

IOPS COUNTRY PROFILE: HUNGARY



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	30,666
Population (000s)	9,778
Labour force (000s)	4,583
Employment rate	69.5
Population over 65 (%)	18.9
Dependency ratio ¹	41.0

Data: KSH, OECD,

Data from 2018 or latest available year.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

HUNGARY: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- pay-as-you-go (PAYG) scheme
- all employees and their employers pay pension contribution to the State Fund
- after retirement, individuals receive life-time pension
- the State Fund also manages disability and health impairment risks in the framework of social security

Complementary private pensions: (voluntary)

- Pension saving account (available from 2006)
- securities account with trading purpose
- available after 10 years of savings upon reaching the retirement age in a form of lump sum

Complementary private pensions: (voluntary)

- Pension insurance (available from 2014)
- a life insurance product with a saving part that individual receives upon reaching the retirement age
- it manages the risks of death and disability

Complementary private pensions: (voluntary)

- Voluntary pension fund (available from 1994)
- Financial fund in which individuals can accumulate financial assets for their retirement
- institutions operate in form of association
- non-profit principle model

Source: The Central Bank of Hungary (MNB)

HUNGARY: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The government gradually raised the retirement age from 62 to 65. The retirement age for old-age pension benefits under the social security system is the 64th birthday for persons born in 1955; the 64th birthday for persons born in 1956, plus 183 days; the 65th birthday for persons born in 1957 or thereafter. State pension benefits are based on gross earnings during their entire working life and number of years worked, with a minimum period of 20 years required for both the earnings-related and minimum pensions (15 years for a partial pension). Means-tested benefits are provided to members who do not have a sufficient contribution record. The total contribution rate is 29,5 % in 2018, 27,5 % in 2019 of the employee's taxable income, of which 19,5% (17,5 % in 2019) is paid by the employer and 10% by the employee.

The minimum monthly pension was HUF 28 500 (US\$ 101) per month in 2018 (13% of average earnings). The value of pensions in payment is indexed to inflation. The social security pension benefits are not taxed.

VOLUNTARY PENSION FUNDS

Coverage

Any member may contribute to voluntary pension funds, even during the period of pension pay-out (pension payments). Pension funds membership cover about 26,4% of the labour force.

Typical Plan Design

Plans are defined contribution in nature.

Contributions can be paid by the employer or the employee or both, with contribution levels set by fund rules. In 2018, the average contribution was 3.85% of net average earnings, of which two-thirds were paid by members (who receive tax and social security contribution incentives).

Fund members may have access to the amounts registered in their individual retirement accounts at the end of waiting period (minimum 10 years) and may have access to pension benefits (pension payment) after reaching the retirement age. Pension payment can be in form of a lump sum or annuity, or the combination of them. The voluntary pension is expected to account for 8-10% of pension earnings.

Taxation

Before 2019 employees receive tax credits of 20% on their own contribution, from 2019 they receive tax credits after their and their employees contributions (up to HUF 150 000 per annum) as well. The employer and employees contributions are also taxable. Investment income is tax-exempt. After 10 years of membership, the assets generated by returns on investment may be withdrawn tax-free, while, in each of the following years, 10% of the capital can be cashed-in free of tax. After 20 years of membership, savers may withdraw benefits, again exempt from taxation.

There are no restrictions on how often a saver may switch funds (institutions), while switching fees (which may not exceed HUF 3 000) are set forth in legislation. Voluntary pension funds are not required to yield a minimum rate of return. Individuals can also purchase a life insurance with a pension savings component.

Number of institutions (2018)	Number of members (2018)	Payments (2018)	Assets (2018)
37	1 134 172	112,5 Billion HUF	1 383,3 Billion HUF

PENSION INSURANCE (FROM 2014)

Pension insurance is a life insurance contract concluded expressly for a pension purpose. To his/her annual payment policy-holder may claim tax credit of 20% up to maximum HUF 150,000. The pension insurance may be a traditional or a unit-linked life insurance. In the case of traditional life insurance, the insurer invests the savings together with its own assets, therefore, the insurer is also interested in achieving the highest possible yield. The insurer promises guaranteed interest on the investment and – depending on the contract – it also credits 80-90% of the yield above the guaranteed interest to the savings. In the case of traditional insurance, since the insurer invests its assets and the savings based on its own principles, the risk of the investment is borne by the insurer. In the case of the unit-linked pension insurance the insurer offers various asset funds to the customer and the customer decides in which asset fund he would like to invest his savings and the ratio of the investment.

Number of institutions (2018)	Number of policies (2018)	Payments (2018)	Assets (2018)
13	295,508	71 Billion HUF	N.A.

PENSION SAVINGS ACCOUNT (FROM 2006)

The pension savings account is a combination of a securities account, a securities deposit account and a cash account and is suitable for active management of investment. The customer may receive a tax credit of 20% with regard to the annual payments to the pension savings account. Contrary to the pension fund and pension insurance there is no payment obligation, the customer has to rely on his own propensity to save.

Number of institutions (2018)	Number of contracts (2018)	Payments (2018)	Assets (2018)
15	113 131	N.A.	469 Billion HUF

POTENTIAL REFORM

Ministry of Finance are considering introducing a new product known as a retirement bond. Rate of return is above the inflation with certain premium rate. Premium rate is bound to age (life-cycle). Bonds can be purchased by population only. The retirement bond would have a dual purpose: 1) the bond would be a supplementary pension product and 2) the bond would encourage the holding of government securities by the domestic population.

The Central Bank of Hungary's Competitiveness Programme (The Competitiveness Programme in 330 Points) contains a recommendation on introducing automatic enrolment in voluntary personal pension funds. The scheme based on membership by subjective right and opt out – known from the UK, US, Italian or Polish examples – is able to achieve substantially higher coverage than any scheme that is based on voluntary membership (opt in).

Consultations are ongoing for the implementation of a guarantee system with compulsory membership for voluntary pension funds.

REFERENCE INFORMATION

KEY LEGISLATION

2015

- Government decree 43/2015 on solvency capital and technical provisions of insurer and reinsurer undertakings
- MNB decree 55/2015 on calculating and publishing of annual cost rate

2014

- Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
- Act LXXXVIII of 2014 on the Business of Insurance

2000

- Government decree 223/2000 on the special features of reporting and book-keeping obligations of voluntary pension funds;
- Government decree 222/2000 on the special features of reporting and book-keeping obligations of mandatory pension funds.

2001

- Government decree 281/2001 on investment activities by voluntary pension funds;
- Government decree 282/2000 on investment activities by private pension funds;

1997

- Act LXXXII on the establishment and the institutional framework of mandatory private pension schemes (later only voluntary membership possible);

- Act LXXX on the coverage and entitlements under the publicly managed social security and private pension schemes.

1993

- Act XCVI on Voluntary Mutual Insurance Funds;
- Act CXVII on the tax treatment of contributions and benefits.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Central Bank of Hungary – Magyar Nemzeti Bank: <https://www.mnb.hu/en>

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Central Bank of Hungary - <https://www.mnb.hu/en>

Hungarian Central Statistical Office - <https://www.ksh.hu/?lang=en>

Other Sources

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