Status Report from Hungary

By Zsuzsa Széman

In Hungary, the proportion of pensioners in the general population grew from 22.7% in 1990 to 27% in 1994, an increase of 4%. What is behind this rapid growth?

Disability Pensions. In the years just before the systemic political and economic changes, there was a great increase in early exits from the labor market through taking advantage of the disability pension. The take-up rate rose by 50% between 1980 and 1989; two-thirds of this increase occurred in the short period from 1987 to 1989. This was partly due to the fact that the attempt at modernization begun in the industrial sector at that time aimed solely at restructuring production—not at preserving the health of the labor force.

By 1990, 19.4% of all pensioners were on disability. This rose to one-third in the early 1990s and increased again between December 1993 and February 1994.

Early retirement, the practice of sending an older worker into retirement a maximum of five years before his or her normal retirement date—age 55 for women and 60 for men—began contributing to the ranks of pensioners in the beginning of the 1990s. Both private enterprise and the macro employment policy have encouraged the use of early retirement. Private companies are required to pay the sum of the pension of their early retirees in advance to the national pension insurance funded to assure that the monies will be there. The government assumes from 50% to 100% of the costs of early retirement if a firm ceases to exist without a legal successor, is liquidated, sheds 25% of its entire work force or more than 300 persons, generates no profit or operates at a loss.

The importance of early retirement is seen in the fact that, while it represented only 0.9% of the expenditure of the Employment Fund in 1989, this expenditure increased more than fivefold by 1991 and sixfold by 1992, according to Ministry of Labor statistics. In 1991, there were 12
times as many early retirees as there had been in 1989. Anticipatory retirement, is another means of early retirement. Introduced in 1991, it is available to those who have been receiving unemployment benefits for at least six months and have not found work, have the minimum service period required and are within three years of retirement age. In the first half of 1992, only 6.9% of all new pensions were for anticipatory retirement. One year later, this figure had grown to 11%.45

In the last four years, more than the half of all new pensioners have left the labor market through various channels of early retirement. How does this trend affect the security of pensioners?

The Pension as Basic Income

As a consequence of inflation and the lack of indexing, the majority of pensions during the 1980s paid less than the average. Furthermore, this average was at or below the minimum subsistence level. Thus, for many years, about one pensioner in five returned to the labor market; in addition, some 65% were engaged in production on household plots. In 1986, for example, 6.2% of the labor force was made up of pensioners in employment and 2% of non pensioners above the retirement age.8 Older people too frail to work and thus unable to supplement their income applied for emergency welfare aid.

In the past, therefore, the income of the elderly had derived from two main sources; a) pension plus supplementary income from the labor market or auxiliary farms (often equivalent to the pension itself) or b) pension plus emergency welfare aid. The second category was made up of the 13% to 18% of older people who are incapable of performing supplementary work.78 For them, even the pension combined with welfare assistance was frequently not sufficient to serve as a basic income. In the case of healthy older people, state enterprises were important employers; the elderly were a cheap source of labor for them. In the case of frail elderly people, local councils applying means-tests played an important role.

This process changed completely after 1990. Pensions began to be indexed for inflation, but pensioners were no longer able to find work. A survey conducted in 1992 found that, by then, only 9% of pensioners were working.12 As a result, at least half of those who had been employed earlier, or approximately 10% to 18% of the elderly, suddenly began to be marginalized because they had lost their supplemental earnings, a major portion of their basic income.

The majority of pensioners continued to receive a lower-than-average, work-related pension that remained at or below the minimum subsistence level. The elderly were thus defenseless in face of the two- and three-digit inflation that particularly affected the prices of basics such as medicine, housing, food, heating and electricity.

The financial security of early retirees was no better. With shorter service records, they started with lower pensions from the outset and were shut off from re-entering the labor market. Nevertheless, there was a panic-like rush among older workers to take advantage of offers of early retirement because of fear of unemployment.

Due to the restructuring of the economy, in 1992 alone, bankruptcy proceedings were initiated against 5.3% of industrial firms.10 The loss in social insurance contributions from such failures increased almost sevenfold between 1990 and 1993, from 890 million to six billion HUF (US$9.1 million and US$63 million). If pension contributions have to be paid for several years in advance, as is planned, many firms would rather get rid of older workers now. Employees over 50, especially blue-collar female workers, are at high risk.

Consequently, older people have very little chance to find paid employment when they become unemployed. Their problems are compounded by the fact that there is a gap between the cut-off date for unemployment benefits—currently after one year (but expected to be shortened to six months) and the start up date for the next step of social security, i.e., anticipatory retirement. A woman fired at 50 will be without any benefit or pension for at least one year if she cannot take early retirement.

Health of the Elderly

Despite the growth in the older population between 1970 and 1990 (the 60-69 age rose from 13.5% to 20.2%, the 70-79 group from 19.0% to 29.7%, and the over 80s from 18.1% to 31.9%), the very poor health of the elderly is striking.2 According to the 1984 micro-census, 45.4% of the elderly considered their health to be worse than average.18 The reality is even worse. In the mid-1980s, more than half the elderly had one or more illnesses lasting more then three months.13 The reality is even worse. In the mid-1980s, more than half the elderly had one or more illnesses lasting more then three months.14 In 1990, almost 40% of those 70-plus suffered from chronic illness, almost 26% had a disability of some kind and