

## Hungary

The new system combines an earnings-related public pension with mandatory, funded, defined-contribution schemes. This applies to new labour-market entrants and people aged 42 or under at the time of reform. Older workers could choose between this mixed system or a pure pay-as-you-go, public pension. The modelling assumes that workers are covered by the mixed system.

### Qualifying conditions

A phased increase in the pension eligibility age will equalise this at 62 for both men and women (from 60 and 55 respectively). The age for men reached 62 in 2000 and will reach 62 for women from the end of 2008. In addition, 20 years' service is required for both the earnings-related pension and the minimum pension. For those retiring before the start of 2009, 15 years' service is required to receive a partial pension.

The reformed system was introduced in June 1998. People who switched voluntarily to the new, mixed system were allowed to return to the pure pay-as-you-go system until the end of 2002. Moreover, the obligation for new entrants to join a private pension fund was suspended in calendar year 2002.

### Benefit calculation

#### *Earnings-related*

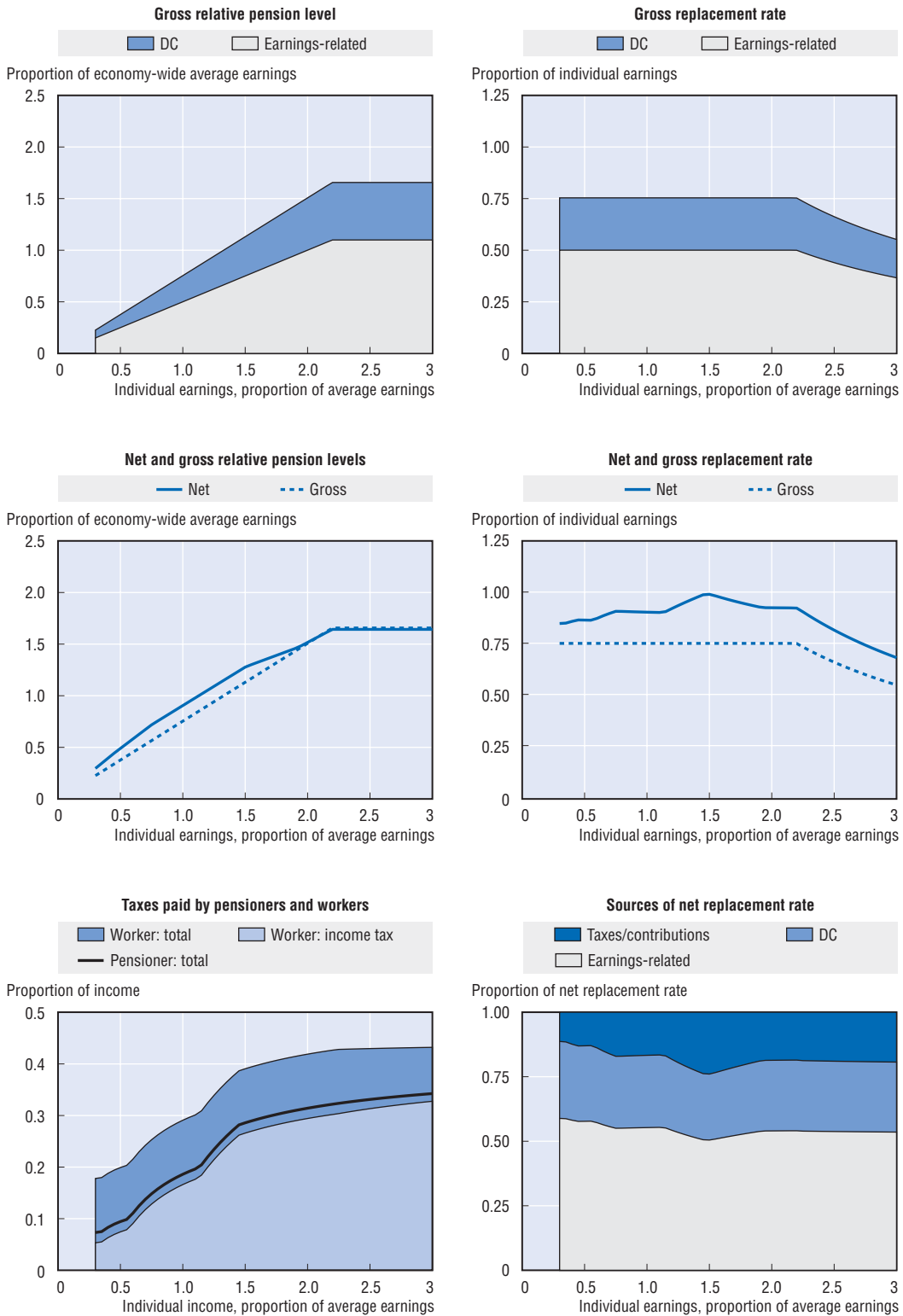
For those covered by the mixed system, the accrual rate is 1.22% of earnings for each year of service (subject to the contribution ceiling, see below). This compares with an accrual rate of 1.65% for those covered by the pay-as-you-go system alone.

The earnings base is currently pay in all years since 1988, moving towards the full lifetime. Earlier years' earnings excluding the last two years' earning before retirement are valorised with economy-wide average earnings.

A ceiling to pensionable earnings was introduced in 1992. In 2002, the ceiling was HUF 2 368 850 (225% of average earnings). There have been increases in the ceiling since 2002. It reached around 2.5 times average earnings in 2003 and 3 times average earnings in 2004. (Note that the modelling uses the 2002 value of the ceiling, indexed to earnings, and does not take account of this increase.)

The pension in payment has been indexed half to wages and half to prices since 2000.

### Pension modelling results: Hungary



Source: OECD, based on information provided by the countries.

## Minimum

There is a minimum pension, which was worth HUF 20 100 per month in 2002 (around 23% of average earnings). The value is indexed in the same way as the earnings-related scheme, that is, half prices and half average earnings. The minimum pension will be abolished from 2009.

## Defined contribution

Some 8% of gross pensionable earnings is diverted to the funded plan from 2004 for people covered by the mixed public-private pension option (either by choice or by mandate). This represents an increase from 6% in 2002 and 7% in 2003. The accumulated capital must be converted into an annuity on retirement. The annuity must provide the same mixed indexation of the pension in payment as the public pension scheme. Unisex life tables must be used to calculate annuity rates.

## Personal income tax and social security contributions

### Taxation of pensioners

There is no additional relief for pensioners beyond the standard tax credit that also applies to people of working age. The earnings-related pension has not been taxable since 2002 while previously it was taxed at a rate of zero. The social security pension is “taxed” when it is awarded. The modelling works on the assumption that the normal tax rules are applied at the point of award.

### Taxation of pension income and private pensions

Individual contributions to both the private pension and the public scheme used to attract a credit: 25% of contributions can be deducted from the income-tax liability. This credit was abolished in 2004 (and it has not therefore been modelled). Neither investment returns nor private pension payments are currently taxed.

### Social security contributions paid by pensioners

Social security contributions are not levied on pension income.

### Pension modelling results: Hungary

Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	2.5
Women (where different)						
Gross pension level (% of average earnings)	37.7	56.5	75.4	113.0	150.7	165.6
Net pension level (% of average net earnings)	48.9	71.8	90.5	127.7	151.7	164.3
Gross replacement rate (% of individual earnings)	75.4	75.4	75.4	75.4	75.4	66.3
Net replacement rate (% of individual net earnings)	86.6	90.9	90.5	99.1	92.6	81.8
Gross pension wealth (multiple of average earnings)	6.1	9.1	12.2	18.3	24.4	26.8
Net pension wealth (multiple of average net earnings)	7.5	11.3	15.1	22.6	30.1	33.1
Net pension wealth (multiple of average net earnings)	7.9	11.6	14.6	20.6	24.5	26.6
	9.8	14.3	18.1	25.5	30.3	32.8

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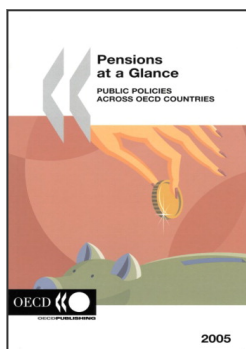
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