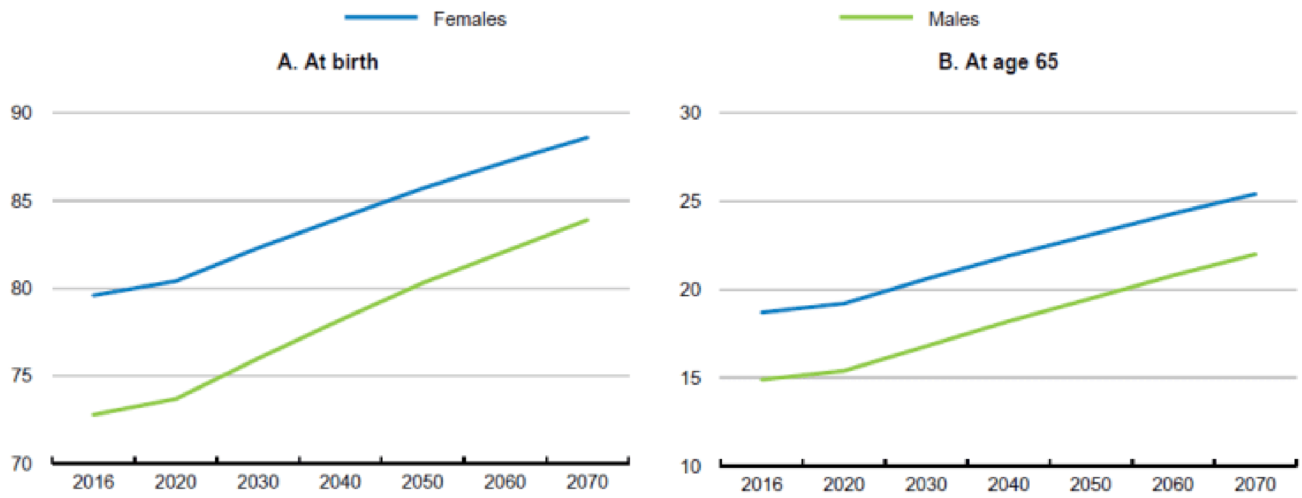
The pension system in Hungary is under pressure from demographic changes

by Ania Thiemann, Hungary Desk, OECD Economics Department

Over the next 50 years, the old-age dependency ratio will double, and public spending on pensions and health-care is set to increase. People will also spend more time in retirement. The *2019 Economic Survey of Hungary* is assessing the demands on public finances arising from this population-ageing challenge.

Life expectancy is rising, including for pensioners

In years



Source: European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, May, Luxembourg.

StatLink https://doi.org/10.1787/888933897190

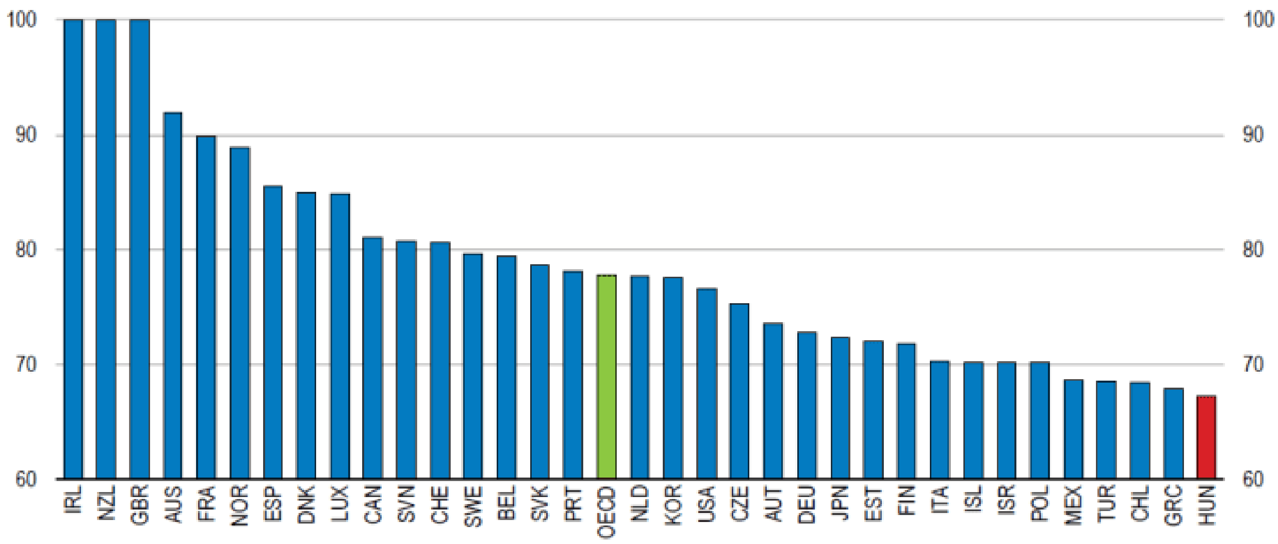
https://doi.org/10.1787/888933897190
At present, public spending on public pensions is among the lowest in the OECD, but it is expected to increase by some 3 percentage points
of GDP by 2070. This estimate may be on the low side. OECD work suggests that
ageing-related costs could rise by as much as 4 percentage points more of

GDP, for instance, if expected economic growth fails to materialise, or if
people live longer than projected.

An additional concern is a high risk of old-age poverty. Already today, some 20% of pensioners receive pensions below the poverty line. Looking ahead, the earnings-related pension system will secure good pensions for individuals with full careers. Improved employment prospects will therefore address a part of the poverty issues. For others, with interruptions in their careers, for instance because of unemployment, there is a risk of low pensions, or even old-age poverty. This because the impact of career breaks on pension entitlements is larger than elsewhere in the OECD.

Workers with career interruptions have low pensions in Hungary[1]

Gross pension entitlements as a percentage of full-career entitlements, mandatory pensions only[2]



1. Pension entitlements are calculated for male average earners who enter the labour market at 25 years old (rather than the standard 20) and spend ten years unemployed between the ages of 35 and 45. What they would receive is measured against the OECD baseline pension, corresponding to a full career from the age of 20.
2. In Luxembourg and Slovenia labour-market latecomers with career gaps must work 5 years more than workers with unbroken careers to qualify for a full pension. The same figure is 4 years for France and 2 years for Germany and Spain.
Source: OECD (2017), Preventing Ageing Unequally, OECD Publishing, Paris.
StatLink https://doi.org/10.1787/888933897057

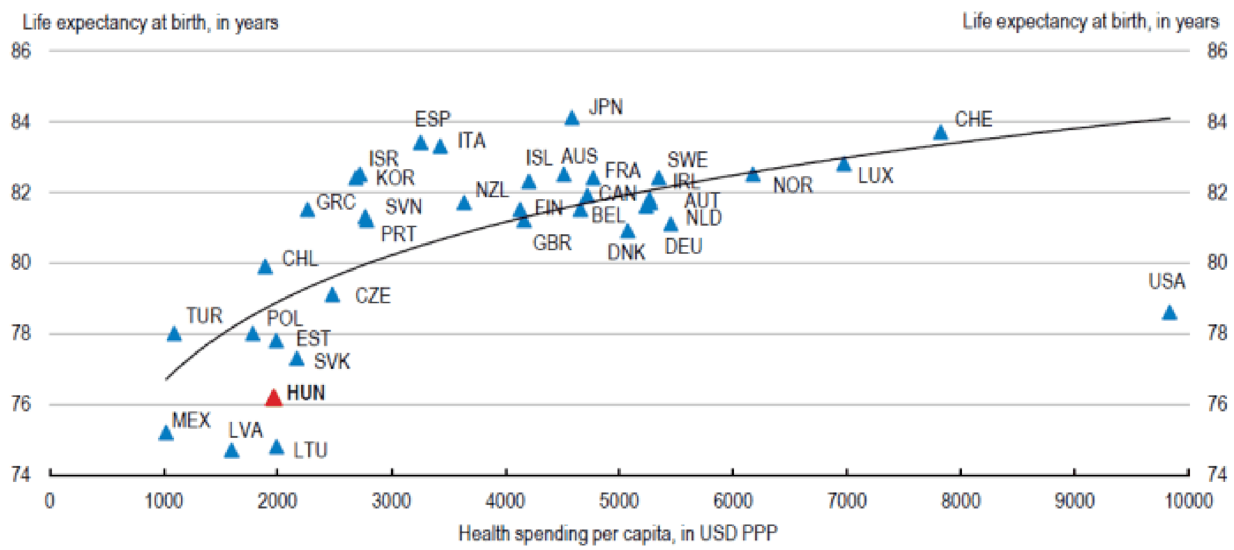
https://doi.org/10.1787/888933897057
OECD work suggests that the way forward to address these problems
includes a longer working life, improved predictability of

pension outcomes, and the introduction of a basic safety-net pension for all. Reforms in this area also have to take into account the need for securing more actuarial neutrality and fairness in the Hungarian pension system.

Hungary spends relatively little on its public health-care system and outcomes are below the OECD average. Mortality rates are high and Hungarians spend less time in good health in old age.

Better resource utilisation could boost life expectancy significantly

2016 or nearest year available[1]



1. 2015 for life expectancy at birth for Canada, Chile and France. PPP: purchasing power parity.
Source: OECD (2018), "Health Expenditure and Financing", *OECD Health Statistics* (database), July; and OECD (2018), "Health Status", *OECD Health Statistics* (database).

StatLink https://doi.org/10.1787/888933897361

https://doi.org/10.1787/888933897361

The system is not efficient, but problems are also related to life-style factors, such as smoking and high alcohol consumption. Additional concerns include uneven access to health care, particularly in rural areas. The 2019 Economic Survey of Hungary points out that addressing these problems is likely to require a significant increase in public spending. That said, there is also scope to improve the use of current resources to achieve better outcomes. This includes a larger role for the family doctor (GPs) as a gate-keeper to provide guidance for patients in the system. In addition, larger, more specialised and more independents hospitals can lead to a better use of resources and better quality treatments.

Selected References:

Becker, U. (ed.) (2018), Long Term Care in Hungary, Springer, Cham., https://doi.org/10.1007/978-3-319-70081-6.

Blöndal, S. and S. Scarpetta (1999), “The Retirement Decision in OECD Countries”, OECD Economics Department Working Papers No. 202.
https://doi.org/10.1787/18151973

Fall, F. and D. Bloch (2014), “Overcoming Vulnerabilities of Pension Systems”, OECD Economics Department Working Papers No. 1133, http://dx.doi.org/10.1787.5jz1591prxth-en.

Freudenberg, C., T. Berki and A. Reiff (2016), “A Long-Term Evaluation of Recent Hungarian Pension Reforms”, MNB Working Papers 2.

Gaál, P. (2004), Health Care Systems in Transition: Hungary, WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies.