Challenges and Reforms of Pension Systems
(in western European countries and in Hungary)

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Abstract: In the European union there are two basic models: the ‘Pay As You Go’ system, based on the solidarity, and the system of individual accounts where you will be returned the amount you paid in. The ‘Pay As You Go’ system assures good security for the contribution payers, but very difficult to change, and that is a real burden for state budget. The system of individual accounts demands a great consciousness from the payers, however the level of the future pension not guaranteed, because of the volatility of the capital market. On the other hand it can be most easily accommodate to the changing circumstances, and not so expensive for the state budget.

The pension systems faced and faces several challenges in the past decades and in our days, too: growing life expectancy at birth and also at the age of 55-65 years, low birth rate, fall of the contribution paying period because of longer education period, higher rate of unemployment, retiring of the baby-boom generation, growing pension payment because of the valorisation of pensions and the growing living standards. In our essay we looked through two representatives of basic models, the French and the English systems, how they reacted on these challenges. We tried to summarise, what Hungary can learn from the experience of these countries.

Countries applying eider pension systems had to introduce painful corrections. In France, where the ‘Pay As You Go’ is used, mainly in the 1990th it was increased the period of contribution paying, enlarged the period for the base of pensions, the valorisation of pensions based on the inflation rate. On the other side opened some new possibilities towards the personal accounts as a complementary element.

In Great Britain the personal accounts system was enlarged, based on the corporation and individual retirement plans. The changes affected also the age of retirement in order to collect larger bases for the pensioner life period. But on the other site the Basic State Pension system was enlarged to cover the needs of unsecured or poorly secured people.

In Hungary the challenges are mainly the same as in the western European countries: growing number of pensioners, law birth rate, high unemployment, growing number of unsecured people. From 1979, parallel to the ‘Pay As You Go’ system, the role of the personal accounts is growing because for young generation, gradually entering in work this system is compulsory. In Hungary there is also a possibility to open capital accounts, and the companies can pay contributions to personal accounts of their employees. So that there is a mixture of two systems, however pension payments will be effected under the ‘Pay As You Go’ systemfor a long time. In 2006, to avoid the collapse of the system some steps was taken to reduce pension payments for new pensioners, to increase taxes of pensioners,
having a supplementary work, to cut early retirement. But these measures are not enough and in a few years the frames of the system must be changed again. For implementing a better system Hungary can learn from the French system: to separate pension found from state budget, to find ways of social reconciliation. The English system can point out of the need of the base state pension for the growing number of disabled people and people remaining without any social provision.