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THE FINANCES OF THE HUNGARIAN PENSION SYSTEM

Thesis of the PhD Dissertation

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The dissertation, as a part of TÁMOP-4.2.2/B-10/1-2010-0008 marked project, with the support of the European Union, with the partner financing of the European Social Fund was implemented.

I. Summary of the research tasks and objectives of the research

The object of the research is the examination of the Hungarian Pension System's financial affairs from perspective of financial law. The reason for the choice of topic is that the examination of the pension system's fiscal sustainability is timely. In the aging society - from the perspective of the budget - is a serious challenge, because there are less contribution payers, while the number of the inactives is rising.

So in my dissertation I use mostly a financial prospect and I am focusing how the pension system worked in the last century, how the historical events and the policy formed it.

For most people alive today the pension means a benefit, which we are receiving when we are older or sick. During my examination I stated, that initially this was not natural, and we are moving forward into that it will not be natural.

In my thesis I present the development tendency of the pension scheme's financial affairs. With regarding the development of the scheme it can be stated that firstly some profession's representatives decided that a benefit was needed for those counterparts, whom were sick or old. At this point I examined how the financing of the pension system was realized, i.e. what benefits was introduced and how they provided its funds.

Generally it can be stated, that the pension system gradually involves more and more people, but we can not talk about a pension insurance, which involved the whole society in the first half of the twentieth century. However a very serious institutional system was developed, which held in their hands the overall financial management. The most important of them all is the National Social Insurance Institute, i.e. the NSII (OTI), which I analyzed in details.

After the changes of the Second World War, I examined from act to act how the financial transformation was realized, which also meant the transformation of the financial fund system, specifically from the future entitlements funded system to the PAYG system. The most important features of the two systems will be examined of course.

During my research I analyzed the historical acts and the related commentaries, which means the success of the political system, because gradually the pension system involved more and more sector of the society.

After the WW II a big change in the financial affairs was introduced, because the financing of the social insurance - within that the pension system - was financed in the central budget. I also made research from an institutional prospect, namely the Social Insurance Centre of Trade Union, i.e. SICTU (SZTK).

With the social insurance code from 1975 the financial concept was that the finances of social insurance were needed to be regulated in one act. With the commentaries from that era helped me to get a complex point of view about the system's financial affairs.

During my research I did not only examine the legal background, but the social and economic environment, because a theme like this needs a complex examination. It was particularly important in the '80s, when the increasingly emerging crisis affected seriously the financial affairs of the pension system. It is interesting that the nearly to full employment produced the sufficient funds from the prospect of the contributions, but the significant source of the full employment was provided by the loans taken, which were worsened the balance of the budget. A significant change in the budget was made in January 1989, when the social insurance was separated from the budget and the Social Security Fund was created by the Parliament.

I intended to present the financial changes after the change in regime until the pension system's reform in 1997. I examined the transformation in the society and in the economy, especially the unemployment and the demographical questions, and how the aging can affect the pension system.

I also realized the examination of the different kinds of concepts and the system created before 1997. After this era the next chapter of the transformations was especially close to me, because as an undergraduate I wrote a SSC (TDK) thesis on the reform measures in the late '90s and the early 2000s, and I also dealt with this topic as a PhD student.

However I mainly examined the Hungarian Pension System, but I also have made an outlook into the EU.

In my dissertation I progressively synthesized the materials read, and after the complete recognition of the financial law prospects I tried to make a complex picture of the theme.

II. Methods and sources of the research

I used different kinds of methods during the making of the dissertation and the research.

The main methods are legal historical and interdisciplinary. In order to examine different areas, it was important to use economics, statistical and demographic results, not only financial law, or social security law, within that pension insurance.

The approach of legal history is very important, because the pension scheme in force relies to those results, which were reached during the development of the scheme. Naturally I found some elements, which were important and novelty in their era, but they can be parts of

the present system. The first chapter of the dissertation deals with the examination of the regulation of the first half of the twentieth century. I deal with the forms of aid deliveries for industrial workers, and the beginnings of sickness and accident insurances. I examine the act on compulsory insurance for hoariness, disability, widowhood, orphan hood; those provisions, which deal with financial issues. I also discuss institutional questions, with this representing the control's thoroughness. Fortunately the original legislation is accessible, and the volumes, which deal with special areas (as lawyers' pension or employees' private insurance) is also accessible in our central library.

In Chapter II I examined the social and political changes after WW II, because these changes determined the pension system. The commentaries and the legislation from that era were also accessible for me. Besides the uniformed pension acts I paid a particular attention to the social insurance code of 1975, especially to those parts, which deal with financial affairs. The judicial practice has been more significant since the appearance of the legal disputes on pension affairs. So I also examined the resolutions of the Hungarian People's Republic's Supreme Court's Labour College.

I tried to interpret the '80s social and economic transformation of Hungary with sociological material sources, and also tried to make conclusions. I analyzed also in this chapter the way to the pension reform and the suggestions and experts' opinion related to the reform. In this framework I touched upon the retirement rates, the pension formula, the interaction between the salaries and the pensions, the retirement age and the affordability.

Chapter III deals with the determinants of the pension system's financial affairs after the reform. Between these determinants the most significant is how the aging determines the pension system. Besides the Hungarian situation I did an outlook to Europe. Aging is whole Europe's problem. This means a serious challenge for the entire World, because of the decrease of the number of the contribution payers, and the increased number of the pensioners. I also try to create the best solutions for this demographical problem.

The political impact is a non-negligible issue too. I analyzed the pension adjustment measures' affects on the budget, even the fiscal issues of the introduction and derecognition of the thirteenth month pension. Beside this last measure other aspects than fiscal also arise, like equity and justice. The aim of this pension adjustments measures was that a previous injustice be partially remedied, because those, whom really worked a lot, but retired at a wrong time could get a higher supply. The biggest problem of the thirteenth month pension was that the whole fund of contribution was missing. In my opinion with the abolition of this pension, a basic pension should have been given out to the lowest pensioners.

The end of the chapter deals with the recent changes affecting the pension system. These changes have been reported a shift towards austerity. The restriction of the earning activities besides the pension was a very important step to my opinion. However the transformation of the disability pension scheme caused serious injustices, which is needed to be remedied urgently within the pension system, because in many European countries this problem is solved within the pension system.

When we are speaking about the pension system different questions arise, not only social issues, rather economic, actuarial, because of this I have become a permanent reader of the Economic Review. Knowing the supply side is not sufficient, it is important to know the institutions, because they give the background of the supply system. So I also examined the operation of the Pension Insurance Directorate and the Pension Payments Directorate. The transformation of the private pension system and its effects on the public finances are examined here, which also gives the transition to the next chapter.

This chapter deals with the pension system's place in the public finances. Relation to the budget I paid a special attention to the Social Security Funds' place in public finance management. Here I dealt with the changes of financial affairs of the Pension Insurance Fund, the transformation of the contribution system and also the introduction of the social contribution tax. This provided a good basis to distinguish dogmatically taxes and contributions. I could really rely on the knowledge of the Financial Law I. course, which is thought by also me.

In summary I mostly relied on sources from the different eras, laws, commentaries, works of jurists, economists and sociologists, but I used my own experiences, when I presented the problems and also when I tried to solve them in my dissertation.

III. Summary of the scientific results and the possibility of their use

It is necessary to be stated, that the pension system has a hundred year history. It is a very special area, which is determined by the social security law, the financial law, economics, demography and sociology, and also affected by private law.

After the outlined main stepping stones of the research what kinds of findings can be stated and basically what proposals can be arisen?

The aim of the transformation was that the system became simpler and more transparent. The target of the government was that the Pension Insurance Fund finances only those cares and benefits, which were insurance-based.

The principle of insurance suggesting that contribution paid are behind, i.e. the insured and the employing pay the given amount to the budget for getting certain benefits, in specified methods.

Before 2011 the citizens received pension type benefits from the Pension Insurance Fund. Upon the governments last year's decision the social type expenditures were separated from the Fund in order to achieve the sustainable balance in the field of pension expenditures.

However this would require the contributions to reflect that they are only the funds of the pension insurances. The calculation should show this, due to its long term balance.

So the government's target can be fully supported alongside the separation of the financial matters of the pension and insurance-based benefits. Unfortunately this aim is not fully realized, however other expenses beyond the pension were separated from the Pension Insurance Fund, but these are financed by the budget, just from another "pocket", so it is registered another place in the budget.

Therefore these benefits and its financing are needed. It is realized though, but a bit complicated way. For instance the social expenses of disability benefits transferred into the *Health Insurance Fund* from the *Pension Insurance Fund*. The situation is very interesting, because until now this Fund has collected the health related expenditures. However the under-age benefits are transferred into the *National Family and Social Fund*, which is managed by the EMMI (Department of Human Resources), from the *Pension Insurance Fund*.

In terms of the contributions no changes has happened with these harmonized measures. Considering the financial law's prospects, it could be a solution if the budget financed the new expenditures in different forms and titles, and financed from different proportions of the tax collected.

Removing the early benefits from the pension system is done, which means that the Pension Insurance Fund is exempted from several hundred billion forints of expenditures in a longer term, but it can not be forgotten, that people are behind the numbers. Ergo those should be considered, who are unable to work because of their age or sickness, i.e. their benefits are needed to be provided. The forms of early retirement are applied to them, which was financed by the Pension Insurance Fund. So this social problem and its financial measures have to be settled.

The technical restructuring of the benefits' financing are taking place now in the budget. The Pension Insurance Fund's financing consisted from the contributions paid and financial aids until the end of 2011. It has changed since 2012. The aims of the measure are

the profile cleaning, increase the transparency and the elimination of the duplication of benefits, but all these have not been fully achieved.

Let's see firstly the disability benefits

The disability retirement benefits are financed by the Pension Insurance Fund until the end of 2011. The truth is that the government then decided to collect the pension related expenditures into this Fund, which entailed the regrouping of the contributions paid. The explanation was that the budget had made up the Fund's money, so these types of money would be in one place. Ergo this step can be interpreted as profile cleaning, like the current one. From 2012 the retirement pension, the disability benefits and the accidental disability supply are financed by the Pension Insurance Fund, and the under-age benefits are financed by the Health Insurance Fund.

The social contributions are eliminated from 1 January 2012, and instead the social contribution tax is introduced. Its rate is 27% also. It means a greater, broader-based burden for the payers. The insured's obligation to pay has also increased: from 6% to 7%. The raise increased the rate of the individual health insurance contributions paid in cash.

So it can be stated that the government finances the social aids - which are transferred into the health budget in broad sense - from the contributions increased. This 1 percentage point increase meant 73 – 75 billion additional revenue for the Health Insurance Fund. The “health impairment benefits” are also financed by the Fund with 57990, 0 million forints according to the Act CLXXXVIII of 2011 on the central budget of Hungary. If we take a look at the *retirement pension* it has to be stated that some benefits transferred from the Pension Insurance Fund, which has been uniformed until now, to the National Family and Social Fund, which is analyzed by the dissertation. This Fund can be found in the Chapter of the Department of Human Resources in the central budget. With this a new pocket of the budget is formed, in which the above mentioned benefits can be found. Its source is financed by the Pension Insurance Fund. It is undisputable that those items are decreased which has to be booked from the central budget to the Fund's budget, which is needed for the Fund to have a break even point. It has to be highlighted that we can not find any savings here.

If we say that those benefits, which are regrouped into the National Family and Social Fund are not pensions we are wrong, because it is inconsistent by the fact, that these benefits are established under the regulation of the Act on social security retirement benefits. Basically the source is the same if we say it financially, because a part of the Fund is renamed, which was then uniformed. Transparency would be better served if the government's intention to

change appeared in changes of contributions, because now the collection of the sources is done by the same way and the government is only changing the placing of the sources.

If we take a look at the social side of the changes the best solution could be, if the employment of those, who are entitled for pension type benefits were expanding. It is obvious that in most cases the situation is forced. Firstly these people get benefits, because there are no job opportunities, or secondly they are not able to work because of their health damage. So the problem can be solved if less people can get these benefits, i.e. the budget's burden of financing them can be decreased. The situation at home and in the EU is not like that, it is far away from this solution. The problem of financing is very real.

We can find the other problem in the side of the contribution revenues. Its reason is that the contribution burden has been increased for the full-time businesses with 80%. The new regulation namely created a new situation, because these businesses do not pay the contribution after the minimum wage or the guaranteed minimum wage, but they must pay after the 150 % of an increased rate of the minimum wage with 18%. Unfortunately this makes the businesses avoid their obligations to pay the contributions, and with this the magnitude of the contributions has been decreasing. Simultaneously the number of those businesses, who pay fewer contributions, can grow. The different contribution base has to be also highlighted, which is against the growth of the contribution revenues.

The belief in social insurance can be decreased by the individual. As it is clear from my analyses this system has survived all the twentieth century's tests, like the revolutions, the WW's and the changes in regimes.

The fact is change is needed, and taking the first steps is also important, but full consideration and proper soundness are needed from the social and financial sides.

The system approach is necessary too. Emphasizing only the Pension Insurance Fund is useless, if we do not deal with other elements of the system. With the transformation of the system we have to order proper sources, contributions to the benefits, so with this we can make the financing transparent. The change has been launched since this year, but it is almost certain that after analyzing the experiences more transformation is needed.

This dissertation can be used in studies specialized on the pension system and it can be a great reading for those, whom are interested in this theme.

IV. List of publications written in the theme of the dissertation

1. An overview of the Hungarian mandatory private pension system International Conference of PhD Students (CD) Miskolc, 6-8. August 2012.
2. The conformation of the self employees affixes
Publicationes Universitatis Miskolcensis Sectio Juridica et Politica
Tomus XXX/2. Miskolc University Press
Miskolc, 2012.
389-405. p.
3. Analysis of the changes in the Hungarian pension system in 2011.
XXVI. microCAD International Scientific Conference 29. March – 30. March.
Conference Book, University of Miskolc Innovation and Technology Transfer Centre
4. Die Finanzen der Rentenversicherung im Rechtsvergleich zwischen Deutschland und Österreich
Studia Iurisprudentiae Doctorandum Miskolciensium
Legal Studies of the PhD Students of Miskolc Tomus 11.
Gazdász - Elasztik Ltd.
443-476.p.
5. The rules of the pension disbursement
Publicationes Universitatis Miskolcensis
Sectio Juridica et Politica Tomus XXIX/2.
Miskolc University Press
Miskolc, 2011.
351-386.p.
6. Social insurance rules in connection with the royalties
The Intellectual Property
Bíbor Publisher,
Miskolc, 2011.
133-142.p.
7. The impact of the financial crises to the finances of the pension system
In: Opuscula Szegediensia 4.
Pólay Elemér Foundation's Library 33.
Szeged. 2011.
241-260. p.
8. The Financial Reform of the Hungarian Pension System
In: XXV, microCAD International Scientific Conference
31March – 1 April 2011.
Conference Book
University of Miskolc Innovation and Technology Transfer Centre 27-35.p.
ISBN 978-963-661-968-8

9. The impact of the ageing to the pension system
In: Opuscula Szegediensia 3. Pólay Elemér Foundation's Library
Szeged. 2010.
121-139. p.
10. Social insurance affixes in Hungary
Publicationes Universitatis Miskolcensis,
Sectio Juridica et Politica, Miskolc University Press
Miskolc 2010.
523-554.p.
11. Die Besteuerung der Alterssicherung in Österreich
PhD Students' Forum, 10. November 2010.
Section Publication of Faculty of Law
University of Miskolc Innovation and Technology Transfer Centre
197-201. p.
12. Pension Contributions system in Hungary
International Conference of PhD Students,
Conference Book, University of Miskolc
Innovation and Technology Transfer Centre
Miskolc, 2010.
67-72. p.
13. The determining factors of the Pension Fund's budget
In: Conferences of the Financial law professors Miskolc 2006-2009.
Novotni Publisher,
Miskolc. 2010.
256-272. p.
14. Social Insurance Rules in the Case of Posting
(Co-Author: Dr. Zoltán, Nagy)
European Integration Studies. A Publication of the University of Miskolc
Miskolc, Volume 7. November 2. (2009)
51-57.p.
15. Die Pensionsharmonisierung in Österreich
PhD Students' Forum, 5. November 2009. .
Section Publication of Faculty of Law
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169-175. p.
16. Die Finanzen der Deutschen Sozialversicherung
Publicationes Universitatis Miskolcensis Sectio Juridica et Politica,
Miskolc, Tomus XXVII/2. (2009.)
613-643. p.
17. The impact of the ageing to the pension schemes in Europe
European Integration Studies A Publication of the University of Miskolc
Miskolc, Volume 6. November 1. (2008) 87-108.o.

18. Ageing and Pensions in Hungary
PhD Students' Forum, 13. November 2008.
Section Publication of Faculty of Law
173-179.p.
19. Thoughts about the last two decade of the Hungarian Pension system
Analele Universitatii din Oradea – Fascicula Drept
Editura Universitatii din Oradea 2008.
61-78.p.
20. Measures to the sustainability of the Hungarian Pension system
International Conference on Economics, Law and Management - 3rd edition
"Petru Maior" University Faculty of Economics, Law and Management and Administrative
Sciences Conference Book
93 - 104.p.
21. The coordination of the pensions in the European Union
Publicationes Universitatis Miskolcensis Sectio Juridica et Politica,
Miskolc, Tomus XXVI/2 (2008)
721-744. p.
22. The questions of the pension system's restructuring in the XXI. Century's Hungary
Studia Iurisprudentiae Doctorandum Miskolciensum
Legal Studies of the PhD Students of Miskolc 9.
Bíbor Publisher, Miskolc, 2008.
497-517.p.
23. The altering Hungarian pension system
Conference Book
Opuscula Szegediensia 2.
Pólay Elemér Foundation
Szeged, 2008.
31-44. p.
24. The actual questions of the Hungarian pension system's financial sustainability
PhD Students' Forum, 13. November 2007.
Section Publication of Faculty of Law
235-240.p.
25. Changes in the Hungarian Pension System
6th International Conference of PhD Students
University of Miskolc 12-18 August 2007
Conference Book
333-339.p.
26. On the Threshold of the new Hungarian pension system
Studia Iurisprudentiae Doctorandum Miskolciensum
Legal Studies of the PhD Students of Miskolc 8.
Bíbor Publisher

Miskolc, 2007.
529-548. p.

27. The challenges of the pension system's sustainability in the XXI. Century
National Union of the PhD Students
"Spring wind" Conference book
Budapest, 2007.
554-560. p.
ISBN 978-963-87569-0-9

28. The examination of the Hungarian pension system from the point of view of sustainability
Publicationes Universitatis Miskolcensis Sectio Juridica et Politica,
Miskolc, Tomus XXV/2. (2007),
735-754. p.

29. Measures to the sustainability of the pension systems in Hungary and in the other member states of the European Union
Collega Legal Review XI. year 2007. Number 2-3.
189-193.p.

30. The changes of the pension system between 1998-2007
Conference Book Opuscula Szegediensia
Pólay Elemér Foundation
67-75.p.

31. The Hungarian pension reform
PhD Students Forum, 9. November 2006.
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277-283.p.

32. The changes of the Hungarian pension system after the political change
Publicationes Universitatis Miskolcensis Sectio Juridica et Politica,
Miskolc, Tomus XXIV. (2006.)
527-544.p.

33. The main characteristics of the European Union's social law
Collega Legal Review X.
2006. Number 2-3. p. 180-186.

34. The pension insurance rules in the European Union
Advocat 2005/3-4. pp. 14-19.
ISSN 1585-5198

35. Pension system and pension reform in Hungary
PhD Students Forum, 9. November 2005.
Section Publication of Faculty of Law
310-315. p.

36. The development of the pension insurance in Hungary in the early XX. century
Studia Iurisprudentiae Doctorandum Miskolciensum
Legal Studies of the PhD Students of Miskolc
Bíbor Publisher,
Miskolc, 2005.
345-371. p.
37. The presentation of the organisation and functioning of the National Social
Insurance's Institution
Collega Legal Review IX. Number 2.
April 2005.
50-54.p.
38. Pension System in the second half of the XX. Century
Publicationes Universitatis Miskolcinensis Sectio Juridica et Politica
Miskolc, Tomus XXIII. (2005.)
577-560.p.
39. Pension Insurance in the European Union
A kibővült Unió - Ahogy a jövő köztisztviselői látják
Conference Book of the European Administrative Scholarship
149-162.p.
ISBN: 963 217 271 X
40. The Hungarian tendencies of the pension system's development
University of Miskolc Faculty of Law
The prize-winner essays of the Conference of National Scientific Students' Associations
55-99.p.
ISBN: 963 94 66 61