

Hungarian Retirement Plan of the Future

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Abstract: Many happenings take place in the today's world day by day and we do not notice what happens around us many times. The humanity's development quickened, all on a technical and economic level, and beside these the consumption claims and the population of Earth has increased equally. All peapole has bigger needs like everything would be need less time than we could fulfil our growing desires. The world's states continually will be more extreme opposite each other in social, economic, or demographic situation that pull the nation of people's living conditions apart than stay together

How can the good existence be reached? First of all, every member of society should creates value, something new constructing, like technical one, engineering one, economic one, or educational one, that made to fit his profit for even the individual and the surrounding of that make the future better. Secondly creating an optimal living standard, when everything given to the basis living need, as Abraham Maslow defined it, also a big step for the good existence. Not in a last row, I think the state's task to maintain and to ensure the circumstances for the citizens, that makes the final calmness and carefree position of their opportunity of succesful path of life. The people has the right of being free and reach the goal of happiness on its' own way. In Hungary the state's duty to support his citizens in financial way too. The pension system is connected to this case also. Hungary has a Pay as you Go system, also kown as PAYG system, where from tax contribution of the active employees are distributed monthy to the not capable persons, pensioners, and not in a last row the unemployed workers. The state also supports self-catering solutions, that everything natural or legal member of the society could use from innate right, in that case of barely visible and unsteady sustainability of pension sytem in the future.

The topic of our future is coming into the foreground rather continually since the pension situation puts on critical perspectives currently in Hungary. The society's ageing in a totally usual process, and at the same time, the economic and social problem equally. The younger generations has more time to be prepared, opposite the elderly who stading before pension. Above all the question arises rather at it the carefree pensioner regarding the financing of years, that how a sum up an optimal amount of money in a caring form, whereby easier to do against the continuously postponing the quality of calm years after retirement age.

In the this publication, the Hungarian retirement plans are presented and single researches will show, that the society is not ready for avoiding the pension catastrophe, showing my research from the last years..In the first step the history snd development of the hungarian pension system will be presented.

1 History of the Hungarian Pension System

1.1 Defition of pension

The pension a continuous or partial money support, that based on the conditions of the measures in a given age, and the suffered bigger health impairment attained concerning an employment with particular time assured, and their decease their grantees included. The rights achieved with the payment of contribution, with the conditions developed in the measure providing to a pension of the right of truth. Because of the earnings serving as the basis of the pension contribution, incomes and sums going after the fulfilment of prescribed length of service received with suitable payment of contribution, where the social security pension scheme on an own right after their relatives received retirement allowances. According to the older stories before the pension schemes the pension the socially from the poor, person in needs, reported taking care of wartime widows, but defined it likewise the laws of the poor, concerning the mutual aid social groupings.¹

1.2 Eras of the Hungarian pension system

The social security in Hungary, which is part of the formation of the pension scheme started the beginning of the 20th century. Our homeland introduced the social security as the third, while the pension scheme much later. Due to the townish risings, the Bethlen government made that decision because of the consequence of the lost war, that made the state ropemaker onto the taking a role of the nation social assistance, while of this the superannuation act was started in 1929. The lifetime which can be defined at the time of the birth between 1900 and 1970 from 37 years grew to 69 years in Hungary. Unfortunately the mortality is deteriorating minimally since then. A person at the middle-aged men; and the women lifetime increased hardly. So the average life expectancy it latest in three decades under 70 years been fixed, and the male, and the difference between the female lifetime increased. The number of the births conformed to the decreasing decease rather continually in the first half of the 20th century, but to say tall was left over. Until the 1945 years, our homeland, the converted capital, so-called life annuity system was introduced by way of which pensions were covered and the flowed money into the pension insurer, that handled it on sums and invested it in real estates, which have leased to the people. It may have received the supply, the prescribed 15 year waiting times expired being due who attained the 65. year. The fact, that at most people would have ensued after the end of a world war II., which brought the pension system into a catastrophic state otherwise. Three capital tribes formed the retirement pension:

¹ Andrasics-Fézer, Vedd kezdbe a jövőd, avagy a magyar nyugdíjrendszer alakulása, 2015

the tribe allowance, tribe surrogate, cumulative allowance. Final part the mentioned system leaning in can be attributed for the II: world war and due the Sztójay government's (1944) actions made the sustainability of the system more difficult. The retirement age was reduced to 60. year, multiplied by four the basic amount of the pensions, and they made use of the soldiery arming the reserves.

All Hungarian pension funds went bankrupt following the World War II., the hyperinflation and the real estates given out understands as a result of harms. 40 of the percentage of a national property were destroyed in the then one according to estimates was lost. It was introduced around 1950 for the ones living on the wages and payments as the PAYG. "Pay as you go" system, that differently right collector system, which flowed in from the taxes' monthly pension allowances, the compiling of sums, meant uniform distribution to the pensioners then. The new system fell on more tuning, refinement until 1952 from 1945 accross, the population affected his half initially on the dawn of the system so, but next the entitlement, they extended it concerning, rather the circle of the pension allowances continually. This number onto 1975 accomplished the 100 percentage, because of the effects of the decrees emitted under the years. It was extended over the circle of the allowance ones likewise. Onto 1975 the system worked close to 100 percentage of propotion. It concerned the complex old-age one, and relatives and disability one managed pension allowance. The pension system begat more tenseness gradually in the course of the 1970 years the growing earnings, concerned as a result of prices. The pensions increased it irregularly and drastically, the smallest pensions kept pace with the change of the wages and prices because of this, while the medium one and the bigger pensions fell behind rather continually under this.²

The capitalism received a role instead of the socialism after the political transformation. The social refuge, which can be identified as the relatively luxurious one, built up in the earlier socialism that was not maintainable already, after the strengthening inflation on the beginning of the 1990 years turned into number of two digits, due to the money deteriorated as the pension equally. It more necessary changes happened in the pension scheme on the front of 90 years..³

² Andrasics-Fézer, Vedd kezébe a jövőd! 2015

³ Augusztinovics -Gál-Matits-Máté-Simonovits-Stahl, 2002

2 Pension System in nowadays

2.1 About the Hungarian pension system

Presently the Hungarian Pension system contains two pillars. One is the main State Pension and the other one is the Voluntary Self-provision pillar. There is existing a third pillar, which has no longer use for the system, what was devoted to the instalment of public debt in the year of 2011. It was an obligatory system containing state rights and after all it's largest part was taken away.

Every citizen who has reached the 40th own age of retirement, and has worked for the required years by the law that subject to state pension. When calculating the pension, the sum of formerly paid commissions is taken into account, yet the formula based on which the calculation is made and defined by the law and connected to alteration based on the national budget, as seen before. That is why we do not really know about the amount of our pension received from the state. The retirement age changes were announced in 2008 therefore for those who were born in 1951 or earlier the retirement age is 62 years, and since 2010 for those who were born in 1952 or later the retirement age increased to 65 by 2022 for males and femalely. In order to qualify for a minimum pension from the first pillar, beneficiaries must have a contribution history of at least 20 years; and for a partial pension without a minimum is paid after 15 contribution years.

The earnings-related public pension system is a mandatory defined benefit system where the earnings-related pension is calculated as 33% of average earnings for the first ten years of coverage from the year of 1988. After each additional year of coverage adds 2% from year 11 to 25, then 1% from year 26 to 36, and in last row 1.5% from year 37 to year 40 and 2%. The earnings based on net salary. From 2012 pension benefits are modified for the consumer prices index, so nowadays there is a minimum amount of pension, which is worth HUF 28 500 per month. The government has started negotiations of the increasing, but it has remained unchanged since 2009. After all the extra income beyond the state pension can be managed from private savings, that includes the voluntary pension system and their future value can be predicted much more accurately than that of the state pensions, plus the state supports the private savings.

2.2 Problems of the system

There are many problem that comes from each other, which will cause the sustainability of the PAY and GO system in Hungary. In the first hand there is the aging society. By 2050 the 65th years people will filled it may be amounted to the population one third

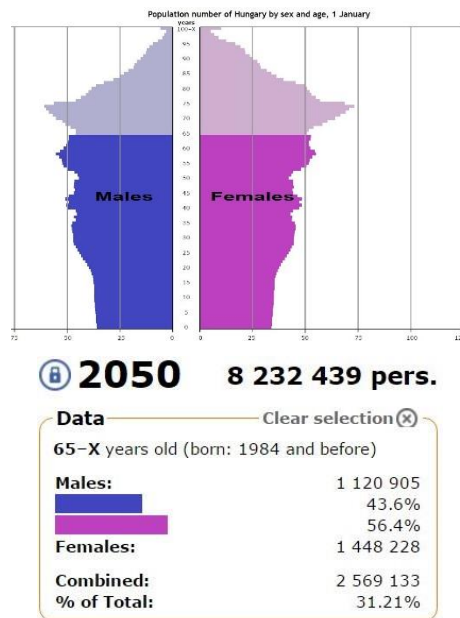


Figure 1.
 Age-tree of the population in 2050

Secondly the changing of active employees' and pensioners' proportion may be reversed later with 30-40 years, that 2 pensioners may manage to get onto 1 active employee, due to by the aging problem. Decreasing population also a big difficulty. Today in Hungary there are living the number of 9 778 211 people, while onto 2060 the population changes into 7 922 289, according to the forecasts and reasearches. After all the Black and grey trade's incidence that contatins the number of not announced employees without pension contribution and the employees announced on a minimum wage with a minimal pension contribution. Although the proportion of checked companies increased by some 70 percentages between 2012 and 2014. A hidden economy shows a tendency decreasing gradually, which the GDP is, 22–25 %- amounted to between 2003 and 2015.

2.3 The Hungary population's saving habits

The Hungarian population's bigger part think in investments of short- and middle distance, that time is from 3-6 months until 4-5 years. Presently, investing amount of money is not a problem, because it can be done by only couple of mouse clicks at home, and there is no need to go to the bank or contact with a broker to invest. There is not need nowadays with a big property to invest our saved money, because the big part of the investment funds there are no minimal limits, so it can be even achievable some 10 000 HUF. For investing a single amount of money or

continuous saving, the necessary and rudimentary knowledges easily can be acquired, but it is worthy to choose from the products cautiously. It is not absolutely right, that an investment is risky. The measure of the hazard and the profit of investment form is also variable. The invested money is heavy to lose, because in generality can be related, that a taller yield is accompanied by a bigger risk, but at the same time the capital guaranteed, or a capital saved in case of the choice of a product. The liquidity characteristic many times is accompanied at this time, why number form of saving are exists, which we may get any time. With exterior financial adviser the operation can be developed by consisting of more saving products adjusting to personal aims though. It emerges from OTP Bank's 2014/15 saving research, that 65 percentage of the hungarian people comes to terms with the lower yield according to his own acknowledgement, although let that investment enjoy capital protection on the other hand. At the same time the 33 percentage would be willing to risk the minimal part of his capital in the hope of the taller yield already, while simply 2 percentage declared that he would risk the full capital. It is possible to experience gradual restructuring in the past years considering the households' liquid reserve based on deposit type investments and devices into the direction of the investment funds and the state papers. The proportion of the deposits decreased while that of the investment funds and that of the state papers grew. Although smaller part of the savers, but increasingly more people are enquiring already and they invest the absolute yield type, the mixed one, concerned into the bases of bases, or primarily into immovable investment type. The interest environment decreasing continuously furthered the restructuring process in the past periods.

Research between OECD countries represents it as one of his results, that the Hungarians averagely onto 180 billion HUF Christmas and New Year, onto 150 billion HUF of gamble, and only the country altogether 220 billion HUF are spent on self-catering, which it exemplifies, in proportion one, that more than 87 percentage any kind of longer-term provision at their disposal for respondents currently.

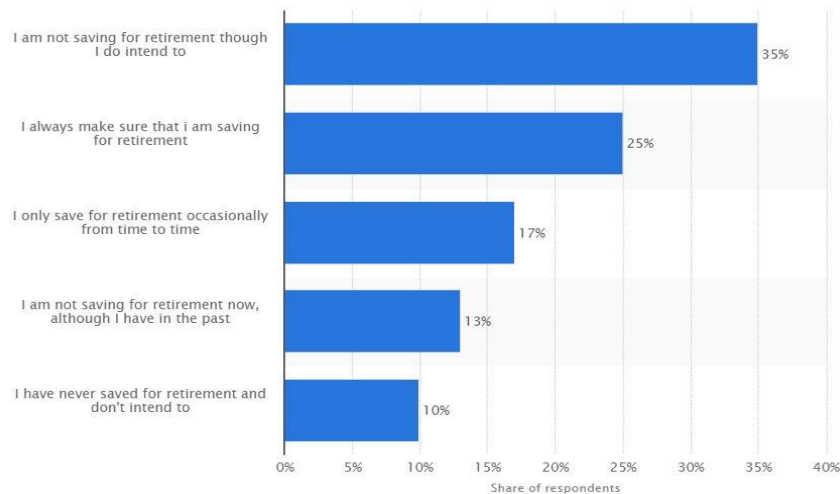


Figure 2.

Approaches to retirement saving in Hungary as of 2016

This statistic shows the approaches to retirement saving in Hungary as of 2016. A total of 35 percent of the respondents said that they were not saving for their retirement, but they intend to do this in the future. A further 25 percent claimed that they were always making sure to be generating retirement income.

2.4 Retirement plan in Hungary⁴

Most Hungarians plan to work on after retirement age. Nearly four-fifths of the Hungarian population do not have any savings for pension purposes, whilst as many of them anticipate a worse or a lot worse standard of living than during their active career. Still, there are some signs of awareness of the need for improvement. Although Hungarian society is becoming more aware of the fact that the state pension would not provide them with enough resources after retirement, still only 22% of people have savings specifically intended to beef up their pension pot. Pessimism is clearly widespread, as 69% of respondents in 2016 said they would expect to work during their grey years. That ratio was just 61% in 2015. The overall picture of the post-retirement financial situation looks just as gloomy, with 34% projecting a positive scenario and some two-thirds expecting the entire state pension scheme to collapse.

⁴ By Levente Hörömpöli-Tóth http://bbj.hu/analysis/most-hungarians-plan-to-work-on-after-retirement-age_127614

“Three kinds of attitude can be detected in Hungary when it comes to the pension issue,” said Péter Kuruc, executive of life insurance and own sales channels at K&H Insurance company. “Some simply deny the problem as some distant thing not to be worried about. Others take it for granted that they would have to continue working during retirement, whereas there are also many out there who plan to cough up the extra money from their own revenues.” A reasonable chunk, some 34% of those surveyed, simply shrug off the issue on the basis of the fact that they wouldn’t live long enough in the first place to worry about pensions. It is true that people are concerned that the retirement age would go up significantly which is a realistic scenario for the government. Age brackets do have an impact on how one is ready to tackle the issue. Those delaying starting pension savings are getting fewer in number, proportionally. The generation under-30 can pride itself on the most solid awareness; more than half of them are already members of a private scheme. The pension insurance is gaining in popularity, which is great news for the industry, and these relatively young products are an ideal solution to provide the extra revenues needed to complement pensions.

In Hungary diverse self-catering forms are available. They are between them more difficultly calculable, they are at the same time liquid, and safe, savings reaching a tall yield are concerned. The versions being used for his pension supplement can be:

- State savings, primarily currently the voluntary pension funds
- Savings of tax advantage can be taken by financial institutions (Bank or Insurance company)
- Self-catering from real estates
- Companies' dividend, passive incomes

In 2014, from 1st of January an order was stepped into effect by the Hungarian National Bank, that makes a tax advantage to people, who do self-catering for the pension. 20 percentage of tax refund can be claimed annually, that could be 130 000 HUF maximum only with 650 000 HUF investment to private savings, which are from Financial institutions as mentioned before. By these effects the need of the financial products are increased up to 14% of respondents now claim to have pension insurance up from 10% since 2015. As little as HUF 15,000 per month would add up to a capital of HUF 8 million in 25 years if tax incentives are duly taken advantage of.⁵

Here is a statistic below of distribution of European adult population with or without retirement plan as of 2016.

⁵ Andrasics, Vedd kezdbe a jövőd, ismered a megoldást? 2016

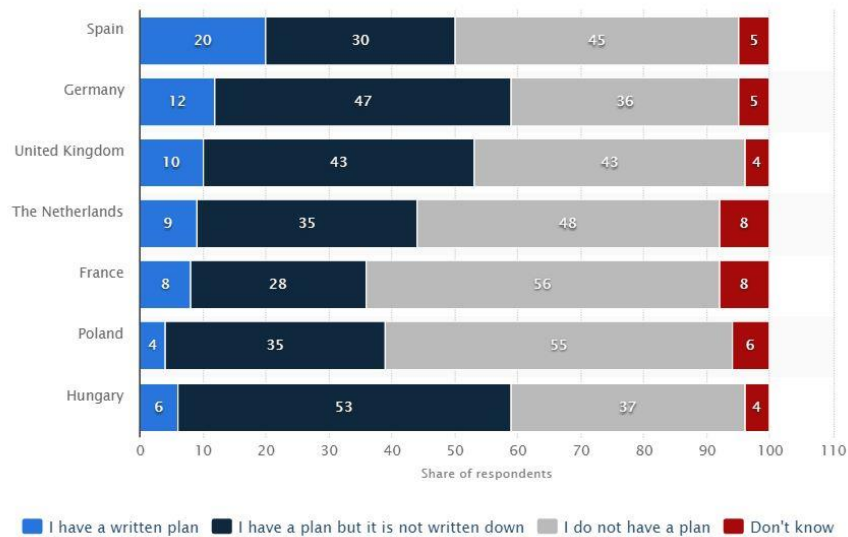


Figure 3.

Distribution of European adult population with or without retirement plan as of 2016

This statistic presents the self-assessed type of retirement plan or outlook according to the adult population of selected European countries as of 2016. Among Spanish savers, approximately 20 percent indicated that they have a written retirement plan. This showed a stark contrast in comparison to Hungary and Poland where only six percent and four percent of the sample respectively indicated having such a plan.

3 Measures of previous research

With introducing the reasearch: the secondary research contains literature ,single sources and other researches. The primary summaries generated into tables and graphs by SPSS and Google-summaries. Element number was 159 heads, and done descriptor statistics did not show a deficiency. From 159 respondents only 1 capital one under 18 years. The comparison of results based on an age, sex, an old-age dependent, incomes . There was measure of a LIKERT-Scale which shows us the next results of living satisfaction. Average satisfaction based on the present living standard according to the sample 4 out of 6 on a satisfaction level can be found (4,07 value) Average satisfaction the 10 years going by compared to the present one according to the sample: 5 out of 6 10 change into a satisfaction level after a year (4,89 value) Average satisfaction the 20 years going by compared to the present one according to the sample: 5 out of 6 after 20 years change into a satisfaction level (4,98 value) For the 87 percentage of the respondents' monthly incomes price would

be their need under a pensioner's years. According to the 36 percentage of the respondents, the present monthly own real-income would be the own state pension in the future. 52 percentage would love to provide in a some kind of form onto the supplement of own pension, from among these most votes his immovable investments, and the second place of the supplement took place through of a financial institution.

The measurement of the distrust in connection with the pension scheme and the financial services showed that, 40 out of 159 heads distrustful with the system and uninformed financially, is not confident about the financial services concerned altogether. 8 out of 159 heads confident about the system, informed, is confident about financial services concerned. Into the intermediary groups can be enumerated his number 111 heads what are divided mixed, concerned between the two extreme values fivefold the difference because of this in the system rather distrustful, than rather hopeful based on the questions.

We got an answer to the knowledge of the pension product ones in the successors. Altogether 25 heads elected that "I do not know an opportunity" at the first question, but the interviewees 29,4 percentage takes action some kind of pension saving product, although 26,2 percentage just plans it. The most popular form of saving was Volunter Saving System, that was elected by 22 heads. The inference sound, that more people know a some kind of form, but few people take action private saving product.

The respondents 61,6 percentage would make use of a financial adviser in order to ask for his council in connection with private savings forms and at the time of the strain of the service the most would ask for competent were the family and familiar opinion friend or realative.

Conclusions

The fact is the Hungarian population is decreasing by the ages and the number of elders ages people are increasing. According to these the active employees are getting into background, that cause big financial problems of the Hungarian pension system, which based on the "Pay as you go" system. People should be more prepared in self-catering in worldwide, because the nations are lack of the stable pension background. Everybody has to concern the sustainability of their own pension future, and make sure of a main retirement plan by the years. Anyway the government should be take some serious instructions in the future to avoid the pension chatastrophy and the bankruptcy.

Acknowledgement

Summing up the full research as a personal opinion, established that the sustainability of the Hungarian pension scheme, which it is necessary to remedy in the future, is with a critical situation. Today looks yet, but the Hungarian population, which the state can take over difficultly in a present situation, may suffer from his later disadvantages. To the achievement of the aim and the maintenance of the living standard it is necessary to do it and to enquire for all opportunities that the state may provide or ourselves inventiveness discover. The facts speak for themselves and supported, that not to put off, but to accept necessary. As everything is important for a man the himself and szerettei his future, some just as important the solution of the crisis of the system state, and they were eligible for the later pension his financing. My opinion is that, the population has to recognise the problems of the system before according to and to think over, to talk with an expert even, who opens the eyes and gives financial advises of a retirement plan. After a free material margin accumulates after everyday incomes and expenses, then must to provide for everybody own, his children, and from his relatives' future. The formula plain, it is necessary to do something for the problem. I suggest it in order for us to be up-to-date, let us orient ourselves, we should grasp the opportunities and plan regarding the future, that let us create it safely the later one of own living circumstances. We should request the vocational helps and let us not hesitate to act in exchange of the self-catering.

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