Eurofound

Impact of the recession on age management policies: Hungary

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Labour market developments and the ageing workforce

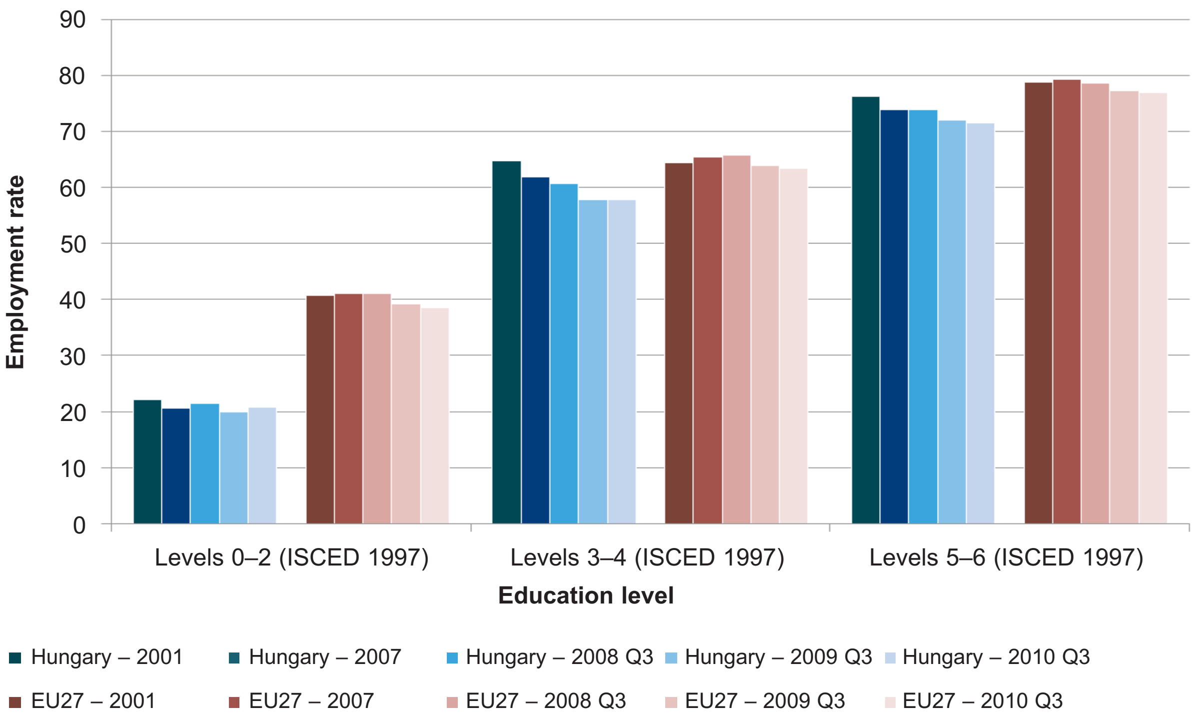
Employment rates

Prior to the transition to democracy in 1989, labour force participation and employment rates were high in Hungary. During the transition, employment fell from above 71% in 1990 to below 55% by 1993; this decline continued until 1997. The overall decline in economic activity had a strong impact on low-skilled workers, women, elderly people and the Roma community. Those closer to retirement age constituted most of the long-term unemployed. Activity and employment rates never recovered to pre-transition levels (standing at 62.4% and 55.4% respectively in 2009) and were the lowest among post-socialist EU Member States. The unemployment rate is low (10.1% in 2009), but hides high levels of inactivity in the working age population (OECD, 2010).

Impact of education on employment

Over time, employment rates have declined slightly across education groups compared to the EU average (see Figure 1). However, those with lower levels of education appear to have particularly low levels of employment in Hungary. The employment rate for individuals with lower secondary-level education or below sits well below the EU average. The education level of older workers improved substantially during the early 2000s, which can be largely attributed to the ageing of individuals who had benefited from a campaign in the 1960s to encourage enrolment in secondary education. For older women, this resulted in a sharp rise in the proportion with completed secondary education, from 25% to more than 50%. However, this is a one-time shift and a similar improvement of this degree is unlikely within the next 10 to 25 years (Scharle, 2008).

Figure 1: *Employment in Hungary and EU27 by education level, 2001–2010 (%)*

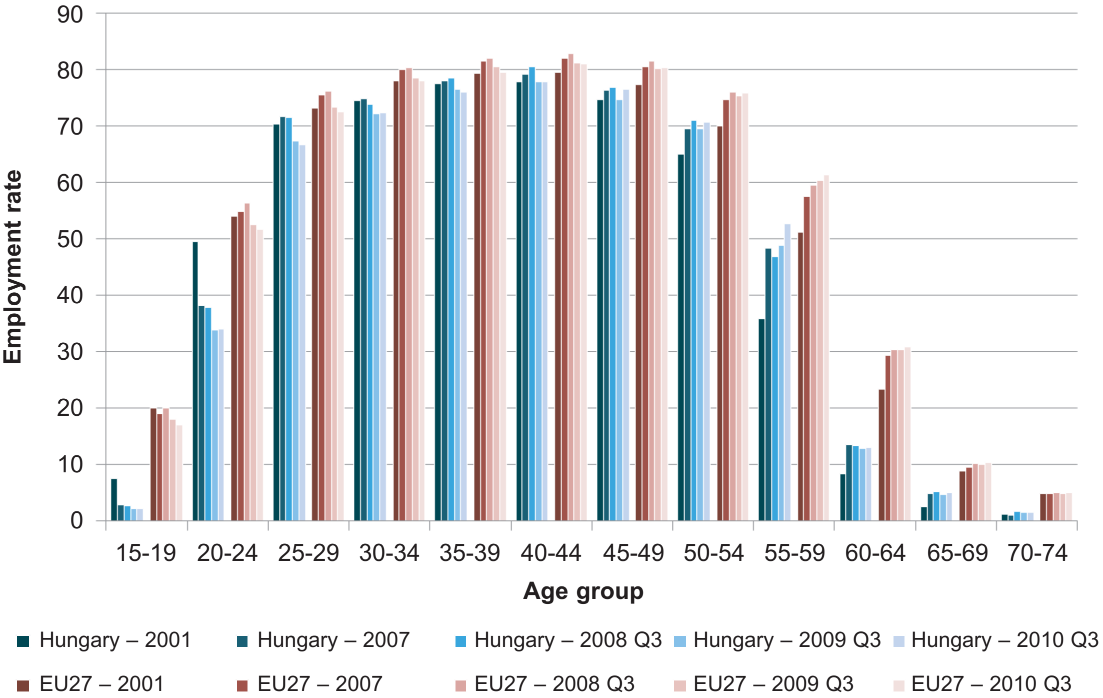


Note: Educational levels are as defined by UNESCO's International Standard Classification of Education (ISCED 1997).
Source: *Eurostat*

Employment by age

The employment rate of older workers is very low compared to other EU27 countries and to the average employment rate of the Hungarian adult population (Figure 2). In 2009, the employment rate of the 55 to 64 age group was 30.8% (32.9% in 2010) in Hungary compared to 45.4% for the same age group in the EU27.

Figure 2: *Employment in Hungary and EU27 by age group, annual data for 2000–2008, quarterly data for 2008–2010 (%)*



Source: *Eurostat*

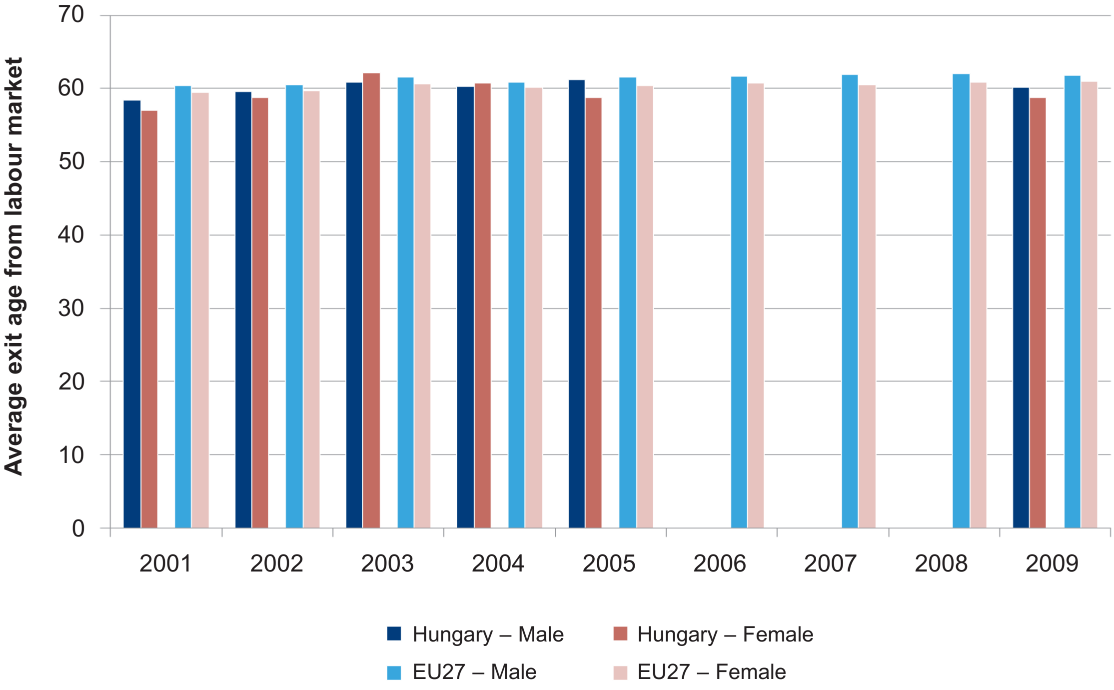
Exit from the labour market

The proportion of the population aged 64 and above is projected to grow from 17% in 2010 to 29% by 2050 (Eurostat data, 2011). However, it seems more relevant to consider 'economic dependency' (the proportion of those not working compared to those who are economically active).[1] Augusztinovics (2005) estimates that the demographic dependency ratio will grow from 0.63 to 0.9 from 2002 to 2050. But if adjusting for economic inactivity in the prime age population using the economic dependency ratio as defined above, the ratio may reach 2.8 (from 1.64 in 2002) in the worst case scenario for 2050.

On a whole, Hungarian workers, both men and women, leave the labour market at a younger age than the EU27 average. Whereas in other countries the average age of labour market exit slightly increased, in Hungary the average exit age for both men and women decreased slightly from 2003 to 2009 (Figure 3).

[1] (Y + O + I)/E, where Y = below 19, O = above 62 and I = non-employed working age (19 to 62) population, E = employed population.

Figure 3: *Average exit age from the labour market in Hungary and EU27 by gender, 2001–2009*



Source: *Eurostat*

Role of the pension system

Until 1997, Hungary had a mandatory pay-as-you-go pension system. In 1997, it began to gradually introduce a three-pillar (public, private and voluntary) defined contribution system. At this time, workers above age 35 could choose to remain in the fully public scheme while new entrants were required to join the new mixed public-private pension scheme, in which they were members of both a private pension fund and the public pension fund. In the new mixed public-private scheme (obligatory for new entrants), employees paid three-quarters of compulsory contributions to the private fund and one-quarter to the public fund, while the employer's contribution went to the public fund. The system to manage pay-offs from the private fund (which would be an addition on the public pension) was not formally described by law. As such, choices about whether to remain in the public fund or join the mixed scheme depended on trust in the efficiency and fairness of public administration. By 2006, the new mixed scheme covered 60% of the labour force (OECD, 2008).[2] In 2010, the contribution rate to the mixed pension system was 33.5% of the employee's taxable income, of which the employer paid 24% and the employee paid 9.5%. All employer contributions went to the state pension scheme, while 1.5% of employees' contributions went to the state scheme and 8% to their individual account.

[2] Older workers have been allowed to switch back from the mixed public private system to the purely public pension system at various times since the reform, but few have done so. In 2011, however, in an effort to reduce public debt, the mixed system was rolled back and essentially renationalised. The three million members of private pension funds were told they would still be required to pay the employers' contribution to the state but would lose their claim to a public pension. Though the opposition declared they would undo this rule, few people decided to stay in the mixed scheme by the deadline of 31 January (non-response automatically meant moving to the fully public scheme, while those who decided to stay had to make their declaration in person).

Voluntary contributions to the private fund/account are limited to a ceiling of 2%, which can be shared by the employer and employee. Individual accounts were defined contribution and benefits are paid as annuities. There is a very strong link between earnings, contributions and pension entitlements in this system and only about 2% of individuals of pension age receive the minimum pension. Replacement rates appear to be similar across careers and income levels, suggesting low levels of redistribution from higher- to lower-income workers (as could be the case if replacement rates were higher for lower-income workers) (OECD, 2008).

Options for retirement

Early retirement is a key issue for age management in Hungary. The pension system and early retirement options provide an incentive for many workers to leave the labour market at a relatively low age compared to the other countries in the European Union.

In terms of pension arrangements, individuals are required to have 20 years of service in order to receive a full pension at the normal statutory retirement age (age 62 for both sexes in 2009). However, individuals can retire at the age of 59 without any reduction in the pension amount if the claimant has 40 years of service. As such, the average age of retirement on an old age pension was 60 years in 2009, which is below the statutory retirement age. When also considering those receiving disability pension, the effective median retirement age drops even further, to 56.4 years for men and 54.1 years for women in 2009 (Fazekas and Molnár, 2011). The length of time for receiving disability pensions is indefinite. Eligibility requirements include an assessment by the National Agency of Rehabilitation and Social Expertise and a mandate of at least 50% loss of ability. As of 2010, 452,000 individuals below retirement age and 35,000 above were estimated to be receiving disability pensions (OECD, 2008).

Furthermore, according to calculations by the Organisation for Economic Co-operation and Development (OECD), Hungary pays relatively high pensions to people who retire at age 60. Pension wealth actually falls for those remaining in work after age 60, so Hungary's public pension system embodies the strongest incentive to retire early among OECD countries (OECD, 2008).[3]

Work after retirement is not prohibited. The ruling of the Constitutional Court in 1996 allowed persons receiving a pension and in employment to continue receiving their full pension, with no tax imposed on the pension. Rules were tightened in 2007, most importantly by the inclusion of the pension in the tax base (which increases the tax rate on wage income).

Types of pension schemes

Pension schemes began to be used in Hungary as a tool to reduce open unemployment in the mid-1980s, when the moderate reforms of the planned economy threatened to increase open unemployment. This practice expanded with the new democratic government in 1990, fearing that the transitional recession would lead to unmanageable levels of unemployment as well as public dissatisfaction and social unrest (Vanhuysse, 2004; Duman and Scharle, 2011). To encourage early retirement and thereby reduce unemployment levels, four main early pension programmes were put in place. In order of importance, these included a disability pension, a disability benefit, an early retirement benefit and a

[3] This is in comparison to other OECD countries. The mean level of pension wealth achieved by age 60 is 11.78 times individual lifetime average annual earnings for the high group of countries (including HU), compared to 7.98 for the middle and 5.40 for the low group. The mean change in pension wealth for working from age 60 to 64 is –34.7% of annual earnings for the low group (including HU), +0.2% for the middle group and +10.7% for the high group (OECD, 2008, p. 97).

pre-pension (a benefit aimed at ensuring an equitable pension arrangement for those made redundant three years before the statutory pension age). In 1990, these four schemes accounted for 51% of all entries into pensions, while the share of old age pensions was 40%. By 1992, the share of early pension schemes increased to 65% and that of old age pensions dropped to 26%. From 1997, the proportion of those retiring through these four schemes slightly declined, especially when the pre-pension was abolished. The retirement rate through these schemes eventually dropped to pre-transition levels by 2005 (Duman and Scharle, 2011).

Receipt and expenditure of various early pension schemes in 2009

Annual average 2009	Number of individuals (thousands)	Annual expenditure (HUF/€, billion)
Old age pension taken before statutory retirement age (40 years of service)	232	277.0 (€1)
Early old age pension for special occupations under national insurance	62	108.6 (€0.4)
Early old age pension for special occupations under company insurance	12	22.6 (€0.08)
Type 3 disability pension below retirement age	333	258.2 (€0.96)
Types 1–2 disability pension below retirement age	69	56.0 (€0.2)
Rehabilitation benefit	7	7.0 (€0.03)
Other incapacity benefits	230	83.3 (€0.31)
All pension type benefits (including pensions above retirement age)	2,989	2,991 (€11.2)

Source: *National Pension Insurance Statistical Yearbook, 2010* (**http://www.onyf.hu**)

Excluding disability benefits, the level of the other three early pension schemes is calculated according to the general rules for old age pensions, making them much more generous than unemployment transfers. Early retirees also had an advantage over others in their age cohort as their years until retirement age were ignored in the calculation of their pension amount. This advantage was partially eliminated in 1998, when the pre-pension scheme was replaced by a less generous flat-rate pre-retirement unemployment benefit (phased out in 2005).

Outside of pension and early retirement schemes, those who are unable to work but are ineligible for a disability pension (due to lack of sufficient service years) may claim other types of benefit (see the last row in above table). These benefits are less generous and have recently been made conditional on annual health checks. The benefit amount depends on the degree of remaining work capacity; those with less than 50% of lost capacity are required to cooperate with the job centre. Some job centres provide rehabilitation services, but their capacities to deal with claimants are insufficient: in the late 2000s they could provide personalised services to less than 10% of the annual inflow into incapacity benefits (Scharle, 2011).

Direction of policy development (2000–2008)

The situation for older workers has been strongly influenced by wider policy developments and their impacts since the transition in the early 1990s. While the institutional foundations of competition in the goods market (such as price liberalisation, protection of private property or a public agency to monitor free competition) were laid with much care during the early 1990s, the potential role of labour market institutions, social policy and active labour market programmes in enhancing growth were overlooked. This only began to change in the late 1990s, when politicians began to notice that employment had grown at a much slower pace than gross domestic product (GDP).

However, labour market measures, including those directed at older workers, are difficult to change. There is a consensus among labour economists that the policy mix dominated by passive (rather than active) labour market measures has proven to be challenging to reverse and has become a hindrance to growth. Welfare payments, in combination with the wider system of redistribution, contribute greatly to the persistence of low employment and a high burden of taxes and contributions. High tax rates curb economic performance and thus impede economic growth. Long-term unemployment or inactivity among the working age population (for example, relatively low employment among older workers) in turn could contribute to long-term poverty and social exclusion.

Reducing economic inactivity

Improving economic activity rates has been on the agenda of the public employment service (PES) since the late 1990s, and in particular since Hungary joined the European Union in 2004. However, it has taken a long time to be implemented. Until 2008, job search and cooperation with the PES was expected only of the registered unemployed when this rule was extended to working age incapacity benefit recipients. Even now, though the majority of the non-employed working age population receive some benefit, only 13%–16% are registered with the PES (Duman and Scharle, 2011).

We will discuss in more detail below what this policy environment means for older workers. In principle, these wider economic pressures and overall challenges in reducing economic inactivity in the workforce limit the direct support available for older workers.

Age discrimination

There has been some evidence of age discrimination against older workers in hiring policy/practice, despite anti-discrimination legislation. According to a 2009 Eurobarometer survey, 71% of Hungarian respondents saw less chance for persons over 50 finding employment. According to a 2010 survey of the working age population, age is the most frequent source of discrimination, with 8% of the sample mentioning such an experience in the preceding year (Sík and Simonovits, 2011). The most affected cohorts are aged 18 to 30 (11%) and 50+ (7%), with more educated workers more likely to experience age discrimination. Additional studies similarly have found older workers discriminated against in practice. An analysis of 3,000 job advertisements found that 8% specified the age and the overwhelming majority of employers sought young persons below 40 years of age (Széman, 2009). Another survey found that 17% of job advertisements in its sample contained an unlawful discriminative reference to age in 2009 (Bihary and Simonovits, 2009). In an empirical survey, one-tenth of firms' managers negatively evaluated their experience of working with those over age 45 (GKI, 2003). Finally, although less thoroughly documented, there seems to be a lack of preventive human resources policies in firms towards workers over age 50 (Széman and Kucsera, 2007; and interview with ageing expert).

Workforce ageing

Public discourse on workforce ageing has not been especially detailed or operationally focused, partly because ageing itself is not yet seen as a salient issue in Hungary and partly because policymakers are more concerned with the pressing problem of low employment (for example, among those with lower education levels or among the Roma). If workforce ageing is mentioned, general strategies are cited: increase the employment rate of the working age population; prevent early retirement; prevent age discrimination. However, these general strategies have often been void of policy detail. The issue received some attention when experts warned that the baby boom generation is approaching retirement while the incoming cohorts are smaller (both in absolute numbers and also because they stay longer in education), which would put additional pressure on the pension fund.

Social partners enter debates about workforce ageing mainly through the Committee for Ageing (*Idősügyi Tanács*), established in 1996. Its members are appointed by the prime minister, who typically nominates the heads of the main interest groups representing older workers and pensioners as well as a few experts. The committee has only consultative roles and its voice has been largely dependent on the informal network of its individual members so far.

Encouraging increased participation of older workers

Efforts to curb pension expenditure and increase economic activity among older workers were hesitant and weak until 2008. In 2004, a bonus for postponing retirement was increased. However, in the same year a gradual retirement option (*Prémium Évek*) was introduced for civil servants. This option was meant to offer part-time employment before retirement as an alternative to early retirement or dismissal, but in practice it could be (mis)used as an early retirement scheme. Minor changes to the pension system were enacted in 2006 to 2007 to restrict the possibility of combining work with an early retirement pension[4] and increase the annual penalty deductions for early retirement.[5] In addition, to encourage economic activity among older workers, as of 2005, accredited training institutions could receive a subsidy for vocational training of adults over 50 years (up to 100% if the employer agreed to retain their jobs). Finally, to assist the long-term unemployed (many of whom are uneducated older workers) receiving means-tested social assistance in returning to work, mandatory registration with the PES was introduced in 2007 along with a wage subsidy for employers hiring uneducated older workers (Reszkető et al, 2008).

From 2008 to 2010, as employment gradually rose to the top of the political agenda, retirement policies also received increasing attention. The latter was probably also fuelled by the looming imbalance expected with the baby boom cohorts reaching retirement age. The Hungarian employment strategy for 2008 to 2010 specified six main goals, the first of which was activation, especially of older workers. A measurable target was set for the employment rate of older workers (at 33.3% in 2008 and 34.8% by 2010), which implied a faster than average rise.[6]

Changes to pensions

Pension formulas were tightened in January 2008. Pension amounts were to be calculated based on net rather than gross earnings, complete valorisation, the offer of extra premia for retirement over the age of 62 and modifications to the regulations on large pensions. The first of these reforms encouraged many to retire at the end of 2007. Although the formula calculating the pension following early retirement remained flawed in actuarial terms, the revisions in combination with the raised retirement age created a fairer pension system (Cseres-Gergely and Scharle, 2010).

The government's new, bolder approach was also reflected in the new scheme for civil servants (*Új Pálya*), which, rather than offering a disguised early pension, provided vocational training and career advice to those made redundant to encourage their return to work. One measure, however, signalled a return to old ways. In a reform of the means-tested unemployment allowance, recipients were divided into two groups: those considered able to work and those too frail to do so. Long-term unemployed aged over 55 were automatically put in the 'frail' category, whose benefit amount remained unchanged and the work test was removed. For the former group, the benefit amount was considerably reduced (Scharle, 2008). Also, the phasing out of the Premium Years scheme[7] was postponed by two years until 2010.

Through the more recent changes from 2008 to 2010, social partners have been involved mostly via the Committee for Ageing as well as in preparing some of the decisions to some extent. One of the leading advocacy associations was invited in early 2008 to prepare a background study for the National Ageing Strategy, but it is unclear how much this was used in later government plans (interview with union representative).

[4] A ruling of the Constitutional Court in 1996 had allowed pensioners in employment to continue receiving their full pension.

[5] For example, for retirement at age 60 rather than 62, the reduction in pension benefits would rise from 2.4% to 4.2% per year for those having 37 service years. There is no reduction over 37 years of service.

[6] The target for 2010 was missed by 0.3 percentage points.

[7] A scheme originally limited to public administration jobs and designed to facilitate the gradual retirement of older civil servants in a context of the modernisation of an oversized public sector, subsequently extended to the private sector in the mid-2000s.

Monitoring and evaluating government policy

The monitoring and evaluation of government policy is underdeveloped in Hungary; this applies to ageing policies as well. To date, the only impact evaluation commissioned by the government concerned the wage subsidy for uneducated older workers (which was financed from EU funds), but results are not available yet (interview with government expert). An expert committee was set up in 2007 by the prime minister, with a rather vague mandate to examine options for pension reform. Some recommendations were made based on simulations of the long-term sustainability of the pension system (NYIKA, 2009). Lastly, during its brief existence between late 2008 and the end of 2010, the independent fiscal policy council (established to foster fiscal transparency, discipline and sustainability) examined the prospective increase in government spending on ageing-related areas and evaluated workforce ageing policies (mostly changes in the pension system) based on their effects on the medium-term impact on government accounts.

Crisis effects on recent policy initiatives

Sectors and areas affected

The sectors most affected by the financial market turmoil were the automotive industry and the various services and retail businesses selling high-value goods. In Hungary, these sectors were hit by the crisis in a number of ways. Local consumption decreased due to the constrained credit market and due to the fall in incomes, and as the European (especially the German) market was also in crisis for similar reasons, the demand for exports plummeted (MNB, 2009a, 2009b). In addition to manufacturing, where employment fell 12.2%, three sectors stand out as most affected: water, energy and transport; personal services, finance and insurance; and agriculture. In these sectors, employment fell by 5% to 9%.

Due to the geographical distribution and the specialised labour demand of the industries affected by the crisis, the first wave of the shock was concentrated in the western part of Hungary and among skilled workers. The drop in employment was markedly steeper among skilled workers in the northwest and west border regions (Cseres-Gergely and Scharle, 2010).

Fall in employment and real wages

In 2009, the average annual stock of employed persons fell by about 100,000 compared to 2008. In relative terms, the number of employees was cut by 3.6% or 3.7%, depending on how employee status is defined, while employment decreased by 2.5%. Employment measured in hours fell by a slightly higher rate because the average monthly working hours of employees diminished by a little more than 1%, as will be discussed later in more detail (Köllő, 2011). The unemployment rate for men jumped from 7.8% in the period July to December 2008 to 10.0% in the period January to June 2009, while the respective figures were 8.1% and 9.4% for women, respectively. The increase affected all ages more or less evenly, except for women below the age of 20 and above the age of 55, where the rise was somewhat higher than average (Fazekas and Molnár, 2011). The growth of unemployment was accompanied by a decline of the real wage. In 2009, gross monthly earnings fell by 4.5% and the net real wage decreased by 2.3% in real terms.

The most comprehensive international comparative survey of reactions to the crisis so far cites Hungary as being among the few countries where a substantial fall of GDP was associated with a moderate fall of employment (Verick and Islam, 2010). Even though employment fell moderately compared to the decrease of GDP, Hungary ranks among the big losers of the crisis in terms of absolute change of employment, with the vast majority of OECD countries performing better.

Policies aimed at increasing employment

In Hungary, the global crisis was preceded by slowing growth and much discussion about policy remedies, in which the reform of the welfare system and the need to increase labour supply featured highly. In this context, it was hardly a question that early retirement could not be used as a remedy for growing unemployment. Instead, policies were primarily aimed at keeping employment as high as possible. Actions included a two-digit, all-embracing real wage cut in the public sector, the preservation of the pre-crisis levels of employment in state-owned enterprises, the provision of job retention subsidies and the creation of public works opportunities. Apart from financing the benefits of a growing number of people made redundant, the government cut all other programmes aimed at assisting those who actually became unemployed. In active labour market policies (ALMP), resources were directed from the existing schemes to the provision of job retention subsidies and extension of the public works schemes. These programmes involved an additional 110,000 workers while all other programmes were cut. Staff of the PES was curtailed by 5% (Cseres-Gergely and Scharle, 2010).

Impact of political developments arising from the crisis

The crisis also coincided with political developments leading to the prime minister stepping down in early 2009. In May 2009, the new government announced the abolition of the 13th-month pension, a gradual increase of the retirement age from 62 to 65 years between 2012 and 2017, as well as and an increase of the minimum service period required for full pension early retirement to 40 years. The government resisted pressure from the trade unions to revive the generous early pension schemes and only made the small gesture of postponing the abolition of the early pension benefit (korengedményes nyugdíj) by one year, which allowed retirement five years before the normal retirement age, with costs borne by the employer.

Public employment service

The Hungarian policy mix for tackling the crisis seems rather unique by international comparison (Köllő, 2011). A survey by the ILO (2009) suggested that about a quarter of the countries created public employment opportunities and/or used working time reductions, 54% provided additional cash transfers, a third extended unemployment benefit, a third introduced additional social assistance and protection measures and 55% increased their support to low-income households. In contrast to Hungary, where the capacity of the PES was further cut during the crisis, most countries increased their PES staff and/or extended opening hours. The strong emphasis on public works as a remedy to the unemployment problem is also distinctive, at least within the EU27, where only Ireland expanded public works schemes on a large scale (ILO, 2009).

Growth in unemployment

While the government's efforts at minimising the loss of employment saved around 60,000 jobs, registered unemployment grew from 424,000 in September 2008 to 659,000 at its peak in February 2010. In the same period, employment declined by 205,000. It seems that the majority of those at risk of job loss did lose their jobs and had poor prospects of finding new ones because of a decrease in hiring. Many of these people were left without social assistance.

Summary

The conservative opposition came into power following general elections in 2010. Their draft plans, first published in late 2010, included a strong commitment to increasing employment, but so far with very little detail on how they envisage reaching their goal of creating one million jobs. In terms of actual measures, they have so far concentrated on tax cuts for more educated workers. Though a minor concession to older women was decided on, no further plans have been announced to ease early pension regulations. The government has high hopes of raising employment by tightening access to the disability pension and other incapacity benefits.

Consultations with social partners have become less frequent, and the Committee for Ageing, though it has not been formally dismantled, has ceased to operate, as no delegates have been appointed by the new government (interview with interest group representative).

List of interviewees

Éva Orsós, head of Életet az éveknek, one of the largest interest groups representing older workers, secretary to the Committee for Ageing until 2009

Lilla Garzó, former secretary of state (between 2003 and 2007), Ministry of Labour, senior adviser to Péter Kis, minister without portfolio for the coordination of social policy (2009–2010)

Zsuzsa Széman, researcher, expert on ageing policies, Institute of Sociology, Hungarian Academy of Sciences

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