Hungary Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

Contents

Introduction

Key Findings

- **Retirement associations are negative:** Hungarians are more likely to associate retirement with negative terms such as 'insecurity' (53%) and poverty (37%) than positive words such as 'leisure' (40%) and 'freedom' (27%).

- **Improvement is needed in retirement planning:** The majority (50%) of workers have a retirement plan, however only 5% claim to have a plan that is written down. Almost half (45%) however do not have any plan at all.

- **Employees anticipate needing a high level of income replacement in retirement:** Almost one third (31%) of employees expect that in retirement they will need more than 100% of their current gross annual income in retirement. The mean proportion expected to be needed is 84%.

- **A flexible transition to retirement is becoming common:** An immediate transition to retirement is more common in Hungary than in many other countries, yet over two-fifths (43%) plan to continue to work in some capacity, whether part-time or on temporary contracts, beyond the age of retirement.

- **Hungary ranks fourteenth in retirement readiness:** Hungary scores of 4.9 out of 10 on the Aegon Retirement Readiness Index and is placed fourteenth in our global ranking. A 'low' score, this indicates that the typical Hungarian worker is underprepared for retirement.

Recommendations

- **Translate awareness of the need to save for retirement into action:** Individuals are increasingly aware of the need to plan for retirement but this alone is not sufficient to initiate better savings habits. Governments and employers should provide individuals with concise and clear statement of projected benefits which the individual may expect in retirement, as well as tools and information that individuals can use to determine their own retirement savings goals.

- **Embrace active aging and working longer:** Workers envisage staying active longer in later life, including through work. Working longer, beyond mandated or expected retirement ages, can only help individuals to bridge gaps in retirement savings. Governments should make the required changes to labor laws and employers should adjust their workforce policies to this new reality. Making these changes will be vital for flexible retirement to become a success.

- **Plan for the unexpected:** To avoid depleting retirement savings, individuals should include in their retirement plans unexpected events such as job loss, caring for others, disability or illness. A back-up plan could include establishing a personal emergency fund or obtaining insurance for income replacement upon disability or unemployment where offered. This will help individuals weather short-term financial difficulties without sacrificing their retirement.

The Survey

The findings used in this report are based on the Hungarian responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In Hungary 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the Hungarian survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in Hungary

Hungary is among the original group of 10 countries to participate in the Aegon Retirement Readiness Survey, a survey that now includes the responses of employees and retired people in 15 countries. A key component of the study is the Aegon Retirement Readiness Index (ARRI), which assesses employees' attitudes and behaviours with relation to planning for retirement. With an index score this year of 4.93 out of 10, the country performs below international standards. Nonetheless there has been an improvement on last year's score and retirees in Hungary benefit from several positive aspects of retirement provision not reflected in the index. For example, Hungary has one of the lowest rates of old-age income poverty in the OECD which is directly linked to high levels of income replacement and home ownership.

Yet like most European countries, Hungary has not been able to avoid the consequences of the financial crisis and population ageing. A public distrust of the private pension market and spiralling costs led the Government in 2010 to nationalise mandatory second pillar pensions. A controversial measure, critics have noted that the Government's actions will lead to lower benefits for future retirees[1] and an exit of many pension providers from the Hungarian market.[2] Irrespective of what results from these reforms, it is clear that the nature of the retirement landscape in the country has dramatically changed in recent years. This report sets out the views of Hungarian employees and retirees as to how the current economic climate is impacting on their level of retirement preparedness.

[1] *Whitehouse, Edward (2011), Reversal of systematic pension reforms in Central and Eastern Europe, OECD Social Policy Division [online] http://www.ebrd.com/downloads/research/news/Whitehouse_Paper.pdf*

[2] *Central Administration of National Pension Insurance (2012), Information on major benefit regulations, ONYF, p 17 [online] http://www.onyf.hu/en/index.php?module=news&action=getfile&fid=11296&rand=6637d1fa104d4f1e33ed78e29e8be758*

2. Retirement aspirations and expectations

Expectations of the economy remain tepid even though the country exited from recession in early 2013. Nearly half of those surveyed (44%) still expect the economy to worsen, with a further 32% expecting no improvement in the year ahead. Just one-in-six (16%) expect the economy to improve in the next 12 months. Attitudes are marginally more positive when considering respondents' own finances, with a more modest 34% expecting their financial situation to worsen. Nevertheless, 41% see no change and only 19% expect things to improve. An overwhelming majority of Hungarians (78%) believe that future generations of retirees will be worse off in future than those currently retired (the second highest percentage among the 15 countries surveyed), with only 3% believing that retirees will be better off in future.

Chart 1: Expectations of the economy are more negative than for respondents' own financial circumstances

Q. Thinking ahead over the next 12 months, do you expect the economy in Hungary to...? (Base: All respondents (n=1000)
Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?
(Base: All respondents (n=1000)

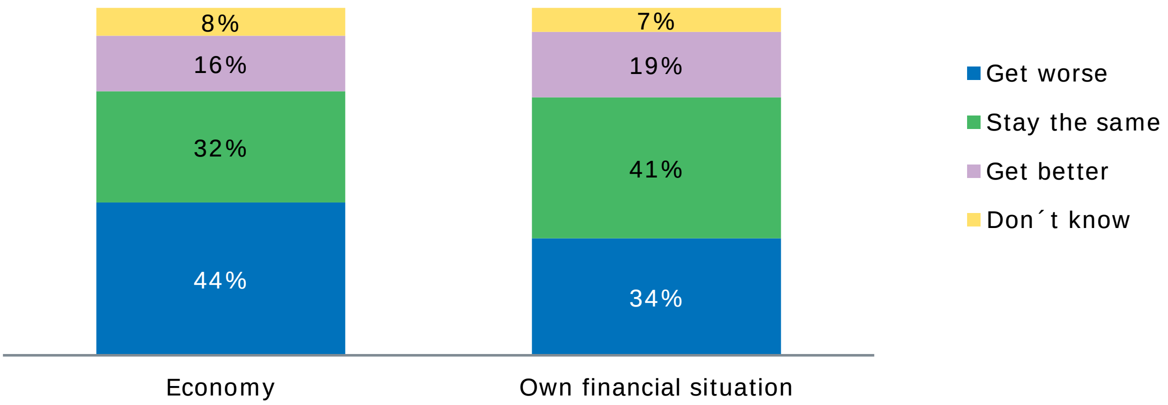
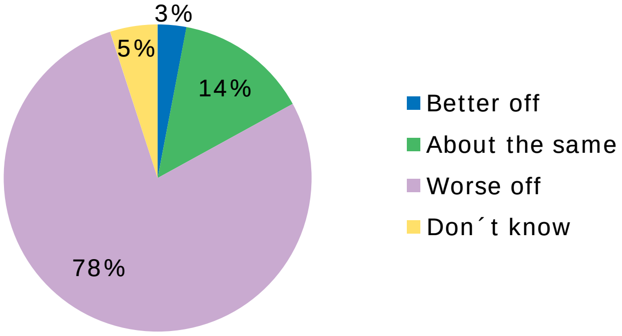


Chart 2: Future generations of retirees are expected to be worse off

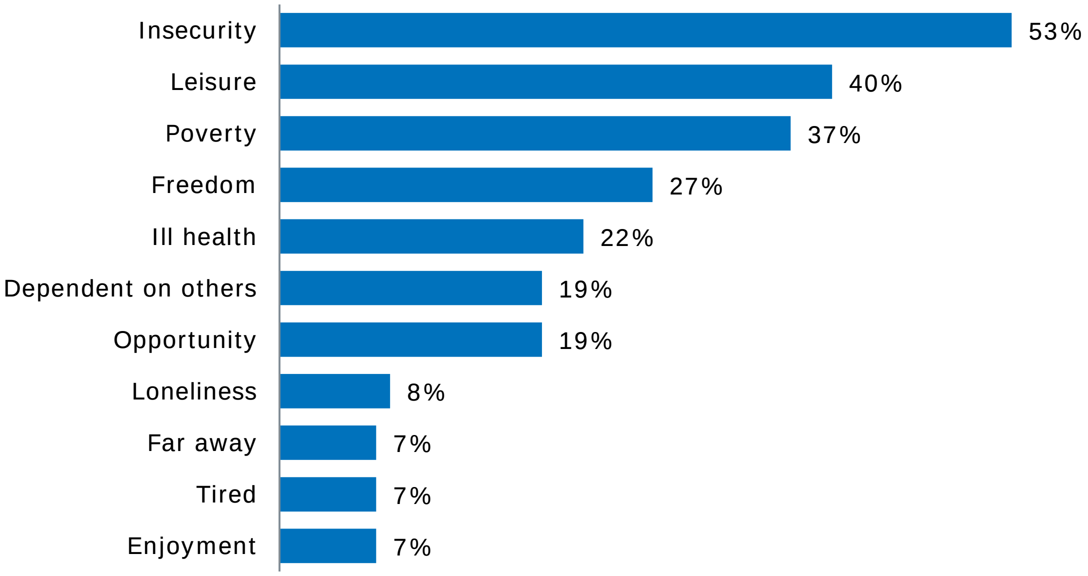
Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?
(Base: All respondents, n=1000)



Attitudes towards retirement in Hungary are often negative. When asked to select words associated with retirement, half (53%) of workers choose 'insecurity', while to a lesser degree poverty (37%) and ill health (22%) are also common. Not all associations are negative, however, with 'leisure' being chosen by two-fifths (40%) and 'freedom' by 27%.

Chart 3: Retirement is often associated with negative words

Q. Which, if any, of the following words do you most associate with retirement? (Base: All respondents, n=1000)



3. Planning for retirement

To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

In order to create the index the six attitudinal and behavioural question responses are correlated with the dependent variable to obtain a measure of influence (known as an 'R' value). The mean scores of the six questions are computed and each mean score is multiplied by its 'R' value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

We are able to rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

Hungary's Index score of just 4.93 out of 10 means that the country has slipped behind Spain in 2014 to become the second lowest scoring country of those measured (Japan continues to be ranked lowest). India and Brazil were introduced this year and lead the global rankings.

Chart 4: Retirement Index Scores 2012-2014

Hungary Retirement Readiness Index score			
2012	**2013**	**2014**	**2014 Global Average**
4.8	**4.7**	**4.9**	**5.8**

Chart 5: Retiring sooner or later than planned

While Hungary's retirement planning score has improved marginally on last year, there still remains considerable room for further progress. Nearly half (45%) of workers claim not to have a retirement plan. Half (50%) say that they have a strategy for retirement planning, albeit only 5% say that it is in the form of a written plan.
When asked whether they have a back-up plan in case they are unable to work before reaching retirement age, three-quarters (75%) of employees claim that they do not, higher than in any other country included in our survey.

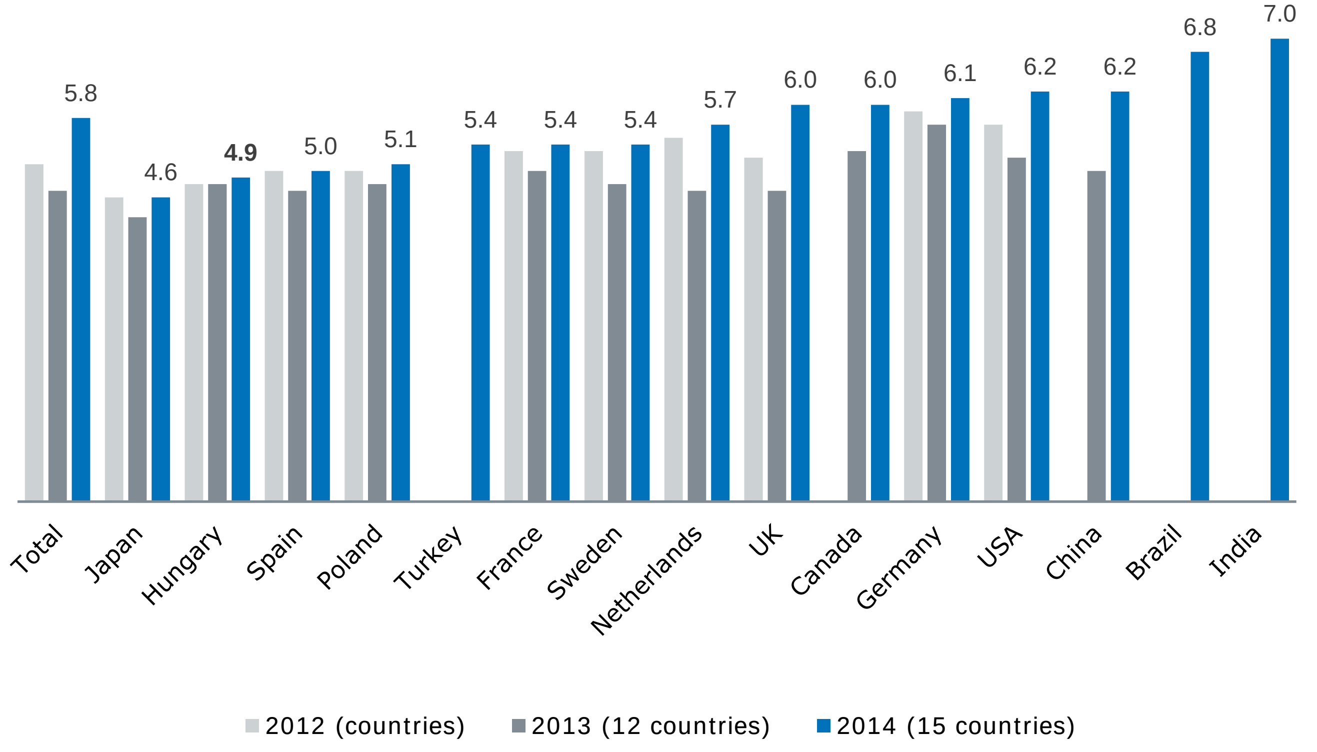


Chart 6: Very few Hungarians have a written retirement plan, and nearly half have no plan at all

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

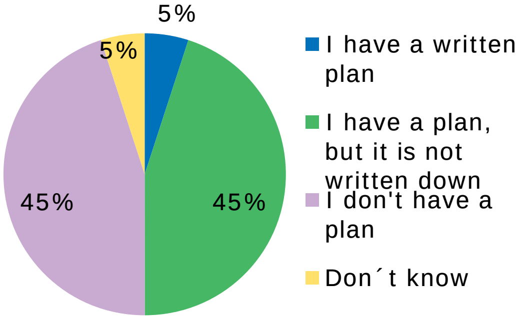
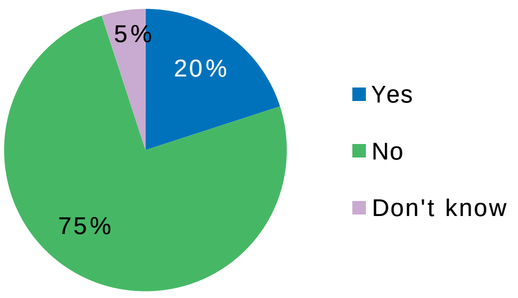


Chart 7: A large majority don't have an income backup plan should they be unable to work before they reach retirement

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income? (Base: Not fully retired, n=900)



4. Making saving easy

Most Hungarian workers (83%) say that a lack of money is an obstacle to saving for retirement – the highest percentage of all countries surveyed. However, nearly two-thirds (65%) say that a pay rise would be an incentive to save for retirement. It is thought that a cultural barrier to saving exists in Hungary, where low financial education and family habits are not conducive to proper retirement preparation. However our survey reveals that employees are more aware and knowledgeable than this sentiment would suggest. Two-thirds (67%) of workers feel either somewhat or very able to understand financial matters when it comes to retirement planning, and two-fifths (41%) consider themselves somewhat or very aware of the need to save for retirement.

Chart 8: A lack of money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

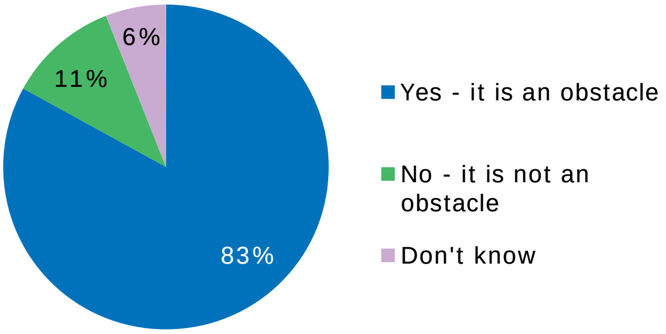
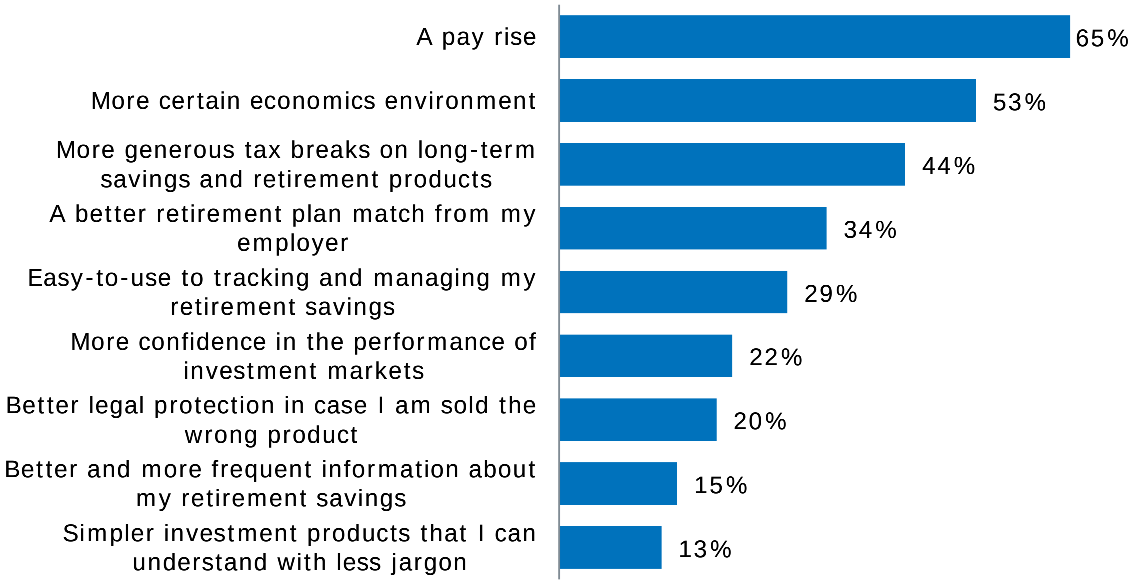


Chart 9: A pay rise and a more certain economic environment would encourage employees to save for retirement

Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



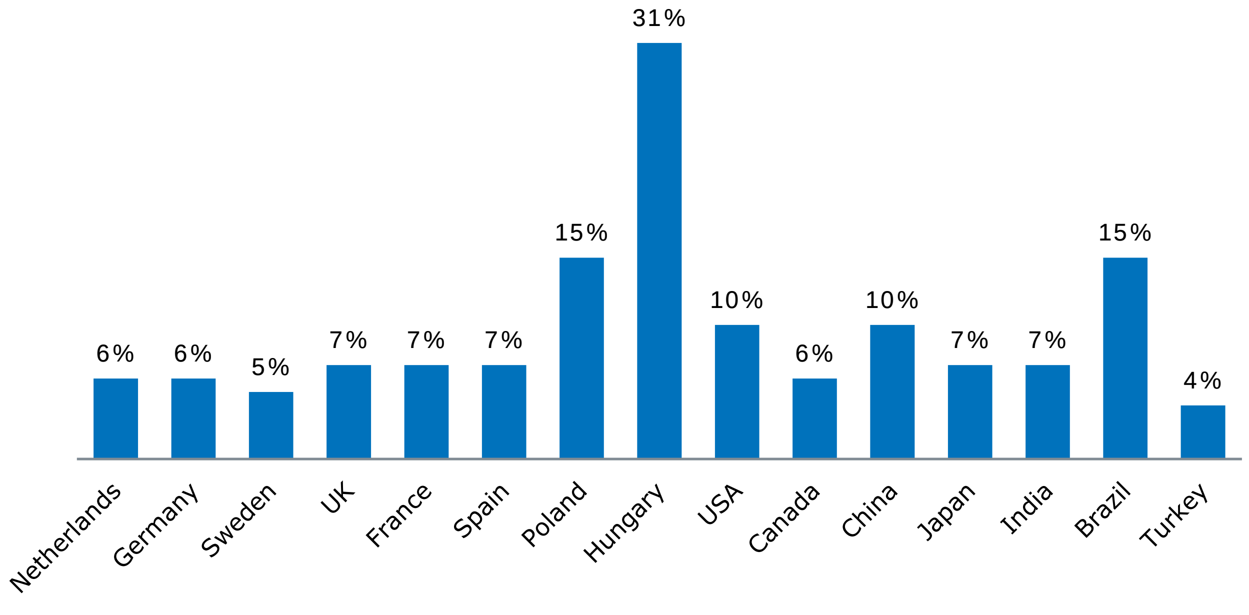
Hungary has experienced a steady population decline, from 10.7 million in the mid-1980s to 9.7 million this year, countered by a relatively flat rate of claimants drawing on the state pension since the millennium (rising by two million claimants to three million between 1980 and 2000, but not rising beyond this number since then).[3] Hungary also currently has the lowest poverty rate amongst the over 65s of any other country in the OECD, save the Netherlands.[4] This is helped, in part, by over 90% of Hungarian over 65s owning their own home outright.

These factors combine to create a façade of stability which belies the acute demographic strains on Hungary's pension system. An increasingly ageing population will add tensions to the pay-as-you-go system, but our survey also exposes a different and marked concern about the sustainability of the status quo among current Hungarian workers.

When asked what proportion of their current earnings would be needed as income in retirement, nearly one-third (31%) of Hungarian workers replied, "more than 100% of what I currently earn." This is a far higher proportion than in any other country surveyed (the global mean is just 10% of workers).

Chart 10: Nearly one-third of Hungarian workers expect they will need a gross annual income in retirement that is more than what they currently earn

Q. As a proportion of your current earnings what gross annual income do you expect to need in retirement? (Base: Not fully retired, n=900)



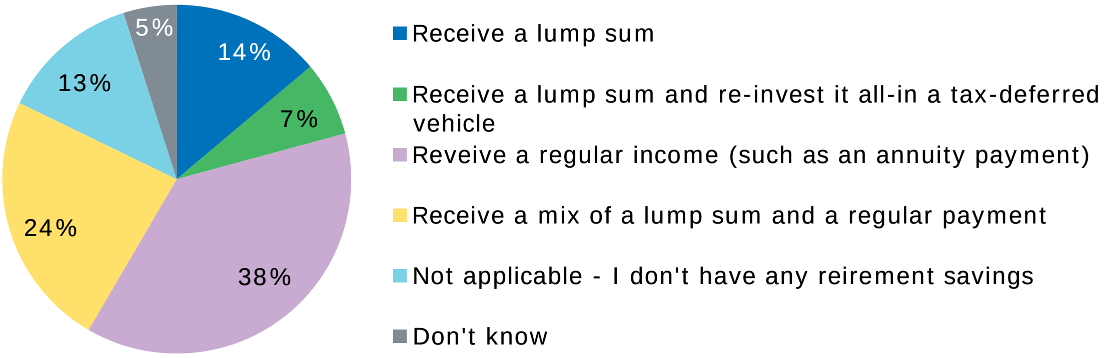
Hungarian workers would prefer their retirement income to come from a mix of payment forms, with 38% opting for a regular payment income (such as an annuity) and 24% preferring a mix of a lump sum and a regular payment. A further 21% would choose an overall lump sum for (14% for reinvestment purposes). Note also that 13% state that no option would be applicable due to not having any retirement savings – the highest among our surveyed countries.

[3] *Central Administration of Pension Insurance (2012), Information on the major benefit regulations and organizational structure of the Hungarian pension insurance system, ONYF [online] http://www.onyf.hu/m/pdf/kozerdeku/ONYF_fuzet_EN.pdf*

[4] *OECD (2013), Fig 2.8 Poverty rates among the over-65s, in Pensions at a Glance 2013, OECD [online] http://www.oecd.org/pensions/public-pensions/OECDPensionsAtAGlance2013.pdf*

Chart 11: The preferred method for Hungarians to receive their retirement savings is by regular payments

Q. How would you prefer to receive your retirement savings when you retire from all paid employment? (Base: Not fully retired, n=900)

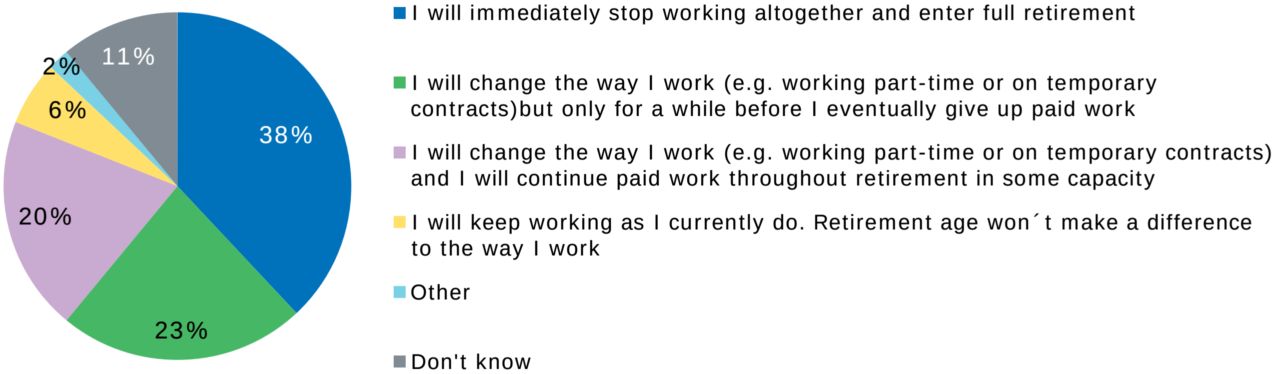


5. A flexible transition to retirement

Most working Hungarians do not expect to enter full retirement immediately, with 43% of those surveyed stating that they would continue working to some extent (for example part-time or on temporary contracts). However, 38% would stop working altogether, with only 6% saying that they would continue working in their current form regardless of passing the retirement age.

Chart 12: A majority of Hungarian workers envisage they will either enter full retirement immediately or transition over time

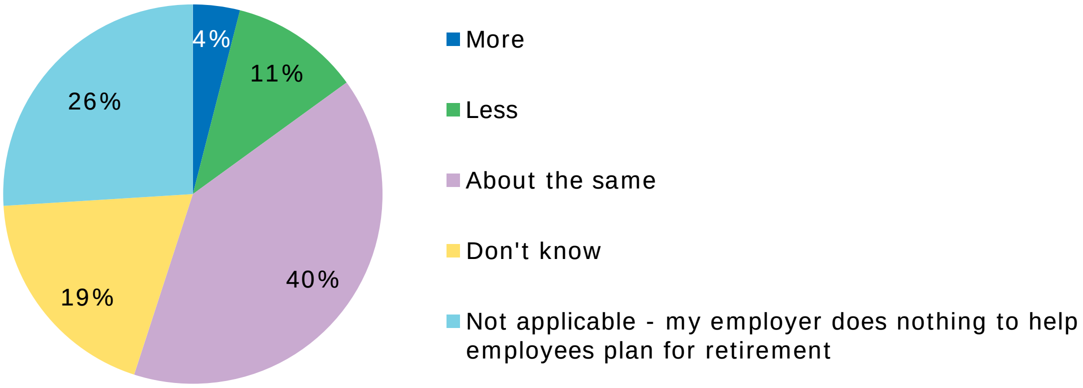
Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=869)



Nearly all (96%) of the workers surveyed in Hungary believe that their employer has in the last three years failed to improve the provision of information and support to help retirement planning services. One in ten (11%) state that their employer now does less to help them. The 4% who believe that information and support has increased contrasts with the 19% who are unaware of any change and the 26% who state that their employer does nothing to help them plan for retirement at all

Chart 13: Only a small minority of Hungarians believe their employer has increased their retirement services in the last 3 years

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: Not fully retired, n=900)



Disclaimer

This report contains general information only and does not constitute a solicitation or offer. No rights can be derived from this report. AEGON, its partners and any of their affiliates or employees do not guarantee, warrant or represent the accuracy or completeness of the information contained in this report.

Media Relations

Telephone: +31 70 344 8956

Email: gcc@aegon.com