

# Hungary

## 1. Session one: Informing on change

### 1.1 What do individuals know about main aspects of the pension systems that are changing? (parameters, financing, retirement age, indexation)

There is a permanent pension reform in Hungary since the early 90's but only some pension specialists know about the real changes. The people on the street are rather pessimistic about the facts that are really affecting them closely, but they generally do not know the whole story. They are quite uninformed about the changes and the steps they might do. While the „average population” does not comprehend the pension-reform as a whole, according to the experiences, a lot of them know the main conditions of their own retirement (what is their retirement age, how many service years are to be completed for the early old-age pension, etc.). Certainly those are more familiar with this information, who are relatively close to the old-age pension.

### 1.2 What do individuals know of the different types of financial risks to which individuals are exposed and on which they can make choices (longevity, rates of returns guarantees...)?

The concept of financial risk itself is not really well known. The members of the funded schemes start to learn the need to monitor the performance of their own funds but there are no real observable reactions. In spite of the fact that to change a fund is quite easy, the members of the funds with low performance only rarely transfer their money to another fund.

Some kind of financial risk like e.g. longevity or guarantees has not been really solved so far in the sector of funded pensions. As a consequence public do not know about these special risks.

A lot of people feel a general sense of risk relating the state pension system. The following questions are rather frequently raised: “What kind of benefit will I receive after decades for the contributions paid today? Will I live to see the retirement age? What will be the amount of my pension? How can I live on that? Will be the pension insurance solvent at all at that time?” On the other hand all of this shows the effect of the world press articles about the upsetting future of pension insurance, too.

### 1.3 How are people informed about these questions and how can the efficiency of this information be assessed? What are the main tools to provide information to individuals?

Individuals close to the pension age could get satisfactory information on pensions provided by the first pillar from the Social security authorities. People who are far from pension and who could be able to change their own pension strategies are not really informed.

The members of the funded schemes are informed on the problems almost solely by their own funds and this information is not always unbiased.

There are many (probably too many) information issued by the Hungarian Financial Supervisory Agency (on the website) but these are not really understandable by the public. Only very few publication easy to understand on the financial risks of the pension market are available.

## 2. Session two: Informing on choices

### 2.1 What are the actual main choices available to individuals (including portfolio profiles, etc..)? What are the choices of financial products individuals have: in the mandatory system (i.e. opt-out to the employers' scheme), in the second and third pillars?

From 2009 all mandatory private pension funds (partially substitution to pension provided by the Social Security System) are obliged to offer three different portfolios for the members: *classical* (with a portfolio dominated by low risk assets and maximum 10 percent of equities) *balanced* (with a portfolio 60-90 percent of low risk assets, 10-40 % of equities) and *progressive* (with a portfolio of 35-65 percent of equities). Individuals have the right to choose one of this portfolios (except ones of the age above 57 who are not allowed to choose the most risky portfolio) 11 out of the existing 19 funds introduced this regulation from this year (it is allowed from the July 2007). About 5-10 percent of the members did really choose between the available portfolios. Those who did not do it were automatically put into the portfolio according his/her age. Members of age below 47 (more than 15 until retirement) get into the progressive portfolio, members between 47 and 57 (between 5 and 15 years until retirement) get into the balanced portfolio and the people closer to the retirement less than 5 years were listed to the classical portfolio. About 70% of the members get into the progressive portfolios.

In the third pillar pension funds have had the right to offer different portfolio profiles to the members since 2001. Only about 10 percent of the funds has really introduced the multi-portfolio system until 2007 (that is less than 25% of the total membership of the third pillar system has the right to chose portfolio within the fund) and only 5-15% of the members have really chosen. The majority of the members remained in the default portfolio of the funds, which are generally portfolios of low risk with an average of 10% of share of equities.

### 2.2 What are the actual choices people take regarding their pensions (deferred pension, partial pension, different types of annuities, share of lump-sum...)?

- A) The mandatory pension funds are in the accumulation period. In theory they can offer pension products and they can buy them for insurance companies. The pension products should be a type of life annuity (special guaranteed service periods, one or more lives, obligatory indexation according to the indexation of the social security pensions). In this moment no any institution what are offering pensions for the members of pension funds (but annuity requirements are expected only from 2013.) Until now only very few lump sum service were performed.

The regulation of services mandatory pension funds is under development. Main problems: capital requirement, service institutions.

In the compulsory state pension system the pension claimant can effect basically his/her pension with the choice of retirement age.

- B) Third pillar funds (voluntary private funds) are offering mainly pension services of lump-sums and term annuities. More than 99 per cent of services are paid as lump sums.

### **2.3 What is the population's ability to understand financial notions related to pensions? (for instance compound interests, ...)**

The financial culture of the population is generally very low. The elder generation (closer to the retirement) are under-educated in respect to finance. Many efforts are taken to increase the financial knowledge of the younger population but the level of education has not been satisfactory yet. Among those who are or were subject to the social security system of other EU Member State or any other country in the world even higher awareness is experienced concerning the financial aspects of pensions.

### **2.4 What are the main tools to provide information to individuals?**

No adequate level of learning and education. The significance of e-learning systems are developing. Consultation and advisory services are made available to the population but due to the lack of basic information on the social security these services put a lots of effort to reach their mission. It still takes a long time to raise pension awareness among population but we can experience an even widening interest in this field.

## **3. Session three: Informing on rights**

### **3.1 What do individuals know of their already accrued pensions including statutory pensions (unfunded and funded tiers)?**

- a) The accrued rights within the social security systems are documented properly. People have right to be informed at their individual request still before the retirement. (Individuals have the right to ask for information of the accrued rights only 10 years before retirement. For further information see the attached document on the State Pension Insurance Records System.
- b) There are regular (annual) reports on the individual benefit accounts. But people could hardly know to read them and to understand whether it is satisfactory or not according to their own pension expectation.

### 3.2 What do people know of the impact of different decisions on retirement age and transition from work to retirement on their potential future benefits?

In the latest 10-15 years many changes were introduced on this field in Hungary. But the communication on these changes is not satisfactory. As a consequence individuals know very little about the rules and the options. Due to the lack of relevant information on individual situation concerning for example the retirement age and type of benefits which could be claimed at a given point in time concerned persons mostly feel to be discriminated against and are not aware of their rights and liabilities regarding information processes.

### 3.3 What are the main tools to provide information to individuals?

All the pension providers have to have consulting offices. But the level of development and professionalism could be very different.

People having access to internet (about 10-25 per cent of populations) have the chance to find very useful web sites on pensions. But the others have only very limited information. State pension provider offers wide range of opportunity to get appropriate information on the pension rights of claimants as well as claiming benefits. The following tools are harnessed in order to channel information not only on the individual rights but also on the actual changes in relevant national laws and pension adjustments:

- customer service officers directly provide information;
- user friendly website is accessible;
- the Pension Reimbursement Directorate regularly informs the beneficiaries about actual changes in the pension payment and adjustments based on the legislation.
- leaflets and brochures are prepared on various pension issues;
- newspaper publications written by pension experts;
- international information services provide useful information especially for those who are permanently residing abroad;
- consulting days are organised abroad for the clients residing in the given countries;
- NGOs and pensioner federations also provide with wide range of information.

## Background information Hungary

# National Pension Insurance Administration

### State Pension Insurance Records System

1. Pensions have to be determined on the basis of the data in the records of pension insurance this is stated as a main rule. The historical records (as they are called) of pension insurance allow us looking back to 1929. In these records we can find data on service period/work history and as of January 01. 1988 data on earnings serving as basis for pensions as well as some other data required for the assessment of eligibility. It is the fundamental task and the responsibility of pension insurance to determine and pay benefits. In order to be compliant with this responsibility it has to have its own and adequate system of historical records – as it is characteristic in the EU /EEC member states – irrespective of how the data in the records are entered in the system.
2. The records of pension insurance have undergone an enormous change since 1996, paper-based records have been transferred to electronic means and they have also been centralised. The electronic database is controlled by a modern database management system. In the central database we can find the data on service period/work history from January 01. 1959 and we can also have an access to the data on earnings from January 01. 1988.
3. Employers have been obliged to supply yearly consolidated data (NYENYI) as of 1997. Almost 99% of the data are supplied by electronic means and are prepared by using the program issued by the ONYF. Paper-based document (about 1%) are processed by data recording within the sector. As of the current year data can also be supplied via the central government system using a client gate-way (e-NYENYI).
4. The new records system (KELEN) which has been introduced as of 2001 continuously makes it possible for the pension insurance directorates to have an on-line access to the images of 53.4 million pieces of scanned documents and to 72 million alphanumerical records for the time being. As a result of these the system of individual records on pension insurance eligibility has been generated.
5. On the basis of the yearly consolidated data supply the records increase in number by about 6.2 million NYENYI sheets made available about 4.2 million insurees by 800 thousand employers (self-employed, too).
6. The central computer supported records system on pension eligibility can be considered as full and comprehensive as of 1997. Data from the period before 1997 are mostly images which also require the contribution of administrators or they are still paper based (documents from before 1959, a large number of documents which also contain data on eligibility for pension from before 1997 and have been taken back from the Tax Office). Out of the data from before 1997 due to the gaps in corresponding regulation dated in the period before and because of the objective chances for collecting data retrospectively for which orders were issued with some delay by legal rules (1988-92, 1992-96) a significant share of them (according to experience gathered in pension determination 25-30%) is missing, at the same

time there may also be some cases when these are not in the possession of pension insurance.

7. When giving reference to the SI number or the personal identifiers (particulars) of a claimant the central data base management system shall generate an electronic dossier /folder which contains the data stored in the records and which are necessary to determine a claimant's pension. It may happen of course (see previous paragraph) that at the time when the pension claim is submitted an item of data – which did not figure in the records of or in the data supplied by the employer before so it could not have been entered in the central records either - is missing (it is only the claimant who has it) or the item of data that is available is not clear. The bodies of pension insurance administration obtain the missing data (as much as possible they skip the option of the client seeking to find it). When some data are missing there are further reliable ways for having a service period confirmed. This however tends to be a more and more complicated task.

### Consolidation of Pension Insurance Records

1. The central records of pension insurance function more and more as the records on the carrier of insurance eligibility – containing data on service period/work history from January 01. 1959. and data on earnings from January 01. 1988. Therefore in case these are fully processed it provides support for meeting tasks that are given priority from a comprehensive social aspect. From among such tasks the most important ones are given below:
  - Providing information for insurees about their rights in pension insurance, their service period/work history, their reported data on contributions and the data on their earnings,
  - Following insurees' careers, preliminary acquisition of missing data, with an option for the insuree to contribute,
  - Enhanced support given to the assessment of claims,
  - Making data available that are required for the elaboration of impact studies and for the medium and long-term concepts of a pension system,
  - Speedy and well-founded administrative and IT support for changes
  - Capability for a comprehensive control of data supply (who has to supply what kind of data about whom/what and when, has it been fulfilled in an excellent quality?).
2. In order to meet the tasks listed above the database of the central records has to be consolidated. It is essential on the one hand that all available data should be given in the central records in an alphanumerical form, so that they should directly be ready for processing and it should also cover all data relevant to pension.

3. Data already available are to be digitised. This is the first condition for consolidation and it has to be solved in two essential areas:
  - Processing the paper-based current account(s), that is the documents transferred from the Tax Office (APEH),
  - Scanned documents recorded in KELEN are to be digitised
4. Processing the documents coming from the Tax Office (APEH) is a more complicated and for objective reasons it is also a more urgent task (due to the poor condition of paper and the continuously decreasing number of expert administrators/clerks who are familiar with the old records). These documents were transferred to the Tax Office (APEH) at the time when the task of collecting contributions was also given to the APEH and then in 2000 it was forwarded to the National Pension Insurance Administration (ONYF) together with a promise that the conditions required for processing them would be given. In 2001 and 2002 a detailed analysis and several draft proposals about processing these documents were prepared for the Government however in real terms they haven't been processed so far.
5. In 2002 on the basis of some analyses made a detailed plan of implementation and financing was elaborated with the aim to process the documents received from the APEH. The stock of documents to be processed was stored on a 23 km long system of shelves, it contained 36 million documents from which after a sophisticated selection for destruction 13 million documents would have had to be recorded and incorporated in the central database. The planned costs total of processing calculated on (partly underestimated) prices of 2002 amounted to HUF 2167 million. Meeting this task is timely also today. On current prices its estimated costs would be HUF 3.5 billion.
6. In the central records of the KELEN (system) 53 million scanned documents are stored. Selecting them and recording the required data would seem to be feasible if the estimated costs total of HUF 1.5 billion were spent on it.
7. The lead time for processing them can be planned to cover 3-5 years.
8. If all the above items were implemented this would mean that all data possessed by the pension insurance sector today would also be directly accessible and in this way the opportunity for attaining the important objectives indicated above would also be given. Considering overall social interests it can be stated from conviction that spending HUF 5 billion in a few years time on meeting this task would not be a major sacrifice.



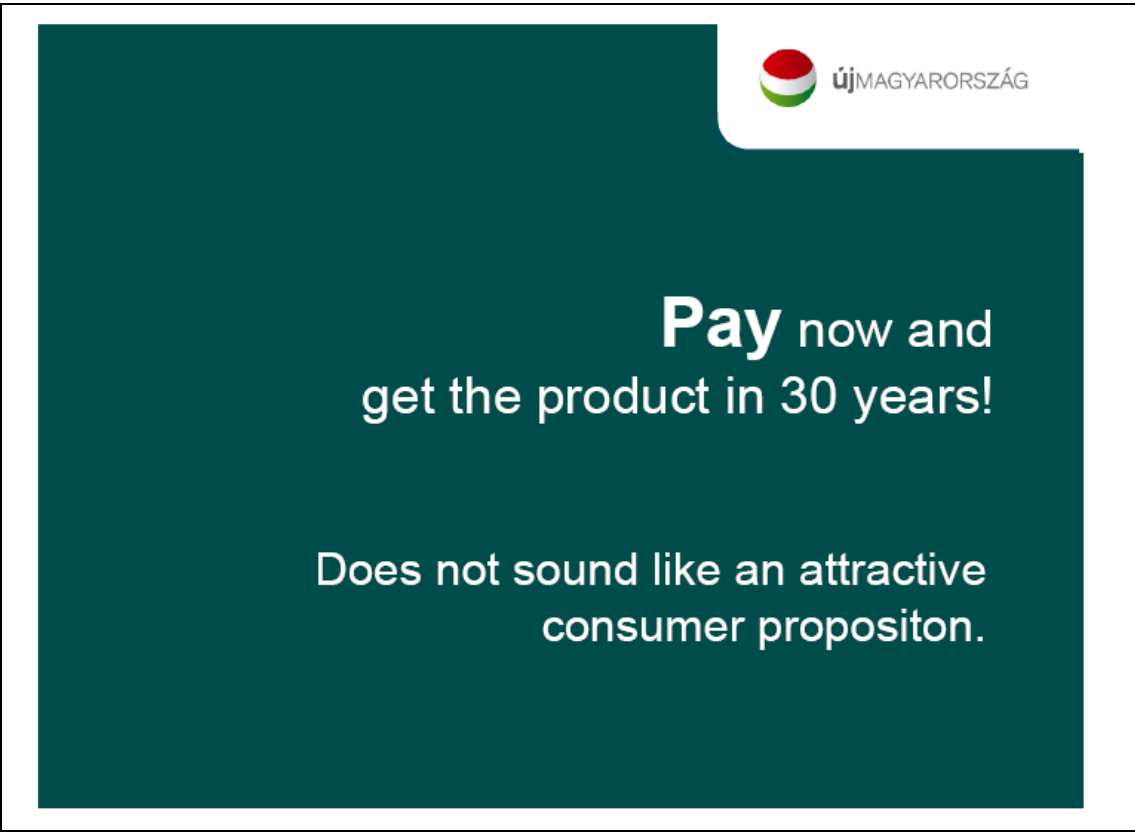
 újMAGYARORSZÁG


**Government communication  
PENSION SYSTEM**

**interest, involvement, comprehension**

OECD Workshop  
6 March 2008

This slide features a dark teal background with white text. In the top right corner, there is a logo consisting of a stylized Hungarian flag (red, white, and green horizontal stripes) next to the text 'újMAGYARORSZÁG'. The main text is centered and reads 'Government communication PENSION SYSTEM' in a large, bold font, followed by 'interest, involvement, comprehension' in a slightly smaller bold font. In the bottom right corner, it says 'OECD Workshop 6 March 2008'.



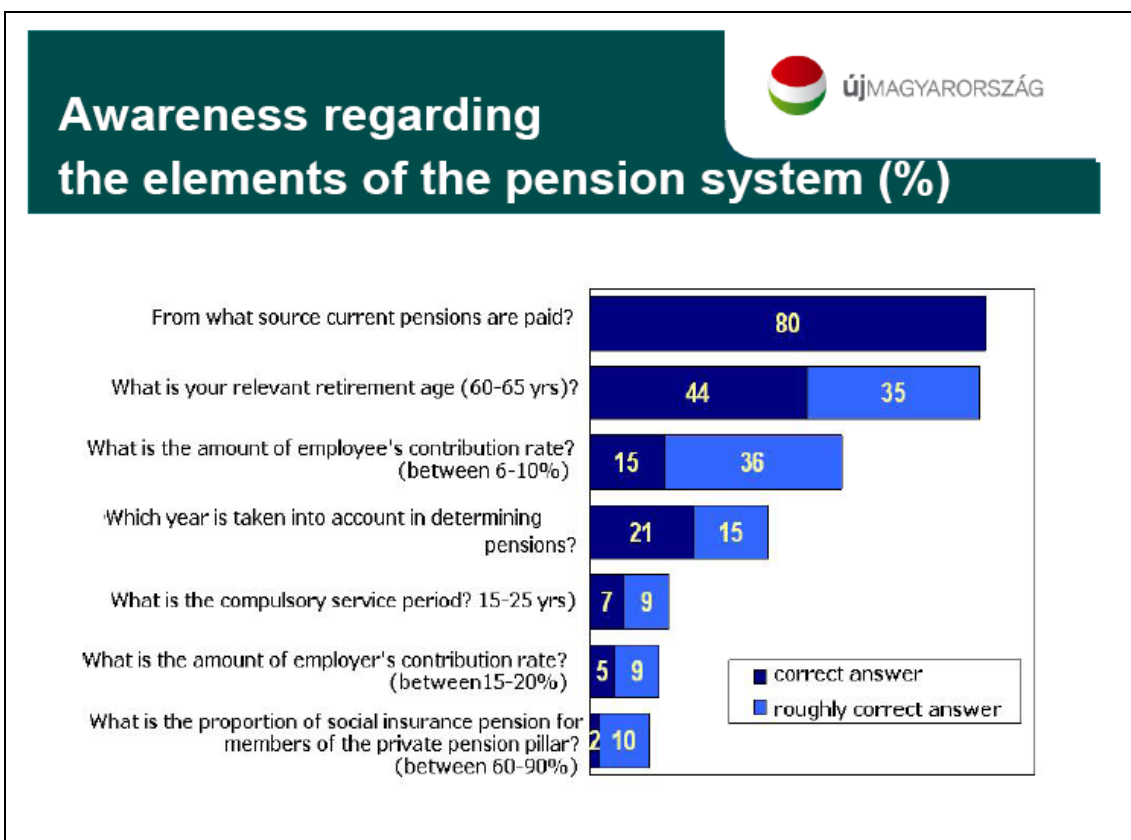
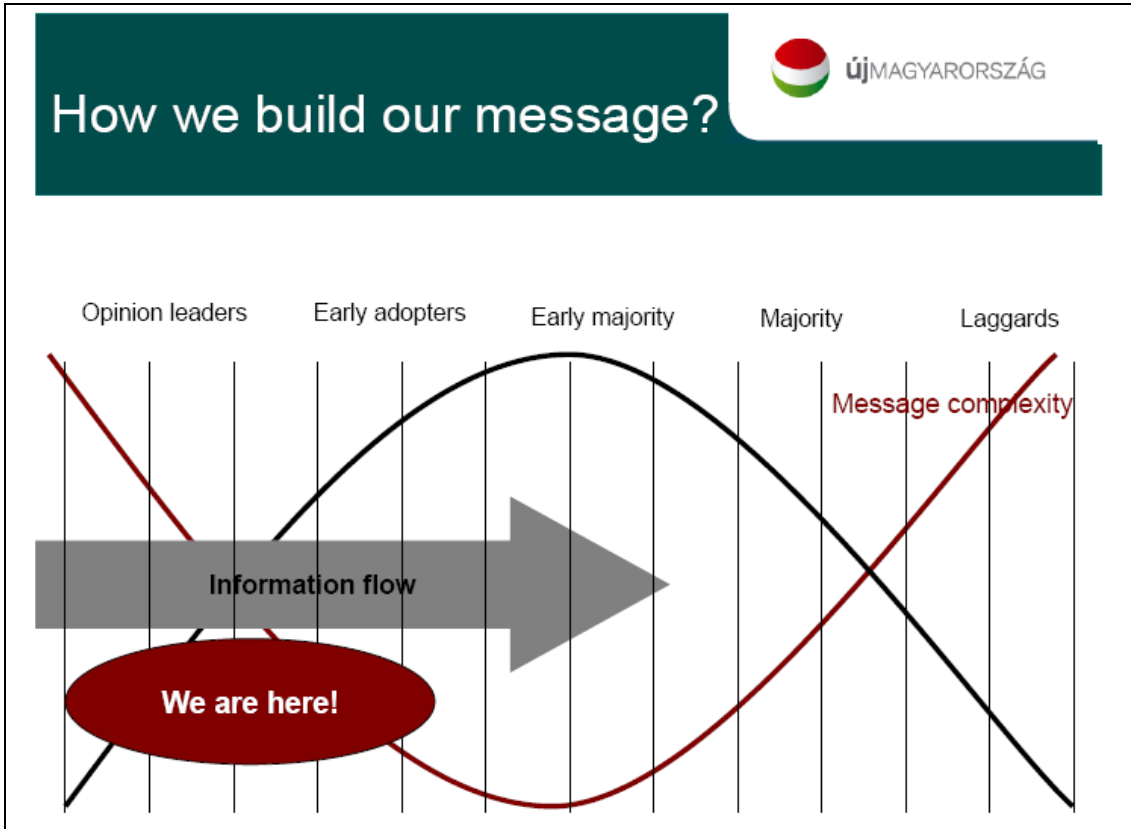
 újMAGYARORSZÁG

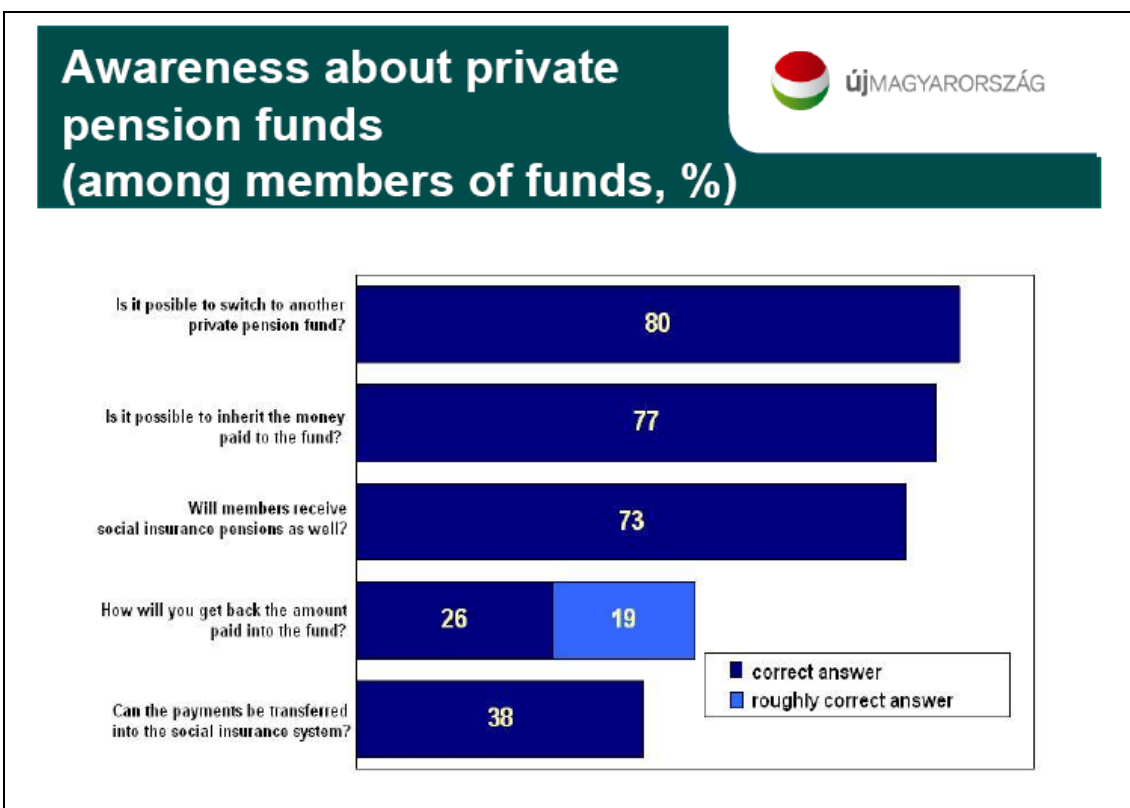
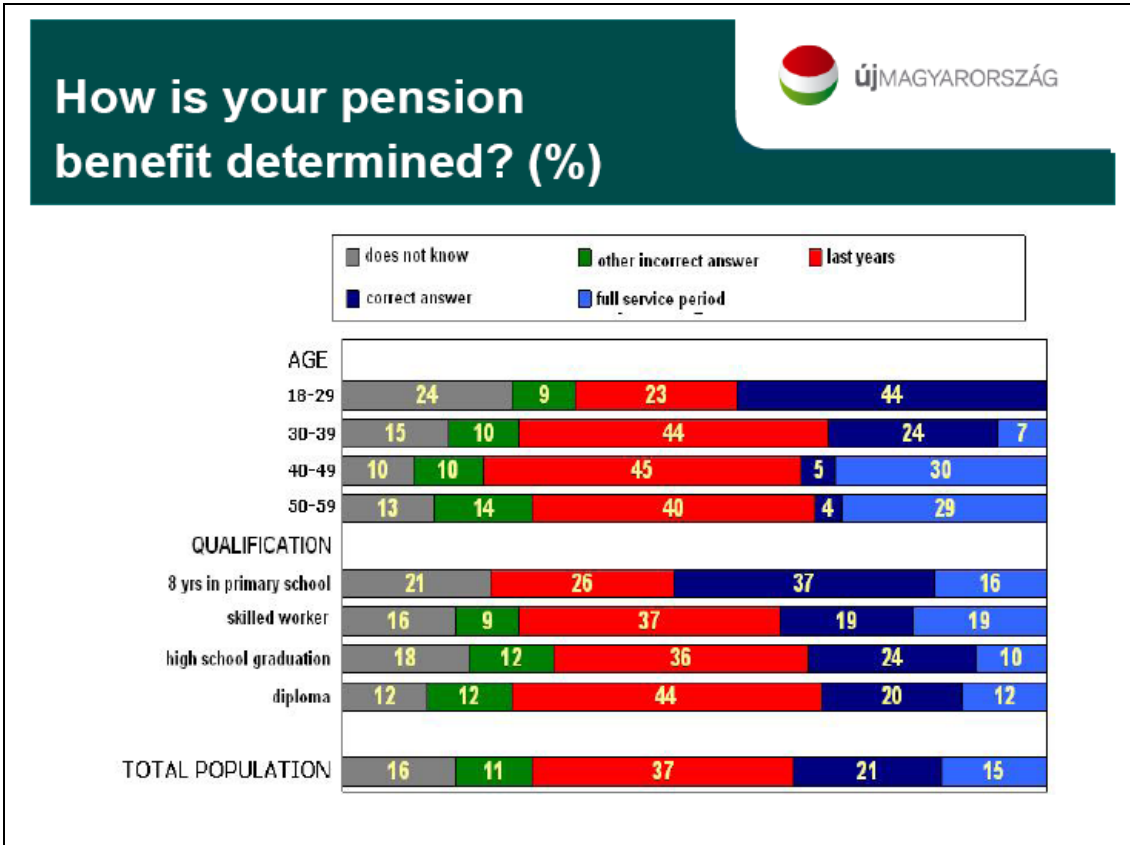
**Pay now and  
get the product in 30 years!**

**Does not sound like an attractive  
consumer proposition.**

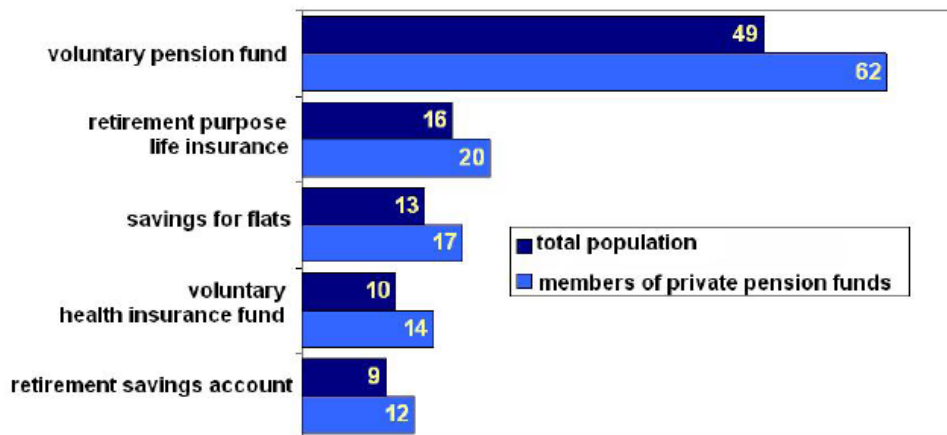
This slide features a dark teal background with white text. In the top right corner, there is a logo consisting of a stylized Hungarian flag (red, white, and green horizontal stripes) next to the text 'újMAGYARORSZÁG'. The main text is centered and reads 'Pay now and get the product in 30 years!' in a large, bold font, followed by 'Does not sound like an attractive consumer proposition.' in a slightly smaller bold font.



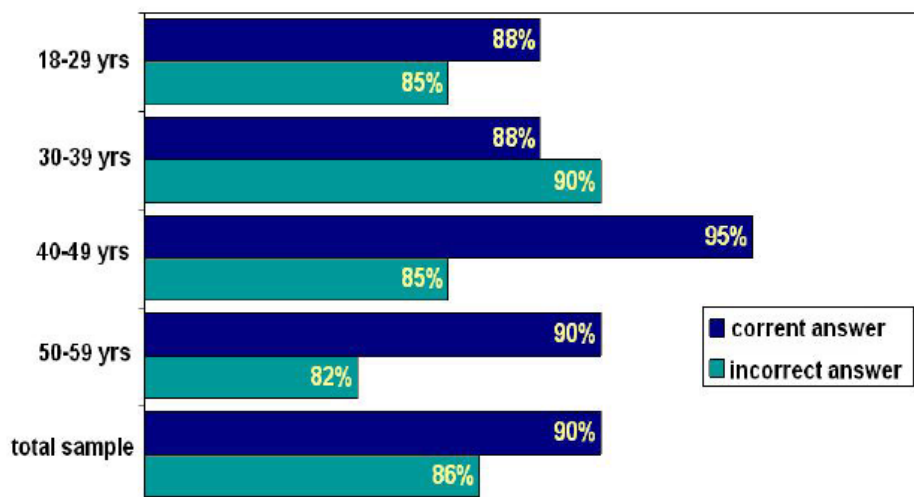




## Awareness about forms of personal retirement savings (spontaneous mentions, %)



## Expectations for amount of pension and awareness about the service period taken into account (among active workers, average replacement rate)



## Awareness about pensions conclusions



- **awareness** - generally the connection is positive in line with age, education and economic activity
- **social insurance pensions, private pension funds and forms of savings** awareness: low level knowledge and usually improper
- **Determining pensions**  
37% of total population think - a decade after changing the rules on determining pensions – that last years prior to retirement are taken into account in determining the pension
- awareness of **personal savings** – is in positive connection with private pension fund membership
- **contribution evasion** is
  - negatively affected by knowledge about expected pensions, and
  - positively affected by knowledge about contribution payment burdens

## Acceptance regarding common public charges (1)



**Total deficit** of pension system: ca. 500 billion HUF, according to 2007 projections **1,8 % of GDP**, will not decline between 2008-2030, after 2030 will increase up to **3 % of GDP**.

**Deficit excluding private pension system:**  
0,6-0,7% of GDP, ca. 200 billion HUF

Persons gaining and declaring income in the legal sector - their acceptance regarding common public charges **affect the pension system** in the following two ways:

- Declaring low annual income tightens contribution revenues covering pension benefits - thus decreases coverage for current pensions, and increase the deficit of the system.
- Declaring mostly minimum wage or lower wages during life cycle: will result in inadequate benefits considering old age security, will result in benefits under the level of subsistence en mass and in increasing proportion.

## Acceptance regarding common public charges (2)



- **Contribution payment after minimum wage**

number of the above persons: ca. 1,5-2 million persons

their annual declared income does not exceed minimum wage, paying contribution only after this income (black/grey economy), are not interested in paying contributions.

- **income lower than minimum wage**

in 2006 28.4% of tax payers reported on incomes lower than minimum wage. this rate tripled from 10% in the last decade.

minimum wage in 2006 is 62500 HUF,  
average monthly income of persons  
declaring lower income than minimum wage is 34408 HUF.

- These **problems** could be eased by measures outside the pension system and outside contribution payment system.  
more generous tax treatment of minimum wage and more soft transition among levels of tax burdens would smooth these obvious obstacles.

## What we have done so far...



- **Hungary Tomorrow – Pension Roundtable**
  - Group of professionals developing a national plan based on maximum consensus
  - Internet based deliberative discussions around the initiative
- **Involvement of civic platforms**
  - Creating common communication elements to avoid misunderstandings

**On-line solutions**

The screenshot shows a web browser displaying the 'Civil kereszttal' website. The page features a navigation menu with 'HOLNAP' (Today) and 'Civiltársaság' (Civil Society). The main content area is titled 'Civiltársaság' and contains several articles related to pension reform. The articles discuss the impact of the 2009-2012 pension reform, the role of the Civil Society in monitoring the process, and the challenges faced by the government in implementing the reform. The website also includes a search bar and a sidebar with 'A kereszttal témái' (Topics of the Cross) and 'Új Magyarország' (New Hungary) branding.

**What we have done so far...**

**• Explanatory tools**

60 évesnél fiatalabb felnőtt népesség közel fele gondolkodott már el azon, hogy nyugdíjas korában miből fog megélni, de csak szűk egyharmaduk számolt be arról, hogy valóban készül is az öregkorára:

Önkéntes nyugdíjbiztosítást köt	43%
Nyugdíj mellett dolgozni fog	38%
Takarékoskodik, pénzt rak félre	37%
Életbiztosítást köt	30%
Felújítja a lakását, házát	13%
Mindent megvásárol, ami később kellhet	9%
Összeköltözik valamelyik családtagjával	3%
Életjáradék-szerződést köt	2%
Eltartási szerződést köt	1%

Forrás: Medián, 2007. június, említtességi arányok

**How we think about pension today?**

**Családi kör**

**A nyugdíj nem csak a nyugdíjasok ügye**

Ha sok tekintetben nem is eltér még el a fejlett nyugati társadalmakéhoz, egy szempontból egészen biztosan eltér: az országban a családok között, ahonnan még alig lehet látni csak egy nyugdíjra való igénykedést, az eljövendő korok számára valószínűleg még több foglalkoztatott is egy 60 éves korig. Ez elvárható, hiszen a demográfiai változások miatt nem az eljövendő, hanem az eljövendő korok számára valószínűleg még több foglalkoztatott is egy 60 éves korig. Ez elvárható, hiszen a demográfiai változások miatt nem az eljövendő, hanem az eljövendő korok számára valószínűleg még több foglalkoztatott is egy 60 éves korig.


**Értékelni nyugdíjak a mesteni időseknek**

A nyugdíjkorhatár megemlékezése a jövő nyugdíjainak az, amire számítani lehet. A nyugdíjkorhatár megemlékezése a jövő nyugdíjainak az, amire számítani lehet. A nyugdíjkorhatár megemlékezése a jövő nyugdíjainak az, amire számítani lehet.

**60 évesnél fiatalabb felnőtt népesség közel fele gondolkodott már el azon, hogy nyugdíjas korában miből fog megélni, de csak szűk egyharmaduk számolt be arról, hogy valóban készül is az öregkorára:**


60 évesnél fiatalabb felnőtt népesség közel fele gondolkodott már el azon, hogy nyugdíjas korában miből fog megélni, de csak szűk egyharmaduk számolt be arról, hogy valóban készül is az öregkorára:

60 évesnél fiatalabb felnőtt népesség közel fele gondolkodott már el azon, hogy nyugdíjas korában miből fog megélni, de csak szűk egyharmaduk számolt be arról, hogy valóban készül is az öregkorára:



**Ma 4 ember, 2050-ben 2 ember fog eltartani 1 nyugdíjast**

Ma négyszer annyi a 20-64 évesek száma, mint amennyi a 65 éven felüli idős embereké. 2050-ben már csak kétszer annyian lesznek az aktív korban lévők, mint a nyugdíjas korú idős emberek.

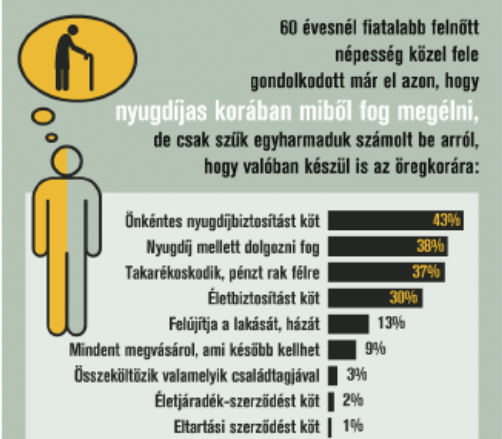


2007                      2050

Forrás: KSH

➔ **What will happen in 40 years?**


**60 évesnél fiatalabb felnőtt népesség közel fele gondolkodott már el azon, hogy nyugdíjas korában miből fog megélni, de csak szűk egyharmaduk számolt be arról, hogy valóban készül is az öregkorára:**



Önkéntes nyugdíjbiztosítást köt	43%
Nyugdíj mellett dolgozni fog	38%
Takarékoskodik, pénzt rak félre	37%
Életbiztosítást köt	30%
Felújítja a lakását, házáét	13%
Mindent megvásárol, ami később kelhet	9%
Összeköltözik valamelyik családtagjával	3%
Életjáradék-szerződést köt	2%
Eltartási szerződést köt	1%

Forrás: Medián, 2007. június, említettség arányok

**Easy to comprehend but still remote from „today”.**



## Central point of information

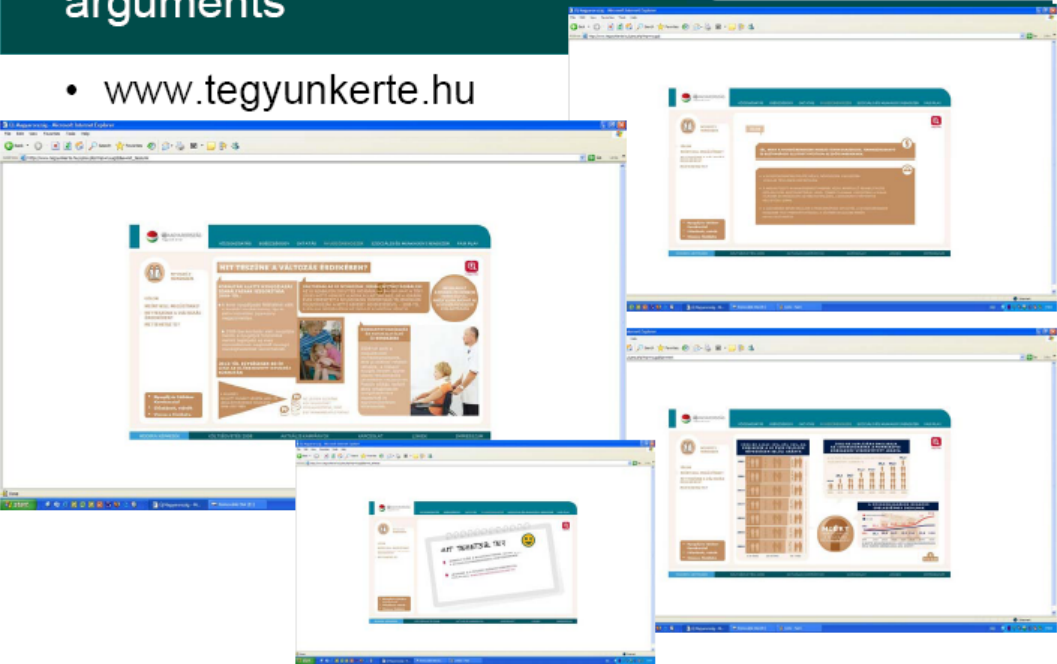
- Government website – [w3.tegyunkerte.hu](http://w3.tegyunkerte.hu)



The screenshot shows a web browser displaying a central information hub. At the top, it says "288 csoportot gáborítottuk határon." Below this is a circular diagram with icons for different services: KÖZNEVELÉS, KÖZTISZTASÁGTARTÁS, KÖZELÉNY, ALKALMAZÁS, ÉRTÉKELÉS, and FEKESZTÉS. The website is titled "Munkaadókat, munkavégzőket, a közfoglalkoztatottakat" and includes a search bar and navigation menu.

Complex tools – simple arguments

- [www.tegyunkerte.hu](http://www.tegyunkerte.hu)



The image displays five overlapping screenshots of the website [www.tegyunkerte.hu](http://www.tegyunkerte.hu). The top-left screenshot shows a main dashboard with a prominent section titled 'MIY PÉLDÉSI ÉS VÁLTOZÁS EGYSZERŰ'. The top-right screenshot shows a detailed article page with text and images. The middle-left screenshot shows a page with a large yellow smiley face icon. The middle-right screenshot shows a page with a table and charts. The bottom-center screenshot shows a page with a large yellow smiley face icon. The website features a clean, professional design with a blue and white color scheme and the Hungarian coat of arms logo.