.1	28.4
Family expected him/her to devote more time to the household	56.5	19.6	24.0

Source: Turning Points of the Life Course, demographic datasurvey, Demographic Research Institute, HCSO, 3rd wave, 2008. Author's calculations.

In the case of older generations, one of the reasons of retirement can be the employer's decision to this effect. Almost one quarter of the pensioners retired between 2000 and 2008 stopped working due to this factor and 16 per cent decided so with this in mind. The pressure on the part of employers must play a much greater role in retirement than this but some people prefer to think of retirement as their own choice and do not want to admit the fact of outer pressure.

The number of those who retired out of fear from unemployment or the challenges of their profession is relatively small. The former consideration played a part in the case of 14 per cent, while the latter in the case of 12 per cent of all pensioners.

As a concomitant of the raising of the retirement age in the 2000s, age groups just

a few years younger than retirement age could apply for pre-pension under certain conditions. A great number of them still went on working in their old jobs. This was highly favourable for them financially as they received both pension and wage or salary without any limitation. 25 per cent of those retiring in those years did so knowing that they could keep their jobs, and 14 per cent retired in the hope of getting a new job elsewhere.

The timing of retirement is governed not only by the existing legal regulations but also by planned ones and the social debates and beliefs about them. In the case of 40 per cent of all those retiring between 2000 and 2008 the timing of retirement was influenced by the belief that the conditions of retirement were going to become less favourable in the

future and it was a key factor in the decision of 28 per cent.

An advantage of being retired is that pensioners have more free time to spend with their families and take care of their grandchildren. 28 per cent of persons receiving old-age pension mentioned that they retired in order to have more free time, and 24 per cent said that their family members needed them to spend more time at home.

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