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## **1. General characteristics**

### **Structure of the Hungarian pension system**

The compulsory pension system has gone through basic changes since 1 January 1998 as the result of a reform introduced at that time. The formal common pay-as-you-go system has been partially privatised, giving way to a mixed, two-pillar system formed in the framework of the compulsory pension system. Pillar I operates as a pay-as-you-go system based on services in the future, too, and it represents cca 3 ratio. Pillar II is a private pension system, which operates on the basis of capital coverage, i.e. on the basis of payments made by members, giving approximately 1/4 part of pension services. [The ratio of 3/4:1/4 of the two pillars functions just as a model]. Membership in the two-pillar system is compulsory for young people starting on their careers, however those insured earlier were free to choose between the two systems. Before its introduction, i.e. before 1998, the compulsory two-pillar system weighed the expectation value obtained in the traditional system in the same way as that obtained after the introduction of the new system. This means that expectation time obtained earlier in the complete social security system is weighed at 75% by the pension calculation formula used in pillar I. That is why the mixed system is more advantageous for younger people as they spent shorter time in the traditional system. This way they have a comparatively short expectation time, and they have more time to increase their accumulation in the private pension system.

In Hungary, more than half of the insured chose the mixed system and in 2007, at the end of the third quarter, the pension system had 2,783,000 members, and the book value of investment of the 19 private pension funds amounted to HUF 2 032 billion.

A 3<sup>rd</sup> pillar has been added to the 2-pillar pension scheme in the framework of the compulsory pension system, a saving system for elder people organised by voluntary and mutual pension funds, which was introduced in 1993. This pillar is, of course, open for those who remained in the traditional system as well. The government has encouraged voluntary old age savings by way of tax allowance since 1993. At the end of 2007, 69 voluntary pension funds operated with 1,385,000 members, and the book value of their accumulated assets amounted to HUF 744 billion.

A further element of our old-age social security system is the old-age allowance system introduced in 1998. However, it is not part of the pension system. In the framework of this social allowance system - which has separate organisation and financing as well - local governments grant a minimal income to those elder people who are regarded poor on the basis of their real income and wealth, or their existing, but *very* low income is adjusted to this minimum level. In 2008, in the case of people living alone, the old-age-annuity comes to 95% of the minimum old-age-pension (HUF 27,075) and 80% (HUF 22,800) in the case of those not living alone and 130% (HUF 37,050) of those over 75, living alone. This service is called the "0" pillar of the Hungarian old-age social security system.

In Hungary the pension system is uniform for the majority of those insured. It means that completely the same rules apply to the majority of economically active people, irrespective of their legal status.

(I.e. irrespective of whether they are employees, public or civil servants, self-employed, entrepreneurs interested in industry, agriculture, commerce, members of associates, or they have intellectual occupations.) The following groups enjoy certain advantages:

- members of armed forces, state security organisations and police,
- miners,
- artists.

These groups' advantages are subject to paying pension contributions in the usual amount in accordance with the general regulations.

These groups' advantages are provided by special regulations, and the general rules apply to them as well. The advantages are usually granted in terms of age - and in case of armed forces - in terms of amount of the pension. Surplus financing is not made from pension contributions, but is refunded by the Central Budget to the State Pension Fund, this way advantages are not financed by the social insurance.

The structure of old-age social security system in Hungary is as follows:

Compulsory pension contributions:	<b>Pillar I:</b> social security pay-as-you-go pension (3/4 ratio) <b>Pillar II:</b> private pension, capital coverage system Insured working for a long time who have decided not to join the mixed pension system pillars I and II, will get all their pension according to pay-as-you-go system.
Voluntary pension contribution:	<b>Pillar III:</b> with capital coverage, private pension system, everybody can enter voluntarily.
Social allowances to old-age people:	<b>Pillar „0”:</b> a minimal and regular social allowance granted by local authorities to poor people in need, which can be obtained by all elder people who meet the defined requirements of being poor.

## **Pension contributions, pension system financing**

- **Those insured in the traditional system** pay all their contribution – 33.5% in 2008 - into the State Pension Fund. 29.5% of the employees' current gross monthly salary is paid as pension contribution, 21% of which is paid by employers, 9.5% by the employees.
- **In case of members of the mixed pension system** the 24% pension contribution payable by the employer is paid entirely into the State Pension Fund. From the 9.5% payable by the employee 1,5% is paid into the State Pension Fund, too, and 8% into the private pension fund, which amount is booked in the private pension account of the insured person. Employees or their employers are allowed to make up their 8% payment to 10%.

Employer's contribution is paid in advance after all kinds of taxable income paid to employees or entrepreneurs, self-employed, including allowances in kind (e.g.: meal, holiday supports). Employee's contribution is paid in advance after taxable income, salaries or wages,

however, allowances in kind do not form basis for contribution payment. Employee's contribution is paid after a certain amount of income. In accordance with the law in force, this amount-limit is three times as high as the current national average gross income. In 2008, this amount-limit takes HUF 7,137,000 a year, which is HUF 19,500 a day. Above this limit no employee's contribution shall be paid. All the incomes a person might get shall be summed up to apply this amount-limit. There is no upper income-limit in case of employer's contribution; the contribution is paid in full after that part of income which is above twice the national average gross salary.

Tax and Financial Controlling Office is in charge of the administration of contribution payment, collection, controlling related tasks, which are controlled by the Ministry of Finance.

From 1 April 2007 employed pensioners, private entrepreneurs doing supplementary activities and joint entrepreneurs are obliged to pay the 9.5% contribution. As a compensation for this, in each 365 days the pension has to be raised with 0.4%.

Pensions payable in the framework of the traditional system and future obligations of Pillar I in the mixed system are affected from the State Pension Fund. Any income-gap, due to contributions to private pension funds, is reimbursed by the Central Budget to the Fund every year. Possible unexpected losses of the Fund after this reimbursement are also financed by the Central budget. The above mentioned reimbursements of the central budget are guaranteed by the act on state finance in force. The State Pension Fund is an independent, separate part of the state finance of the Republic of Hungary.

Individual payments accumulated in private pension funds and funds organising investments of the private pension funds do not belong to state finance, sums credited in the personal pension accounts are regarded as private ownership/property of individuals. Founders contribute to the operation of the funds in different ways (e.g.: they provide buildings, IT infrastructure, contribution to personnel related costs). The operation of the Funds is insured by way of multiple state guarantee system. The most important finance fund is the so-called "Garancia Alap" (Guarantee Fund) which is guaranteed by the Government.

### **Guidance, supervision and organisational systems of the pension system**

In 1998 there was a real change in the system of guidance of the pension system of social security. The system of direct state guidance replaced the guidance of local authorities, which was operating between 1993 and 1998. Temporarily the Prime Minister's Office, then from the summer of 1999, a parliamentary under-secretary of the Ministry of Finance was assigned to comply with these tasks. As from 1 of January 2001 the Minister of Finance has become in charge of the control of the Pension Fund and the guidance of its central office.

From June 2002, supervision of the National Pension System Management has been taken over by the Minister of Health, Social and Family Affairs.

Professional guidance of the social security system - including the traditional system and pillar I of the new mixed system -, and proposal of rules on social security pensions belong to the sphere of authority of the Minister of Health, Social and Family affairs. The following fall within the sphere of authority of the Minister of Finance: Pillar II in the new mixed system and pillar III, the voluntarily mutual pension funds, proposing rules and regulations on

private pension system and the voluntarily mutual pension system and rules on insured, and contribution payment methods.

The State Supervision of Financial Organisations is charged with the supervision of pillar II and III from 1 April 2000. Before 1 April 2000 pillar II and III were controlled by the State Funds Supervision Office governed by the Minister of Finance.

Private pension funds and voluntary mutual pension funds are non-profit, democratic organisations, where decisions are made, directly or indirectly, by elected bodies and members.

In the following parts you can find detailed description of the system of old-age pensions, disabled pensions and allowances, widow's allowances and orphan's allowances in Hungary, prerequisites of entitlement to these allowances, formula for calculating the amount of pensions, the amount of allowances and pensions and the minimal amount of pensions. All these are described regarding the system of pillar I and II as well as the traditional pay-as-you-go system. Please note that in several cases pieces of information regarding pillar I are not detailed as these are completely identical with the traditional pay-as-you-go system. Therefore, for the sake of better understanding, only differences are described.

**Legislation in force concerning pension system:**

Act No LXXXI /1997 on social security pension

Act No LXXXII/1997 on private pension and private pension funds

Act No LXXX./1997 on social security allowances, title for private pension, and coverage of these services.

Act No LXXXIV./2007 on rehabilitation supplies

***Changes in pension regulations related to EU membership***

There are significant differences between the social security systems, including pension insurance systems, of the EU Member States in respect of individuals obliged to take an insurance, eligibility conditions and services provided. The law harmonization of the internal systems of the Member States is not a Community objective at the moment. This means that the regulation of the pension system falls into a national competence, so Hungarian pension regulations do not need to be changed because of the accession to the European Union. In this field, the Member States have a coordination obligation. With the objective of eliminating all disadvantages arising from the differences of rights and insurance obligations within prevailing within one Member States for employees and individual entrepreneurs moving between Member States. These mandatory coordination rules are contained in No. 1408/71 EEC Council Regulation, implemented with No. 574/72 EEC Council Regulation. These coordination regulations apply the following four basic principles:

- 1) Equality of treatment, according to which citizens of Member States, irrespective of their citizenship, shall be subject to the same obligations and enjoy the same benefits in the social security systems of individual Member States as the citizens of that particular Member State.
- 2) The principle of being subject to the sovereignty of one Member States, according to which no parallel multiple insurance obligations (overlaps) can occur concurrently. The

legislation of the Member State in which employment takes place is applicable as the main rule.

- 3) Principle of aggregation of insurance periods, in order to protect the rights obtained in several Member States.
- 4) Principle of unlimited exportability of benefits, which enables individuals to enjoy their benefits, recognised once without any limitation.

The administration agencies and national courts responsible for social security and pension insurance tasks in the various Member States are obliged to apply the rules of coordination in their procedures.

The application of coordination rules has the following meaning for pension calculation, explained in a specific example.

A particular individual has worked in three Member States of the European Union and obtained a 10-year insurance period in Hungary, a 8-year insurance period in Spain and a 12-year insurance period in France, i.e. in total 30 years as an insurance period. The 10 years obtained in Hungary alone would not make him eligible for the Hungarian pension, because according to the Hungarian legislation, at least 15 years are required. However, the principle of aggregation of insurance periods obtained in the Member States makes him eligible for Hungarian pension, too. According to the coordination rules, all three Member States must take into account the aggregated insurance period, obtained during the whole career of the individual, i.e. 30 years in our example. Pension is calculated in two steps: at first each Member State calculates the theoretical pension amount for 30 years, applying their own internal legislation, assuming that the whole period was obtained in that Member State. In the second step, the Member States calculate the pension amount applicable to that Member States based on the insurance period obtained there. This means that in the theoretical pension amount calculated by the Member States 10/30ths will be the Hungarian pension amount 8/30ths the Spanish amount and 12/30ths is the French pension amount. Thus, the individual in our example will receive pension from the pension disbursement agencies of the three Member States. Eligibility to pension starts when the individual reaches the retirement age applicable in the Member States. In our example, the French pension amount is payable from the current retirement age of 60 years, the Hungarian pension amount is payable at the age of 62, currently prevailing for men, or the temporary retirement age related to women, while the Spanish pension amount is payable from the currently prevailing retirement age of 65 years, in the country where the pensioner lives.

It needs to be highlighted that the coordination rules must be applied equally to individuals who already had an insurance period in Hungary before the EU accession and those who have an insurance period after the accession, including also already retired individuals who already obtained an insurance period in a different Member State. In this latter case, the Hungarian pension shall be recalculated on the basis of an application and the pension shall also be calculated in the Member State concerned.

The so-called E200 form shall be used to apply for pension. This form is available at the pension administration agencies of the Member States. The Hungarian pension will be calculated by Central Hungary Regional Pension Insurance Directorate in accordance with the coordination regulations. In the case on an insurance period gained in several Member States, the main rule is that the pension application must be submitted at the agency of the

Member States, competent on the basis of the individual's permanent residence. If the applicant lives in the territory of a Member State, where he was not subject to the legislation of the Member States, he shall submit his claim in the Member States, competent according to the last insurance period.

## **2. Old-age pension system**

### **Persons compulsorily insured:**

In Hungary all economically active citizens are entitled to compulsory pension irrespective of their occupation, kind of employment. The Hungarian legislation regulated this insurance obligation even before the EU accession, practically irrespective of citizenship, therefore only minimum changes will be required.

Main groups of insured are as follows:

Employees, including civil and public servants, employees/officers of the Prosecution, employees/officers of the Court, employees of legal administration, professional baby-farmers, professional members of armed forces, police and civil national security services, contractual members of armed forces (as from 1 January 2001) irrespective of whether their employment is part time or full-time, and their salary and wages.

Members of co-operatives, if they are personally interested in the activities of the co-operative either as employees or as contractors.

Students participating in vocational training on the basis of indenture.

Persons receiving pay supplement allowances, unemployment benefit, unemployment allowance before retirement.

Private entrepreneurs.

Corporates/associates.

Occupied population, personally engaged in work, receiving fees for it, but not as employees (outworker, on the basis of contract of agency or consumer contract, under the legal title of undertaker but not as a private entrepreneur, as an assisting family member), if their income, which forms the basis of their contribution in the given month, reaches 30% of the minimal wages per month, or its 1/30 part per one calendar day.

Those people can also be regarded as occupied under other legal title than employment who are members of Funds, civil organisations, associations, public bodies, associations of public utility, elected members of a chamber, voluntary mutual pension funds, private pension funds, elected representatives (or public servants) of a local authority, mayors in public duty, if their emoluments after which they should pay contribution amount to 30% of the minimal wage, or its 1/30 part per a calendar day.

Agricultural primary producers, under special circumstances.

Ecclesiastical staff, member of a monastic order (as from 1 January 2001). Insurance is suspended during the period of unpaid leave, exemption from work or unjustified absence, except when unpaid leave is taken by persons entitled to childcare allowance payable until the child is three, for childcare aid payable until the child is fourteen, or childcare aid for taking care of and nursing a sick child, payable until the child is twelve.

During the exemption of work salary/wage, absence fee, sick payment is paid, as well as during the period of regular military service.



Insurance is suspended during the period of preliminary arrest, imprisonment, except when the prisoner is validly released from accusation, or the criminal prosecution is terminated and the prisoner is validly released by court. The insurance of a lawyer or a patent agent is also suspended while his/her membership in a chamber of commerce is being suspended.

The following persons are not entitled to compulsory social insurance:

Diplomatic representatives of a foreign country, non-resident staff of an embassy, foreign representatives of an international organisation entitled to diplomatic immunities, foreign staff of an international organisation entitled to diplomatic immunities, and the above mentioned persons' employees, domestic servants, and their spouse and child(ren).

Persons employed by a foreign employer in Hungary, but regarded as foreigner.

From 1 May 2004:

- Foreign individuals employed in Hungary by foreign employers, not registered according to the Hungarian legal regulations
- Citizens of third countries, if work is performed on the basis of delegation, assignment or workforce hiring, and an international treaty does not provide otherwise. Consequently, the importance change is that if work takes place in a form not described here, the insurance covers citizens of third countries.

These latter changes had to be introduced for the purpose of harmonisation with EU legislation.

However, an agreement can be concluded for providing a certain type of social insurance benefits with general conditions to the above-mentioned (excluded) people.

In case a person has more occupations simultaneously, the existence of social insurance shall be summed up separately in each occupation. The insurance exists from the beginning of the given occupation to its end. Insurance of persons occupied under other legal title is judged monthly, and income subject to paying contribution paid by the same employer is added to sum up contribution. These persons are also covered by insurance if they obtain

Sick payment, accident related sick payment, maternity allowance,  
Childcare allowance, childcare aid, nursing fee, or  
If they fulfil military (civil) service,

if they had been insured the day before they first got the above mentioned provisions, or before they started the military (civil) service.

The period of employment of the insured after 31 December 1997 is considered service time if pension contribution was paid. The above mentioned period shall be considered service period if the employer deducted the pension contribution from the employee's salary, but partially or entirely failed to pay it, irrespective of the result of the recovery.

If the fact of insurance or data concerning the period of service time could be ascertained in the registration of the social insurance bodies, but deduction (payment) of pension contribution could not be ascertained by presenting documents (certificates) obtained by pension bodies, or in the lack of documents (certificates), or it could not be proved due to

closing down of the employer, the deduction (payment) of pension contribution shall be presumed.

The period of employment covered by insurance before 1<sup>st</sup> January 1998 should be taken into consideration as service period in accordance with the rules in force on 31<sup>st</sup> December 1997. These rules are almost the same as the currently effective regulations. One of the exemptions is e.g.: the period of university (college) studies before 1<sup>st</sup> January 1998 was considered service time without contribution, however the period of university (college) studies after this date is considered service time if contribution is paid.

## **Conditions of old age pension**

### Minimal time of insurance (service)

In the traditional system and in pillar I, 15 years are needed during which contribution shall be paid to obtain partial pension, people with 20 years of employment are entitled to full pension. The insurance period includes days on sick payment, maternity leave without paying contribution. Time of military service shall also be taken into consideration; in this case contribution is paid by the central budget to the Pension Fund. Childcare allowance payable until the child is three or fourteen is also considered as insurance period. In this case employer's contribution (24%) is paid by the central budget, while employee's contribution (9.5% or 8+1.5%) is paid by the parent entitled to childcare allowance. The period while unemployment benefit is paid is also considered as time of insurance, in this case employer's contributions is paid by Labour Centre, while employee's contribution by the unemployed.

The period during which the rehabilitation supplies was granted shall also be considered as period of employment and the individual superannuation tax must be deducted from the supplies.

In case of employees years of insurance shall be taken into consideration if employer did not pay contribution or only a part of the contribution was transferred. Default of the employer should not be shifted to the innocent employee. However, if private entrepreneurs or associates did not pay contribution, it entails legal consequences. If the entrepreneur owes contribution of 12 months, his/her entrepreneurial licence shall be withdrawn. In case of members of corporates/associates, months during which contribution was not paid are not to be taken into account on calculating the time of insurance. In case contribution is paid later on, pension and time of insurance is to be adjusted by these months.

In pillar II no minimum private pension membership is required. 180 months are needed during which membership fee should be paid in order to obtain a service of life annuity where lowest amount is guaranteed. In case of membership shorter than 180 months the insured receives the service in one sum or as a life annuity without any guarantee for the lowest amount.

### Retiring age

In both pillars retiring age is 62 years both for women and men as from 1997, applying gradual increase. Men's retiring age has been increased from 60, while women's

from 55 years. It is increased by one year in every second year. 2001 was the first year when men born in 1939 could retire at the age of 62, while women born in 1947 would retire in 2009 complying with the retiring age of 62. Please see the following table showing the conditions of retirement before the retiring age applying a temporary rule necessitated by the gradual increase.

Hungary

Date of birth	New retiring age in force	Years of insurance entitling for pension	Retirement before retiring age		Service time (year) entitling for retirement before retiring age	
			Minimum age	Earliest date	For full pension	For discounted pension
<b>Women:</b>						
1940.	56	1996.	55	1995.	34	29-33
1941.	57	1998.	55	1996.	34	29-33
1942.	57	1999.	55	1997.	34	29-33
1943.	58	2001.	55	1998.	35	30-34
1944.	59	2003.	55	1999.	36	31-35
1945.	60	2005.	55	2000.	37	32-36
1946.	61	2007.	56	2002.	38	33-37
1947.	62	2009.	57	2004.	38	33-37
<b>Men:</b>						
1938.	61	1999.	60	1998.	37	32-36
1939.	62	2001.	60	1999.	38	33-37

The entitlement to early pension was completed with a new condition which means that the insurance relationship has to be ceased. A new work contract has to be signed to perform work besides the early pension.

## Pension services

### Rules of pension calculation

In the traditional system and in pillar I the amount of pension depends on the amount of salary and the time of insurance. Pension calculation is based on salaries received between 1988 and the date of retirement.

All the salaries and wages after which contribution was paid are taken into consideration. Income tax is deducted from gross incomes by applying tax sheet of the given years, thus net income of each year is re-valued for the level of two years before the retirement. The revaluation index number is calculated from the growth of the national net average wage index, and revaluation multipliers shall be published in the supplement of the government decree in every year. The re-valued net incomes of these years shall be summed up and an annual or monthly average is calculated by taking into consideration insured days from 1988. From 1 January 2008 the regulations of the calculation changed. Its main point is that instead of the 'half-net' salary, from now on, the complete net average salary has to be taken into consideration. The initial amount of pension is gained from this average net income and rate of insured years.

Number of insurance years	Pension rate as a percentage of net average income
15	43.0
16	45.0
17	47.0
18	49.0
19	51.0
20	53.0
21	55.0
22	57.0
23	59.0
24	61.0
25	63.0
26	64.0
27	65.0
28	66.0
29	67.0
30	68.0
31	69.0
32	70.0
33	71.0
34	72.0
35	73.0
36	74.0
37	75.5
38	77.0
39	78.5
40	80.5
	2-2 per cent for each additional year

The pension rate of pillar I amounts to 75% of the rate of the above traditional system. Thus, first pension amount is calculated in the traditional system, and then its 75% gives the pension in pillar I. You can see that time of insurance obtained in the traditional system by those who entered the new two-pillar system before 1998 shall be discounted by 25% in the new system. This fall in pension may be compensated, moreover surpassed by pillar II by way of yields of investments and cost intensive operation of the funds. The compensation is influenced by the time spent in the previous and the new system.

Above a certain limit the net average income should not be taken into account. The so-called reduced taking-into-account scale is modified year by year. It is as follows in 2008:  
Calculation of pension

- 100% of the part of the net average income below HUF 227,000,
- 90% of the part of the net average income between HUF 227,001 and 258,000,
- 80% of the part of the net average income between HUF 258,001 and 291,000,
- 70% of the part of the net average income between HUF 291.001 and 324,000, and

60% of the part of the net average income between above 324,000.

The currently effective law orders to calculate pension on the basis of gross income instead of net income as from 2013, and orders to apply new pension rates, which evaluate time of insurance with equal increment, see as follows:

Pension rates of insured years:

Number of insured years	Pension rate in percentage of net average income	
	In the traditional system	In pillar I
20	33.0	24.40
21	34.65	25.62
22	36.30	26.84
23	37.95	28.06
24	39.60	29.28
25	41.25	30.50
26	42.90	31.72
27	44.55	32.94
28	46.20	34.16
29	47.85	35.38
30	49.50	36.60
31	51.15	37.82
32	52.80	39.04
33	54.45	40.26
34	65.10	41.48
35	57.75	42.70
36	59.40	43.92
37	61.05	45.14
38	62.70	46.36
39	64.35	47.58
40	66.00	48.80
	And 1.65-1.65% for every additional year	And 1.22-1.22% for every additional year

Pension benefits of pillar II could be the types of pension annuity or lump-sum benefits. Conditions of lump-sum benefits are expressly regulated by law, and types of annuity are defined, too. Private pension funds shall grant or buy one of the types of annuity, however, they may offer more types of annuities, which shall be defined in their Regulations of Services. The amount accumulated in members' account shall be inherited by a beneficiary in defined cases. In case a pension fund offers more types of annuities, members are free to choose.

Types of private pension annuity are as follow:

- annuity remitted monthly in advance to the member until he/she dies (life annuity)
- a life annuity which is paid to the member or his/her beneficiary (heir) from the beginning of the pension till the end of a period defined in advance (i.e. for a defined period), after the expiry of this defined period the annuity is disbursed until the death of the member (life annuity with starting date defined)

a life annuity which is paid to the member until his/her death, then, after his/her death, the annuity is paid to his/her beneficiary until the end of a period defined in advance in accordance with the service regulations of the fund (life annuity with date of end defined)

Two or more life annuities: a pension paid to the member and his/her beneficiary(ies) which is paid until one of them is alive.

Conditions of lump-sum payment:

After the death of the member of the pension fund the amount accumulated in his/her private pension account shall be paid to his/her beneficiary. Instead of block payment the beneficiary is allowed to go on with membership leaving the sum in the fund or to transfer the accumulated amount to another fund.

Lump-sum benefit can be made upon the request of members with less than total 180-month-membership summing up all the memberships in different funds. Instead of block payment the member may choose pension annuity. In this case the guarantee for the standard allowance does not apply.

Minimum and maximum amount of pension

In 2008 the minimum amount of full old-age-pension, to which at least 20 years of insurance time is needed, is HUF 28,500 a month in the traditional pension system. In pillar I the minimum pension amounts to 75% of the above amount, i.e. HUF 21,375. There is no minimal amount of partial pension.

However, in accordance with regulations, the minimum amount of pension shall not be higher than the sum of average income, which constitutes the basis of pension calculation.

The pension annuity paid by pillar II has no guaranteed minimum amount.

The maximum amount is not defined either in pillar I or in the traditional system, however, it is indirectly influenced by an income limit of max. three times the average income (pension contribution ceiling) from 2004, after which personal pension contribution is paid. This limit amounts to HUF 19,500 a day, HUF 7,137,000 a year in 2008. Owing to the above-mentioned income ceiling, the time of insurance and different pension rates depending on discounted method of taking income into consideration pension maximums will be different in each person's case. Differences are further increased by the fact that the income ceiling has only been used since 1993, between 1988 and 1993 there were no pension contribution ceiling and maximum income limit defined.

In pillar II the maximum amount of annuity is not directly defined. It is influenced by the income limit (contribution or fee ceiling), which is the same as the income limit stated in pillar I and in the traditional system. Besides, the longer the time of membership, the less the costs and expenses the fund operates with and the highest the yields of its investments, the highest the amount of pension annuity will be.

## **Supplements paid after dependents**

There is no supplement pension or allowance payable after dependants and children of the retired in the practice of the Hungarian pension system. Provisions for dependants - regardless of whether the head of the family is retired, unemployed or economically active - are paid by a separate social system financed from personal income taxes.

### **Annual increase of pensions**

Annual increase of pensions as from 2000 is adjusted to price increase and increase of wages and salaries. Before this date pensions were usually adjusted to increase of incomes. In 2000 the pension increase was calculated by summing up 70% of the estimated growth of income and 30% of the estimated price increase, and then pension was increased accordingly in January. If the above-mentioned index had been higher than the estimated one, in November an adjusted pension increase was effected, dated back to January. At the calculation of the adjusted pension increase in November, the rate of the expected price increase shall be considered if the increase is higher than the usual rate.

As from 2001 the effective law orders to use the so-called Swiss index system, after this date the pension will be increased by the amount of the weighted arithmetical mean of price increase and growth of incomes.

The act on pension also stipulates a uniform percentage increase of pensions. The percentage of the lower and upper limits of the increase has not been defined. Due to the economic processions of the first quarter of 2008 and the high inflation rate the pensions were raised by a complementary 1.1% in May.

### **13<sup>th</sup>-month pension**

The gradual introduction of the 13<sup>th</sup>-month pension started in 2003. In November 2003, pensioners received 25% of their monthly pension, in November 2004, 50% of their monthly pension, and in November 2005, 75% of their monthly pension will be paid out. Finally, in November 2006, and in the subsequent years, pensioners will be entitled to a full monthly pension for the 13<sup>th</sup> month. The full 13<sup>th</sup>-month pension will represent 8.3% pension increase and the related extra income compared to 2002.

### **Early Retirement**

In Hungary premature retirement can be claimed in accordance with conditions defined by age regarding gradual increase of retirement age, terms and conditions (see our table showing gradual increase of retirement age). For better understanding, consider the following sample on premature retirement. E.g.: The increased retiring age for women born in 1947 is 62 years, which they will reach in 2009. However, they could retire earlier, when they were 57, i.e. 5 years before the increased retiring age, in accordance with rules in force. Women having 38 years of service time are entitled to old-age pension. However, women with only for example 35 years of service time shall be entitled to a discounted pension only on the basis of the early age limit.

Discounts, which have to be applied until 2013 are as follows:

- in case of 36 years of insurance time it is 0.1 % a month,
- in case of 35 years of insurance time it is 0.2% a month,

in case of 34 years of insurance time it is 0.3% a month,  
in case of 33 years of insurance time it is 0.4% a month,  
in case of 32 years of insurance time it is 0.5% a month,

which shall be calculated for as many months as many 30 days are needed from the increased retiring age.

In our example the 0.2% pension discount is calculated for 60 months, this way a pension discounted by 12% will be obtained.

Please note, that one year per child, at least 3 bonus years may be added to the actual service time in order to be entitled to premature retirement without discount. However, these bonus years are not taken into consideration on calculating the pension, as the function of these bonus years is exclusively to help people to be entitled to premature pension.

The amendment of the legislation in 2008 changed the conditions of early retirement; these changes will have to be applied from 2009 and from 2013. From 1<sup>st</sup> January 2009 to 31<sup>st</sup> December 2012 men can apply for early retirement without deduction at the age of 60, while women at the age of 59, in case they have at least 40 years of service and are not involved in an insurance relationship. From 1<sup>st</sup> January 2013 both men and women will be able to apply for early retirement at the age of 60, in case they have at least 37 years of service. From 2013 the early pension without deductions will be abolished and the amount of reduction from the pensions will change as the reduction depends only on the age at the time of the retirement; the earlier the retirement is, as compared to the age limit of 62, the higher the reduction is.

If the conditions of early retirement are met, but those who are concerned do not retire, the previous regulations on age limit shall be used.

Early pension. Manual workers doing hard physical work, which is harmful to health, are entitled to exemption by age. Areas of work that entitle for exemption by age are precisely defined in the enacting clauses of law. 10 years of work in case of men, and 8 years of work in one of these areas entitle for 2 years exemption by age, and each additional 5 years in case of men and each additional 4 years in case of women entitle for further 1 year exemption by age. E.g. a man who worked 25 years in the given area is entitled to old-age pension 5 years before the general retiring age.

This system of exemption by age involves a lot of problems (e.g. it is not preventive, hides employers' responsibilities for keeping labour health and accident prevention regulations), therefore amendments are being planned. From 1 January 2007 the private entrepreneurs and employers are obliged to pay age-allowance insurance charge which is 13%. This obligation is taken over by the central budget, while in 2008 75% of the charge, in 2009 50%, in 2010 25% is taken over by the budget. In 2008 the employer has to pay an extra 3.25% an age-allowance charge after the workers employed with age-allowance.

Miners, if they spent a defined amount of shifts in the mine, are entitled to old-age pension, irrespective of their age. Artists with 25 years of activity are also entitled to old-age pension irrespective of their age. Members of the official effective force of armed forces and police are also allowed to retire earlier, usually 5 years earlier than the general retiring age. These exemptions are not financed from pension contributions but it is the central budget that transfers these amounts to the Pension Funds (Nyugdíjbiztosítási Alap) until the entitled reaches the general retiring age.

Pre-retirement. Everyone can retire at least 5 years before the retiring age if his/her employer transfers the amount of pension calculated till the retiring age in one block to the Pension Funds.



There are no special rules in pillar II, services of pillar II shall be obtained when persons are entitled to pension in pillar I.

### **Deferred retirement**

Those economically active who are older than 62 but not retired yet, and who already have 20 years of insurance time and will be working for at least 30 more calendar days, shall receive a pension bonus. The pension bonus shall be calculated on the basis of their monthly pension calculated in accordance with general regulations, multiplied by 0.5% as many times as many 30 days they have worked after 62 years of age. (e.g.: if they worked until the age of 64, then 24 months x 0.5% = 12%, i.e. they are entitled to a pension plus 12% bonus).

### **Pension for retired who are still economically active**

In Hungary pension is payable to the retired who still work, there is no restriction concerning this rule. From 1 January 2008 there are new regulations (the law was proclaimed in November 2006) that concern only those who retire before the age-limit. The essence of the change is that from 1 January 2008 only those are entitled for the pension before the age-limit who has dissolved the insurance relationship. Afterwards if the person earns money and reaches a set amount of annual income, the transfer of the pensions has to be abandoned.

In 2008 the transfer of the pensions has to be abandoned from the first day of the month following the month in which the income exceeds the annual amount of the minimum wage (12 times the January minimum wage). The rule has to be applied for those who retire after 1 January 2008, until the date of reaching the age-limit. After reaching the age-limit there is no restriction for transferring them the pension. The abandonment of the pension transfer will extend to those who are under the age-limit and pursue income-gaining activities irrespectively of the date of their retirement. There will be no restrictive regulation for those who retire over the age-limit (62 years).

Those who are economically active after the retirement are obliged to pay the individual pension allowance; for this reason they are entitled for the pension raise, the basis of which is 0.5% of their gross salary independently from the date of their retirement, after every 365 days of employment.

### **Taxation of pensions**

Pension payable by the traditional system and pillar I are not considered assessable income. If the pensioner receives other income in addition to the pension, then the tax shall be calculated only after his/her extra.

The life annuity and the lump-sum distribution from the private pension fund are taken as pension and no taxation has to be paid. Payment in case of death is not pension therefore it is –preferentially- taxable, for the amount of the payment the highest tax rate of the tax schedule is decreased by 50%.

### **3. The system of disability pensions**

#### **Conditions of entitlement**

Those insured are entitled to disability pension, whose health damage

- is over 79%;
- is between 50 % and 79%, cannot be employed without rehabilitation, but the rehabilitation is not suggested;
- have gained the necessary age-dependent period of employment prescribed by law;
- is not economically active, or their salary is 30% lower than the average of their salary in the last four months before the health damage;
- do not receive any sick pay.

Old-age pensioners and pensioners who receive disability pension due to accident (accident disability pension) are not entitled to obtain disability pension. Those who caused deliberately their own incapacity are also not entitled to disability pension, neither are those who reach the retiring age of old-age pension but not retired yet. In this case the disabled people receive old-age pension.

The minimal rate of health damage is stipulated in 50% by law. There are three types of disabled, please see these three groups as follows:

Disabled whose health damage is between 51-79% are in group III.

Disabled whose health damage is over 79% but do not depend upon others' permanent nursing are in group II.

Disabled whose health damage is over 79% and depend upon others' permanent nursing are in group I.

The earliest date of entitlement shall be when a special board of doctors diagnoses the required rate of disability. If the date of disability is not mentioned by the board of doctors the date of claim shall be the date of disability.

The main point of the changes in the conditions of disability pensions is that the board of doctors does not take only the lost abilities into account but also the remained abilities to work. At the same time, from 1<sup>st</sup> January a new rehabilitation supplies was introduced which is supposed to facilitate the rehabilitation of the remained abilities of the people who suffered health damage. The remained abilities of the person will be reconsidered by a new board of expert doctors and they will also make suggestions what type of work the person could perform. Those who receive rehabilitation supply have to cooperate with the national employment authority and also have to sign a rehabilitation agreement which involves a concrete, personal rehabilitation plan.

Younger than 22 years old	2 years
Between 22-24	4 years

Between 25-29	6 years
Between 30-34	8 years
Between 35-44	10 years
Between 45-54	15 years
Older than 55	20 years

The person who becomes insured within 180 days after his/her studies and becomes disabled before 22, shall be entitled to disability pension irrespectively of the length of his/her insurance time, e.g. even if he/she has only one day of insurance.

## **Benefits**

### Pension calculation

In the traditional pension system and in pillar I of the new mixed system the amount of the disability pension depends on

- the age of disabled,
- time of insurance,
- rate of the health damage according to the place in one of the three groups mentioned above.

The time of insurance and average income which forms the basis of pension shall be calculated in a similar way as in case of the old-age pension.

The pension of the disabled in group three amounts to 51 % of the average income in the traditional system if the disabled is younger than 35 and has less than 2 years of insurance. This rate is increased by 0.5% point in all further years of insurance until 25 years of insurance, where the rate is 63%. Please see the following table, which shows disability pension for disabled older than 35 in group III:

Insurance Period	Percentage of monthly average income In case of incapacity to work at age of				
	35-39	40-44	45-49	50-54	55-61
Year					
10	54,0	51,0	46,5	42,0	37,5
11	56,0	53,0	48,5	44,0	39,5
12	56,5	55,0	50,5	46,0	41,5
13	57,0	57,0	52,5	48,0	43,5
14	57,5	57,5	54,5	50,0	45,5
15	58,0	58,0	56,5	52,0	47,5
16	58,5	58,5	58,5	54,0	49,5
17	59,0	59,0	59,0	56,0	51,5
18	59,5	59,5	59,5	58,0	53,5
19	60,0	60,0	60,0	60,0	55,5
20	60,5	60,5	60,5	60,5	57,5
21	61,0	61,0	61,0	61,0	59,5
22	61,5	61,5	61,5	61,5	61,5
23	62,0	62,0	62,0	62,0	62,0
24	62,5	62,5	62,5	62,5	62,5
25	63,0	63,0	63,0	63,0	63,0

The pension of disabled in group II is higher by 5%, while disabled in group I receives 10% higher than those in group III.

Minimum and maximum amount of the pension

Minimum amount of disability pension in 2008

in group III: HUF 28,500

in group II: HUF 29,800

in group I.: HUF 30,850

There is no maximum limit of disability pension; the same facts have influence on the amount as in case of the old-age pension.

Supplementary payments after dependants

Supplementary pension after the dependant spouse or child shall not be paid. The same rule applies as in case of the old-age pensioners. Provisions/allowances are paid after the dependants of the disabled in the framework of the social assistance system.

Annual increase

The same indexing rules are applied automatically as in case of old-age pension. The rate and method of increase of disability pension are entirely the same as those of the old-age pension.

There has been no risk of incapacity to work included in pillar II, yet. Members of a private fund can choose one of the following: either they claim for service on the basis of the sum accumulated on their account, which may be lump-sum payment or superannuation, in this case 75% of the pension shown in the traditional system shall be paid, or they transfer back the amount accumulated in their account to the State Pension Fund, and in this case they

shall be entitled to disability pension in the traditional system as if they had never joined the other system.

Disability pensioners are also entitled to the 13<sup>th</sup>-month pension, with the same gradual introduction as the 13<sup>th</sup>-month pension is introduced for old-age pension.

### **The Rehabilitation Supplies**

The main point of the changes in the conditions of disability pensions is that the board of doctors does not take the lost abilities into account but also the remained abilities to work. At the same time, from January the first a new rehabilitation supplies was introduced which is supposed to facilitate the rehabilitation of the remained abilities of the people who suffered health damage. The remained abilities of the person will be reconsidered by a new board of expert doctors and they will also make suggestions what type of work the person could perform. Those who receive rehabilitation supplies have to cooperate with the national employment authority and also have to sign a rehabilitation agreement which involves a concrete, personal rehabilitation plan.

The Act on rehabilitation supplies became valid from 1 January 2008.

The most important regulations of the law are:

The scope of the law concerns

- a, the person who demands rehabilitation supply on the basis of the law;
- b, the employer of the demander
- c, the old-age pensionary organization which is responsible for handling the Pension Insurance Fund;
- d, the rehabilitation expert organisation;
- e, the public employment organization; and
- f, the state tax authority.

The scope of the law covers people entitled with the right of free movement and stay, if the person practices his right of free movement and stay on the territory of the Republic of Hungary at the time of the demand for treatment and has a declared address according to the provisions of the Act LXVI./1999.

The provisions of the act have to be applied on the basis of Community regulations on the coordination of social systems.

### **People entitled for the rehabilitation supply:**

- a, those who suffered 50-79% health damage and cannot be employed in the work preceeding the health damage, or cannot be employed without rehabilitation in a position matching with his qualifications and
  - aa, does not perform gainful work;
  - ab, his wages are at least 30% lower than his average wages were in the last four months before the health damage;
- b, can be rehabilitated;
- c, has been employed for the necessary term of work.

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**Individuals not entitled for the rehabilitation supply:**

- a, those who receive old-age pension, advanced old-age pension, reduced advanced old-age pension, exemption of age pension, disability pension, accident disability pension, old-age supply, incapacity and widow supply, increased value old-age, incapacity or widow supply, widow pension on the grounds of their age and widow pension on the grounds of incapacity,
- b, those who receive miners' pension, exemption of age pension, old-age pension of those who pursued certain artistic activities, service pension, old-age pension of mayors or public service supply,
- c, those who receive maternity benefits, child-care benefits, sick-leave benefits, or accident benefits,
- d, those who receive financial supply transferred on the basis of the act on employment;
- e, those who receive temporary supply, permanent social supply, miners' health damage supply, or disability supply,
- f, those who receive disabled servicemen's supply, and supply for national courage.

**The amount of the rehabilitation supply**

The amount of the rehabilitation supply –independently of the membership in a private pension fund- is 120% of the disability pension (GROUP III.). The smallest amount of the rehabilitation supply is 120% of the smallest amount of the disability pension.

The amount of the rehabilitation supply have to be reduced by 50% if the last three months' wages of the person receiving the rehabilitation supply is higher than 90% of the average wages on the basis of which the disability pension is established.

The rehabilitation supply has to be increased yearly. The pension insurance authority does not have to publish resolution on the annual increase of the rehabilitation supply.

**Rules of procedure**

Concerning the right for the rehabilitation supply, the rights and obligations of those who receive the rehabilitation supply and the rules of the administrative procedure, the provisions of the Act CXL./2004 have to be applied. In order to demand the rehabilitation supply or legal redress the act on social insurance pensions has to be applied.

The rehabilitation supply can be demanded in writing on the broadsheet for rehabilitation supply or disability pension.

In order to consider the demand, the benefit claimant has to verify his regular income. The state tax authority will give forth the claimant's data on his wages within 15 days of the demand of the pension insurance authority.

The procedure concerning the rehabilitation supply is free of charges and dues.

The court has the right to change the resolution concerning the rehabilitation fee during the review of the resolution.

After the pension insurance authority has required the rehabilitation expert body conducts a complex evaluation on the basis of the provisions of the relevant act within 60 days and issues an expert report

- a, on the extent of the health damage
- b, on the person's professional capacity

c, on the conditions of rehabilitation, the possible direction of the rehabilitation, the rehabilitation needs and the period of time needed for the rehabilitation.

During the procedure the pension insurance authority is bound by the experts' opinion of the rehabilitation expert body.

The pension insurance authority suspends the procedure until the issuance of the expert opinion of the rehabilitation expert body.

### **Cooperation obligation and rehabilitation procedure**

The person who is entitled for the rehabilitation supply –in order to realize the rehabilitation– is obliged to cooperate with the public employment organization, in the framework of this he has to

a, contract an agreement with the public employment organization,

b, fulfil the requirements that are set in the annexes of the rehabilitation agreement.

### **The rehabilitation agreement contains:**

a, the statement of the person who receives the rehabilitation supply that

aa, he fulfils the provisions of the agreement

ab, accepts the workplace offered for him and the training opportunities that are free of charge, furthermore;

b, the forms of job-seeking, obligatory for the person receiving rehabilitation supply;

c, the rehabilitation services of the public employment organization that are offered for people receiving rehabilitation supply;

d, the forms and frequency of the obligatory visits paid by the person receiving the rehabilitation supply to the public employment organization.

In case the rehabilitation supply is granted, the pension insurance authority calls the attention of the beneficiary to fulfil the obligation of cooperation and informs the person about the legal consequences of breaching the agreement.

The person receiving the rehabilitation supply contacts the public employment organisation within 10 days of receiving the resolution in order to make the agreement while presenting the resolution and the expert's report providing the basis for it.

When deciding on the amount of the rehabilitation supply, the pension insurance authority establishing the amount informs without delay the public employment organisation about the resolution and the date it should come into force. The public employment organisation prepares the rehabilitation agreement within 30 days after the notification about its coming into force and informs the person entitled to rehabilitation supply about its propositions.

When setting up the rehabilitation agreement, the rehabilitation needs and also the conditions of the labour market of the given region should be taken into consideration.

If the person entitled to rehabilitation supply is on gainful employment, an attempt should be made to provide the rehabilitation within this framework. For the sake of this, the public employment organisation contacts the employer. The employer is bound to make a consultation on the rehabilitation options within 10 working days of the date of the contact. In case the employer is willing to undertake the necessary rehabilitation measures, the rehabilitation agreement should be made with regard to this.

The public employment organisation informs the pension insurance authority within 3 working days of the settlement of the rehabilitation agreement.

If the rehabilitation agreement is not granted 30 days after the proposal has been made by the public employment organisation, the public employment organisation initiates the termination of the supply to the pension insurance authority.

The person entitled to rehabilitation supply is bound to inform the public employment authority within 10 working days if

- a) his state of health deteriorates on a permanent basis
- b) he is on gainful employment or his income or payment has changed, or
- c) his circumstances providing the basis for the rehabilitation agreement have changed significantly.

### **The duration of the supply**

The rehabilitation supply can be granted from the day the conditions of the supply supervene, or earliest from the day the claim was made.

In case the claimant is entitled to maternity and childcare allowance, childcare benefit, receive sick pay or accident related sick pay, the rehabilitation supply can be granted from the day of the termination of the provision.

The rehabilitation supply can be granted for the period of time necessary for the rehabilitation, but for 3 years at the most.

If a period of the supply shorter than 3 years has already elapsed but the rehabilitation has not terminated, the duration of the supply can be extended for the sake of the successful rehabilitation, but the full rehabilitation period cannot exceed 3 years altogether.

The entitlement for the supply rebounds 24 months after its termination if other conditions for the entitlement still stand and exclusive conditions do not hold.

### **Supervision**

If the state of health of the person receiving the rehabilitation supply deteriorates on a permanent basis, the public employment organisation initiates a supervision process at the pension insurance authority.

The head of the pension insurance authority can oblige the person receiving the rehabilitation supply to appear personally for supervision – at the same time he should be informed about the legal consequences- if he becomes aware of such facts or circumstances which make it probable that the health damage assessed earlier did not exist at the time of the assessment or it was of a smaller extent.

During the supervision the pension insurance authority contacts the rehabilitation expert body in order to carry out the qualification process.



## **The end or termination of the supply**

The termination ends or has to be terminated if

- a) the person receiving the rehabilitation supply dies,
- b) the person receiving the rehabilitation supply asks for its termination
- c) the duration of the supply has elapsed
- d) the person receiving the rehabilitation supply permanently stays abroad longer than 3 calendar months
- e) the average of the income or payment received for 6 consecutive months by the person on rehabilitation supply is more either than 90% of the sum of the monthly income providing the basis for the rehabilitation supply, or its amount raised by the regular pension increase(s), but at least the sum of the current statutory minimum wage,
- f) the state of health of the person receiving the rehabilitation supply deteriorates on a permanent basis to such an extent which makes the rehabilitation impossible,
- g) the person receiving the rehabilitation supply does not accomplish due to imputable reasons the cooperation obligation or the obligations set up in the rehabilitation agreement, or
- h) the employment of the person receiving the rehabilitation supply is realised repeatedly in lack of the declaration of rights necessary for the legal relationship of employability.

## **4. Widow's pension**

### *Conditions of entitlement*

Entitlement comprises the claim of the spouse, the ex-spouse and the partner in life of the insured. Those are entitled to widow's pension whose dead spouse or partner in life had the required time of insurance for old-age or disability pensions, or died as an old-age pensioner or as a disability pensioner. It means that at least 10 years of service time is required to receive disability pension if a man dies when he/she is 40, as it is the minimum time of insurance required to be entitled to disability pension at this age in accordance with the rules in force.

A partner in life is entitled to widow's pension if they had lived together at least for a year without interruption and had a child before one of them died or they had been living together for 10 years without interruption. If the spouse had reached the retiring age of old-age pension by the time they married, the widow should only be entitled to receive widow's pension if they had a child or if they had been living together for 5 years from the date of their marriage without interruption. The ex-spouse and partner who lived separately from the insured is entitled to the allowance if he/she had received alimony until the death of the insured, or alimony was awarded by court. As to entitlement and pension benefits the same rules apply for both of the two sexes.

The above-mentioned widows are entitled to a so-called temporary (adaptation) allowance for a year irrespective of their age and any other conditions.(e.g.: whether they have income or not). The temporary widow's pension is payable for more than one year for those having a baby younger than 1.5 years. They receive the benefit until the child is 18 months. If the baby is disabled or permanently ill, the widow's pension is payable until the child is 3. After the termination of the temporary widow's pension, permanent widow's pension is payable to that person who

has reached the retiring age of old-age pension, or  
is disabled, or  
raises and educates at least two children entitled to orphan's allowance when his/her spouse dies.

Permanent widow's pension is also payable if one of the conditions of entitlement in a-c) paragraphs occurs within 10 years of the spouse's death.

Disappearance shall be regarded as death in terms of entitlement to widow's pension if it is confirmed by the court. Those who deliberately cause their spouse's death shall not be entitled to widow's pension.

Widow's pension shall not be paid if the widow gets married again before reaching retiring age.

### **Calculation of widow's pension**

The pension that the deceased received, or disability pension he/she would have got if he/she had died in his/her economically active life forms the basis of the widow's pension. In the latter case disability pension in group III is calculated in accordance with the general rules in force, and this amount will be the basis of the widow's pension.

Temporary widow's pension amounts to 50% of the deceased person's pension, which has no minimum or maximum amount.

The permanent widow's pension is 60% for those not receiving pension on their own rights, 30% for those who receive pension. There is no minimum or maximum amount stated for permanent widow's pension.

The rules regulating widow's pension were modified significantly as from 1<sup>st</sup> January 1998. Before this date the permanent widow's pension was 50%, too, but there were strict restrictions in case of pension of the widow on own right. If the total amount of the two pensions exceeded a certain amount - it was HUF 20,400 in 1997 - a part of the widow's pension was only paid to round off their own pension to the mentioned amount.

If one of the pensions exceeded this certain amount in itself, one of the pensions was not paid at all. These restrictions were abolished by the new regulations and at the same time the amount of the widow's pension was reduced from 50% to 20% from 1998. These new regulations were dated back and the former restricted payments to the widows in question were terminated. The new and the old regulations prevail simultaneously for a temporary period as entitlement is based on death that occurred within the past 10 years. This way those who became widowed earlier can choose the more advantageous system. If 50% widow's pension with restrictive amount limit is better for them - HUF 59,110 in 2007 - then this amount will be paid for them. Concerning the amount of the pension, benefit raised by exceptional reasons shall not be considered.

If 30% of the widow's pension without restriction seems more advantageous, then in addition to their own pension they will get this amount without any restriction.

Widow's pension should not exceed the amount of alimony in case of divorced/ex-widows. The above described amounts and ratios prevail in the traditional pension system. Widows whose partner or spouse has entered the new system will be entitled to a 60% or 30% widow's pension to be calculated on the basis of the 75% pension of the deceased in pillar I.

### **Dividing up widow's pension**

If there are more entitled persons, the pension benefit shall be divided up among them in equal parts. If the divorced widow receives alimony in a smaller amount, the amount of widow's pension shall not exceed the amount of alimony. The remaining part shall be paid to the other entitled widow. The division may be modified by judgement in the course of a legal action.

### **Annual increase**

The same system of annual increase is used as for the old-age pension.

There is no income limit in the widow's pension system, the allowance is payable to widows irrespective of whether they earn or not.

Pensioners receiving regular widow pension are also entitled to the 13<sup>th</sup>-month pension, with a similar introduction as the 13<sup>th</sup>-month pension is introduced for old-age pension.

## **Taxation**

There is no tax on the widow's pension. If the widow receives other income in addition to the allowance, then, in accordance with the general rules in force, the tax shall be calculated only after his/her additional income.

## **5. Orphan's allowance**

### **Conditions of entitlement**

Those children are entitled to orphan's allowance - including children brought up together in the same household of the married couple or partners in life, or children from the former marriage but brought up together - whose parent has the required time of service until his/her death or died as an old-age pensioner or disability pensioner.

The adopted child shall not be entitled to orphan's allowance after his/her blood parents, except if the child was adopted by the spouse of the blood parent.

Orphan's allowance shall be paid to the foster child, foster sister and grandchild, too if the deceased has reared him/her in his/her own household, and the child has no relatives who would be willing and able to bring her/him up.

Orphan's allowance remains payable if the child or his/her other parent gets married or the child is adopted.

Orphan's allowance shall be payable - if conditions of entitlement exist - from the date of death until the child is 16. If the child is a regular student, the orphan's allowance is paid to him/her until he/she attends school but not after the age of 25. If the child becomes disabled before the expiry of entitlement, orphan's allowance is paid further for this period, too, unless the child is over the above-mentioned age at the date of his/her parent's death.

That child is also entitled to the allowance under the title of study who

- is a private student due to a mental or physical deficiency,
- is younger than 25 and studies in the framework of adult education. Under the title of study orphan's allowance shall be paid in summer holiday, too, until leaving school. The title for orphan's allowance exists in the case the title of study is suspended.

### **The amount of orphan's allowances**

The orphan's allowance per child is in the amount of 30% of the old-age pension, disability pension or disability pension due to accident which should have been paid to the deceased before his/her death.

The alimony paid by the blood parent shall be taken into account on calculating the orphan's allowance payable to a foster child. If the paid alimony is as much as the orphan's allowance, the orphan's allowance shall be suspended.

If alimony is not paid or only partially paid by the blood parent, full or proportionate amount of the orphan's allowance is paid.

60% of the dead parent's pension shall be paid to the children if

- both of their parents are dead
- one of their parents died and the other is disabled.

If the child is entitled to orphan's allowance after both of his/her two parents, 60% of that parent's pension is paid whose pension is higher.

Orphans of the insured who has entered the mixed pension system shall receive 30% or 60% orphan's allowance calculated based on 75% pension in pillar I.

The lower limit of the orphan's allowance is HUF 24,250 in 2008. There is no upper limit of the allowance.

### **Annual increase**

Orphan's allowance is to be increased annually as the old-age pension.

Individuals receiving orphan's allowance are also entitled to the 13<sup>th</sup>-month pension, with a similar gradual introduction as the 13<sup>th</sup>-month pension is introduced for old-age pension.

### **Taxation**

Orphan's allowance is a tax free income, any further income is taxable on the basis of the tax bracket of the amount exceeding the orphan's allowance.

## **6. Other provisions for relatives: parental pension**

Parental pension shall be payable to those parents whose child died with the required time of service time or died as an old-age pensioner or a disability pensioner, if

- the parent is disabled or older than 65 when his/her child dies, and
- the parent was sustained by his/her child one year before the child's death.

The foster parent that has reared a foster child for 10 years, shall also be entitled to parental allowance if the above described conditions are met.

The parent who was not disabled when the child(ren) died shall be entitled for parental allowance if he/she becomes incapable of working within 10 years from the death and has no other relatives who would be able to or liable to support him/her.

The title shall cover grandparents as well if they had been supported by their grandchild.

The parental allowance is in the same amount as the widow's pension. I.e. if pension is paid to a parent under his/her own right, the amount of the allowance shall be from November if pension is not paid to him/her, the allowance shall be 60% or 30%. If more than just one person is entitled to parental allowance, it shall be divided among them in equal parts applying regulations concerning widow's allowance. Parental pension is increased and the 13<sup>th</sup>-month pension is introduced in accordance with the same rules as the ones applicable to widow pension.

Pillar II comprises the risk of death in a special way compared to the traditional pension system. In accordance with rules in force the active member of a fund can name a beneficiary or more beneficiaries of his/her pension account which is regarded as his/her private property. If no beneficiary is named then his/her legal heirs shall be considered as beneficiaries. For lack of heirs the amount on the member's private pension account shall be transferred to Guarantee Fund (Garancia Alap). In case of the death of an active member of a fund the beneficiaries can withdraw the amount as block payment. However, they are also allowed to leave the money in the fund and at the same time enter the fund, and the amount on the account will be invested by the fund. The beneficiary may transfer the amount to another private fund.

In pillar II, in the case of the death of a member, the beneficiaries are also allowed to transfer the amount in question to the State Pension Funds (Állami Nyugdíjbiztosítási Alap). In this case they are entitled to receive the same widow's pension, orphan's allowance or parental pension as the members of the traditional system (100% instead of 75% in pillar I) as if the deceased had not joined the new mixed system. This solution works if the named beneficiary complies with the above described conditions entitling to widow's, orphan's and parental pensions.

The members of pillar II can provide for their relatives by choosing insurance with period fixed at the beginning, or at the end, and by choosing service of two or more life annuities/benefits. Should they choose pension for a life, there is no possibility to inherit the annuity or to transfer it to the State Pension Funds (Állami Nyugdíjbiztosítási Alap).

## **7. Accident-related disability pensions and accident-related relative's pensions**

### **Conditions of entitlement**

The same set of insured persons is entitled to these benefits as to widow's and disability benefits except for the age limit.

In the case of industrial injury or occupational disease no time of insurance is needed to be entitled to the benefit, a couple of days are enough to receive such a provision.

Further conditions of entitlement to accident-related pension benefits are exactly the same as those of the disability pension, with the only difference, of course, that the 50% health damage has been caused by an industrial accident or an occupational disease.

Thus accident-related disability pension is paid to the person whose health damage is at least 50% due to an industrial accident and does no regular work or his/her income is remarkably less than before he/she became disabled.

The accident-related disability pension should be paid to the person whose health damage is in 40% due to silicosis, and does no work,

- or does not work regularly in a position or workplace where there is no danger of silicosis, or
- his/her income is considerably smaller than before he/she became disabled, or it is below 80% of his/her former income.

Entitlement to accident-related disability pension ceases to exist if the pensioner's health damage does not reach 50%, and in case of silicosis-related problems it does not reach 40%. Entitlement to accident-related disability pension also ceases to exist without any recovery in health if the pensioner works on a regular basis and has got a salary for 4 months which is not considerably smaller than 80% of his/her former salary received in his/her former position. In this case accident-related support shall be paid instead of accident-related disability pension.

### **Method of calculation**

The amount of the accident-related disability pension shall be calculated in accordance with regulations applied to calculate disability pension or, if it is more advantageous, on the basis of the income earned one year before the accident.

The amount of the accident-related disability allowance depends on the degree of disability and the time of insurance as well. On the basis of the degree of disability

- a person who lost capability to work in 67% (50% due to silicosis) but is not entirely disabled shall be in group III,
- a person who is entirely disabled but does not depend on other's help shall be in group II,
- a person who is entirely disabled and depends on other's help shall be in group I.

The amount of accident-related disability pension is 60%, 65% and 70% of the monthly average income in the above order of the 3 groups. The amount of the accident-related



disability pension increases by 1 % of the monthly average income after every year of the service time.

### ***Minimum and maximum limits of accident-related disability pensions***

Lower limit of the accident-related disability pension:

- HUF 28,600 /month in group III
- HUF 30,000 /month in group II
- HUF 31,000 /month in group I.

Upper limit: the amount of the disabled person's average income.

Maximum: the individual average income used for calculation, because the accident related disability pension cannot be established as a higher amount than that.

### ***Restrictions concerning earnings***

The same regulations apply as to the disability pension.

### ***Annual increase***

Accident-related disability pensions are increased in the same way and in the same amount as old-age pensions and disability pensions.

Individuals receiving accident related disability pension are also entitled to the 13<sup>th</sup>-month pension with the same gradual introduction as the 13<sup>th</sup>-month pension will be introduced for old-age pension.

### **Accident-related benefits for relatives**

If the insured died because of an industrial accident, his/her relatives - widows, orphans, parents - shall be entitled to allowances listed in sections *IV-V-VI*, irrespectively of the time of insurance the deceased had. In the case of the death of the insured who had been entitled to accident-related disability pension, the benefits shall be paid to his/her relatives even if the death was not due to an industrial accident.

The same general rules shall also be applied concerning the set of the entitled, amount of benefits, lower and upper limit, annual increase, and taxation as well as to the 13<sup>th</sup>-month pension and its taxation listed in sections *IV-V-VI*.

## **8. Main characteristics of the organizations of the private pension system**

### **Foundation of pension funds, rules of organisation and operation, rules of economic management**

Pension funds can be founded by

- an employer or several employers together,
- chamber of trades separately or together,
- sectoral unions separately or together, or together with chambers of trade as well,
- employees' or employers' trade unions separately or together, or together with the above mentioned organisations.

Local government of Budapest or local governments in county rank are allowed to found territorial funds as open funds, or regional pension fund can be collectively established by more local governments. Organisation of members for the funds is allowed by natural person, legal person and business association with no legal person on the base of the contract made with the fund.

The pension fund is a legal entity, whose organs are:

- assembly, meeting of delegates,
- board of directors,
- supervisory board,
- professional committees established in accordance with rules of organisation and operation.

A union can be founded by funds to represent their rights and to execute mutual purposes. The union is a civil organisation operating as a legal entity, which also supplies the funds with professional advice regarding operation.

The board of directors is the executive organ of the fund.

The board of directors consists of uneven numbers, but not more than 7. The representation of the members of the fund shall be ensured in the board of directors. The mandate of the board of directors lasts 5 years from the election, or lasts until a new board of directors is elected by the assembly of delegates elected for 5 years after the expiry of its mandate.

Only a person who has obtained a university or college degree can be selected as chairman of the board of directors.

Board of directors

- makes arrangements to prepare decisions in the sphere of authority of the assembly, and also makes arrangements to ensure that the decisions will be executed,
- takes care of proper book-keeping of the fund, c) determines the business policy of the fund,

- passes rules on asset management, asset evaluation, and servicing, e) makes decision about method of asset evaluation, selection of asset management, and the method of administration and registration related activities, and, if needed, about selecting an organisation to carry out these tasks,
- takes care of untroubled, clear operation of the fund. For the sake of this it may make realignments/rearrangements in the framework of the financial budget accepted by the general assembly and in accordance with rules in force,
- makes decision on the replenishment and the utilisation of its own operational and safety reserves/provisions in accordance with rules in force,
- passes its rules of procedure.

The board of directors exercises the rights of employment concerning the executive manager, appoints and exempts the deputy executive manager(s) and the chief accountant. The board of directors shall meet at least once in every 3 months. The executive manager participates in the meeting of the board of directors with right of debate. Meeting of the board of directors shall be called if it is ordered by the resolution of the general assembly, or it is called by the supervisory board, or 1/3 part of members of the board of directors, or the executive manager.

In the board of directors quorum holds if at least half of the members are present.

The Board of directors makes its decision - if it is not ordered otherwise by the by-law of organisation - by way of simple majority of its members' votes. In case of tie vote, the chairman's vote shall decide.

The board of directors passes resolutions by qualified majority having the consent of 2/3 part of its members about:

- the acceptance of the annual financial statement to be forwarded to the assembly,
- selection of the executive manager, asset manager and the manager of custody by way of tenders,
- delegation of its sphere of authorities.

The fund is represented by

- the chairman of the board of directors, and an employee of the fund authorised by the right of representation,
- members of the board of directors,
- 2 employees of the fund authorised by the right of representation,
- executive manager and an official of the fund authorised with the right of representation together with the former.

An employee or official of the fund shall be authorised with the right of representation by the board of directors.

The main tasks and sphere of authorities of the supervisory board - with members at least 5 but not more than 7 - elected by the assembly are as follows:

- The supervisory board is in charge of controlling and checking the business management, account keeping, and administration of the fund, and the relation between its solvency and liabilities on regular basis. The person of the auditor is suggested by the supervisory board to the assembly after evaluating the open tender announced.

- The remarks of the supervisory board are annually passed to the assembly. The supervisory board is entitled to call the board of directors to meet exclusive of turn, if necessary.
- The supervisory board is liable to examine reports to be passed to the assembly in its sphere of authority, and also has to examine the annual report/statement of the board of directors. The assembly shall not make valid decision on issues in the sphere of authority of the supervisory board without having its report. The supervisory board's report on the annual statement and financial budget shall be made available to the members together with these documents before the general meeting.

Only a person who has obtained a university or college degree can be selected as chairman of the supervisory board.

The personnel and physical conditions needed to the operation of the funds are stipulated by law. In accordance with the rule in force all the pension funds are liable to employ:

- an executive manager (deputive executive),
- a person in charge of accounting (chief accountant),
- manager in charge of investments,
- insurance mathematician (actuary),
- auditor,
- legal adviser/lawyer,
- internal supervisor.

The funds shall have adequate IT software and hardware to comply with the requirements of accountancy and registration.

The executive shall be a professional man/woman with degree in finance, economics or law, with clean criminal record, with at least 2-year professional practice in the sphere of private funds, and also shall have a special examination certifying for managing a fund. The executive is liable to execute resolutions, decisions made by the board of directors, responsible for the successful operation and ongoing management of the fund, exercises the employer's rights over the employees of the fund, excluding the rights transferred to the board of directors or the assembly by law or by the by-laws of organisation and operation.

The executive shall appeal to the supervisory board or the Hungarian Financial Supervisory Authority (Pénzügyi Szervezetek Állami Felügyelete) if the board of directors might make any decision contrary to the law.

The fund is obliged to employ an auditor. The auditor shall not be founder, member of the fund, executive of the fund, member of its board of directors or supervisory board, owner of the founder, auditor of the founder, executive official of the founder, member of the top management employed by the founder, or cannot be the asset manager, the auditor of the book-keeping organisation of the fund, or the auditor of its custody manager and their close relatives.

Organisation entitled to carry out such an activity shall also be the auditor. In such cases the above mentioned requirements shall apply to the employee of the organisation in charge of the auditing.

The assignment of the auditor shall be no longer than 5 years, which period shall not be extended. An auditor shall be assigned by maximum 5 funds at the same time.

The auditor is allowed to examine the books of the fund, to ask for information from the members of the board of directors, the supervisory board and the employees of the fund, to inspect the reserves, agreements, contracts, bank account, securities stock of the fund.

The auditor is liable to examine the statement and the financial budget passed to the assembly if they include real data, meet regulations and also obliged to make his/her opinion known. Without this the assembly shall not make a valid decision.

Should the auditor have information about likely decline in the wealth or coverage reserves of the fund, he/she is liable to inform the supervisory board and the board of directors about this fact, and he/she has to propose the meeting of the assembly of the fund and report it to the Hungarian Financial Supervisory (Pénzügyi Szervezetek Állami Felügyelete). If the meeting is not called by the board of directors within 8 days, then the auditor will be entitled to do this. If the necessary decisions are not made by the assembly of the fund, the auditor is liable to inform the Hungarian Financial Supervisory Authority as well as the court. The insurance mathematician (actuary) is either employed by the fund or works on commission basis. Clean record and professional degree are required to fulfil this position. The insurance mathematician counter-signs the financial budget, the actuary's evaluation in the annual statement, the statistical report of insurance mathematics, the calculations for the method and amount of provisions to be made, the agreement to be made with insurance companies to share risks, the validity of data regarding these things, the accuracy of calculations, and certifies that the full range of data have been used, and certifies the accuracy of the method serving as basis for calculation.

The fund shall be liable to employ a manager in charge of investments - with professional examination in securities and real estate trading even if an asset management company is employed to execute asset management related activities.

Business management of the funds is governed by strict regulations as investment and management of the assets of the pension fund are *very* important guarantee elements of the pension benefits of pillar II. The fund is allowed to obtain shares/ownership in the organisations in charge of investing and managing the assets, executing administration, registration, pension annuities and collection-related tasks of the fund.

The revenue gained in the course of business operation shall be spent exclusively to ensure the coverage of benefits, maintenance or development of benefits, to cover the expenses of business management and to make reserves. Properties/assets of the fund shall not be paid out either as a dividend or as share.

The revenue from business operation shall not be considered as operating revenue from the point of view of company tax and local corporate tax.

The fund is liable to open a bank account with a bank and to use it for monetary transactions. The fund may use its sub-accounts for monetary transactions in connection with investment activities, servicing, collecting members' fees, and its operation.

The financial planning is also subject to meeting strict regulations. In accordance with the law in force the funds shall make short term and long term financial budgets, the content of which is also defined in detail. E.g.: the financial budget shall comprise data determining revenue and expenditure of the fund, expected number of members, definition of services, expected utilisation and value, expected revenue, within this, separately the members' fees, expected yield of investments, other revenues, estimated expenditure, within this separately the services, costs of operation and investments and other expenses, regrouping/realignment of private accounts and service reserves, provisions for investments and services.

Among expenditure expenses by services, costs of services, amounts transferred to another fund, operating expenses by cost codes, financial investments, book value of assets sold, costs of invested reserves, costs of loan repayment shall be shown in detail. The financial budget shall comprise changes in reserves in accordance with the rules and regulations on business management and investment: opening value of reserves, investment of reserves, changes in asset value of reserves, closing value of reserves. Changes in reserves should include the expected difference due to the revaluation of assets.

The financial plan shall include operating revenues and expenditure and changes in operating reserves. Within coverage and liquidity reserves, coverage of services from private accounts in service reserves shall be budgeted separately as well as changes in reserves for levelling off yields and demographic reserves and other security reserves in connection with services. The annual financial budget is made in quarterly schedules. Long term budgets primarily show changes in estimated operating expenditure and service coverage. The structure of the long term budget is simpler than the annual budget, it is made in annual schedules, and presumptions for the long run are also included.

The fund sends its financial budget plan accepted by the assembly to the State Supervision of Financial Organisations within 30 days after the general meeting. The Supervision, then, supervises and may ask the fund to rework it.

The rules of the asset management applied by the funds emphasize safety and minimal risks.

In order to mitigate risks and avoid one-side dependency, the fund is obliged to divide its investments by asset groups (rules of investment portfolio).

Investments should be made in such a way to obtain investments with yields dependant on the yield of other investments in the smallest possible rate.

Asset management of the fund:

- shall be made by the fund itself,
- shall partially or entirely entrust an outsider asset management company.

Asset management can be made by the fund if the fund has regulations on asset management and asset evaluation, and makes provision for its own activity and levelling off yields.

Investment companies or investment fund managing companies having the licence of the State Money and Capital Market Supervision (Állami Pénz és Tőkepiaci Felügyelet) are allowed to be the asset manager of a fund.

The fund shall not obtain shares in business entities for more than a year in the amount of more than 10% of its subscribed capital excluding organisations managing the assets of the fund, carrying out registration, administration of services, collection, and organisations owned by the fund.

The fund shall not obtain shares in companies in bankruptcy or under liquidation or which were in bankruptcy or under liquidation within 2 years.

### **The fund**

- shall not obtain shares in business companies, in which the shares of the founders of the fund, employers of the members of the fund, and shares of

persons, organisations supporting the fund, or shares of other fund exceed 10% of the subscribed capital of the business entity, excluding companies rendering services to the fund and founded by the fund, or having shares in it,

- shall invest maximum 10% of its assets in securities issued by one issuer, excluding government papers,
- shall not invest in securities issued by one drawer in larger amount than 10% of the amount of securities, excluding government papers and invest coupons of open investment fund.

Deposits placed with a bank belonging to one group of banks- excluding current account - and securities issued by an organisation belonging to the same group of banks shall not exceed 20% of the assets of the fund.

As from 1<sup>st</sup> January 2002 securities issued by a foreigner shall not exceed 30% of the assets of the fund. The amount of foreign investments was 0% in 1999, and it could be 10% in 2000, and 20% in 2001.

Excluding business companies funded by the fund and operated besides its own shares, the fund shall hold its assets only in services as follows:

- securities traded in the exchange market or other well-known markets;
- securities issued by a fund which undertakes to put the securities into market, described in point a), within a half a year and the introduction on the market has no legal obstacles;
- securities not included the conditions of points a) and b), for which within 30 days before the purchase, at least two investment companies continuously publish an open and unreturnable price for purchase;
- securities of credit terms;
- investment coupons, venture funds, collective investment securities;
- mortgage deed;
- real estate;
- future dealings;
- options;
- fixed deposits;
- current account;
- swap transactions;
- cash (desk).

The evaluation of the fund assets at market value shall be made daily, which is shown in the books in assets as revaluation difference while in liabilities as revaluation reserves in the books. The revaluation difference shall be determined on the basis of the value of the investments less interests. The difference of evaluation at market shall be shown in book-keeping only concerning the turning day of the financial year, or the last day of the related quarter a year.

For the sake of a comprehensive view of the pension system, comparability, and information for the members of the fund and publicity, gains on investments and index numbers of cost efficiency of expenditure (performance related indexes of the fund) shall be made public. Investment performance shall be measured by a yield calculation based on market evaluation of assets.

The purpose of the asset evaluation is to give valid picture on the assets in the portfolio of the fund, or the rights on them by evaluating each of them, with the greatest possible care, by taking into consideration the value judgement of the market.

The reports on market based asset evaluation and performance measurement need to be made quarterly, while the actuary's evaluation and the statistical report of the insurance mathematician are made annually.

### **Guarantee Fund**

One of the most important guarantees for the funds and their members is the Guarantee Fund of the private pension funds (hereinafter: the Fund). All the private funds are members of the Fund in accordance with the law in force, and they shall pay at least 0.4% of their members' fees as a guarantee fee to the Fund in every quarter. The Fund is a legal entity and directed by a 7-member board of directors. Hungarian Financial Supervisory Authority supervises and controls the operation of the Fund.

The main task of the Fund is to render financial help to funds suffering from temporary financial difficulties enabling them to meet their liabilities to the members in time.

Another important task of the Fund is to complete and round off the service reserves of the funds if, after using the demographic and the yield levelling-off liquidity reserves, the actuary reports the level of the service reserves to be still less than the total amount of pensions, allowances payable to the members during the payment period.

The private funds are liable to pay back the sum received from the Fund. At the same time the Fund is liable to initiate examination of the fund by the State Supervision of Financial Organisations and to define the personal responsibility.

One of the important tasks of the Fund is to analyse investing activities of the private pension funds in terms of yields and coverage of the pension services, and to make suggestions in case of problems to the State Supervision of Financial Organisations.



## **State Supervision**

The private pension system operates under the strict supervision of the government and within the framework of strictly detailed regulations. The State Supervision of Financial Organisation:

- controls whether or not the funds comply with regulations,
- assesses application for operation of the funds,
- may assign a trustee of supervision to the funds where substantial problems are noticed, may order to make arrangement plan, may initiate impeachment, may prohibit admission of new members, may suspend the operation of the fund, may initiate liquidation at court, impose a fine on the board of directors, members of the supervisory board or the fund itself
- operates the supervisory and information systems of the funds.

Together with further measures of supervisory and arrangement licences the state supervision offers guarantee to avoid wrong-treatment of members' inpayments by the funds. The unconditional payment guarantee of the central budget for the liabilities of the Guarantee Fund ensures the members of the funds that their claims, pensions, allowances will be paid by all means.

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