



AEGON

Center for
Longevity and
Retirement



Hungary Country Report

Inspiring a World of Habitual Savers

The Aegon Retirement Readiness Survey 2015

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Introduction

The Aegon Retirement Readiness Survey series explores how increasing life expectancy is having a profound impact on how societies from all over the world plan for retirement. It also sets out how this changing financial landscape is impacting on people's expectations and aspirations for later life. Optimism over retirement is low in Hungary and a lack of sound saving habits remains a significant obstacle to retirement preparation. Through the development of the Aegon Retirement Readiness Index (ARRI), our research is able to quantify what gaps remain to achieving a comfortable retirement for workers across Hungary. Undoubtedly obstacles exist that are out of the hands of individuals: interest rates in the Eurozone are at historic lows and an ageing population ultimately will curb the generosity of state pensions. However the fundamentals remain. Saving regularly and early on is the surest means to attaining financial security in later life.

Key Findings

■ **Hungary ranks second lowest in 2015 Aegon Retirement Readiness Index**

With a score of 5.1 out of 10, Hungary is assessed as having a 'low' level of retirement readiness. Globally, Hungary ranks 14th out of the 15 countries included in our 2015 survey. Relative to the global picture, there is a stronger reliance on the state pension as a source of retirement income, a contributing factor to Hungary's low ARRI.

■ **Hungarians are largely negative towards retirement**

Hungarians are among the most negative nations about both their country's economy and their own short term finances. Against a backdrop of bankruptcy among several of Hungary's financial institutions we find that almost half (49%) of Hungarians feel insecure about retirement.

■ **Hungarians are among the least likely to understand the need to save for retirement**

Despite the high level of insecurity felt towards retirement in Hungary, there is a lack of consistent saving and retirement planning. Currently, two-fifths (41%) of Hungarian workers do not have any plan for retirement.

■ **Saving habitually the key to improving Hungary's Aegon Retirement Readiness Index**

Nearly a third (31%) of Hungarian workers save habitually and this group has a 'medium' ARRI (6.7). There is a similar group (34%) that are Aspiring Savers. They currently have a much lower ARRI (4.2). Encouraging Hungary's Aspiring Savers to save money habitually has the potential to lift Hungary's overall ARRI considerably.

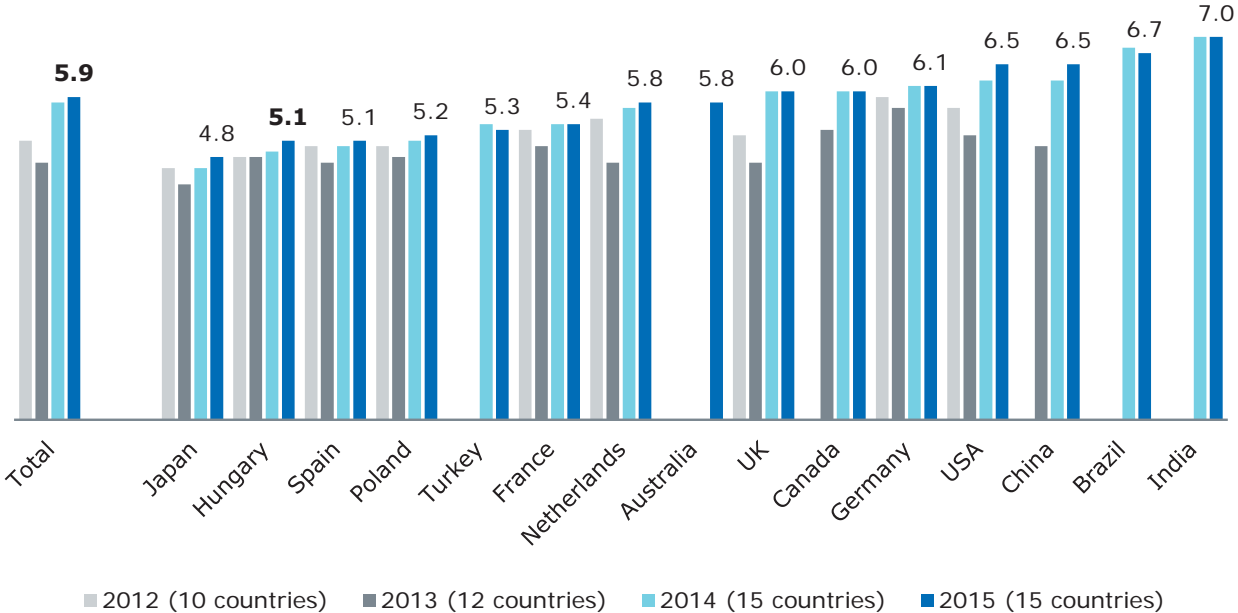
1. Hungary's Changing Retirement Landscape

Recent pension reforms and the absence of workplace pension schemes in Hungary means that the majority of Hungarian workers will rely on the mandatory, uniform state pension when they reach retirement age. In Hungary's low interest rate environment tax benefits have grown in importance and the Hungarian Government offered support for long term pension saving by offering a 20% tax benefit on pension insurance products as from 1 January 2014. Hungarian GDP has grown by 3.40% year-on-year compared to 0.90% for the wider European area.¹ While pension funds have performed well there have been concerns recently following the collapse of a number of Hungarian financial institutions, which caused panic in the Hungarian financial markets.

With life expectancy increasing around the world the sustainability of state pension schemes are increasingly coming under threat. Hungarians have much lower average earnings than most other countries in Europe² and the unemployment rate currently stands at 7.8%.³ The 2015 Aegon Retirement Readiness Index (ARRI) reflects the concerns many Hungarians have. The ARRI was created in 2012 to assess the relative levels of retirement preparedness across employees in all countries included in our survey. Respondents are grouped according to whether they achieve a high index score (8 or above out of 10), a medium score (between 6 and 7.99) or a low score (below 6)⁴. With a score of 5.1 this year, Hungary remains in fourteenth place out of the 15 countries surveyed.

Chart 1: Hungary places fourteenth in the 2015 Aegon Retirement Readiness Index (ARRI)

I. Index numbered assigned Base: Not Fully Retired (n=14,400)



¹ Trading Economics – Hungarian Central Statistics Office (March 2015)

² OECD Pensions at a Glance (2013)

³ Trading Economics - Hungarian Central Statistics Office (March 2015)

⁴ In 2015 we surveyed a total of 16,000 people in 15 countries around the world. This included 14,400 people currently in work and a further 1,600 people who are already living in retirement. The index is calculated using a group of questions measuring both behavior and attitudes of respondents regarding retirement preparation. For further information please see <http://www.aegon.com/index>

Clearly there are hurdles to ensuring that workers are able to prepare financially for later life in Hungary. Savers are being squeezed by low interest rates, a feature common to all economies across Europe and North America. Individuals too are concerned about the future of social security and the possibility of retirement benefits being reduced. Perhaps most saliently, a majority (77%) of Hungarians believe future generations will be worse off in retirement than current retirees.

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Interestingly, this view increases significantly as people get closer to retirement (from 72% among those aged 18-24, rising to 82% among those aged 45-54).

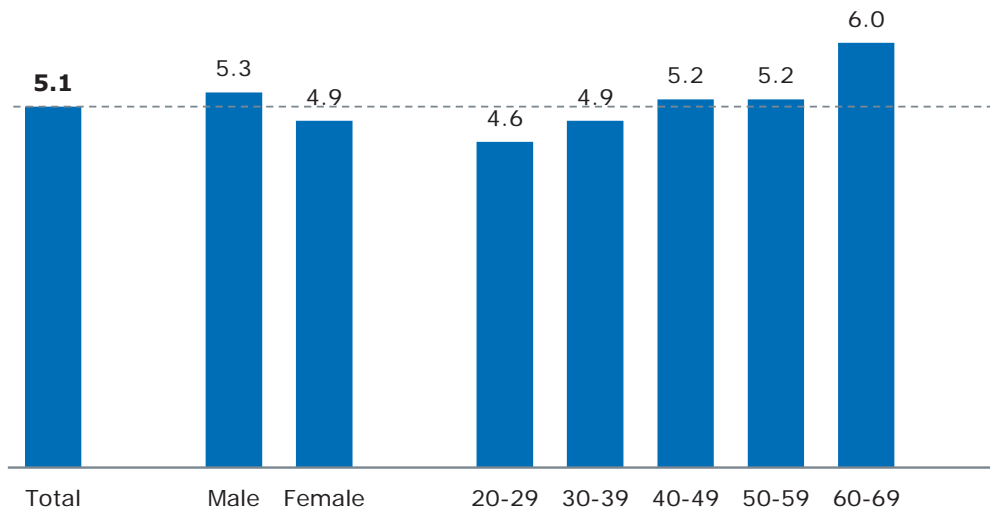
Women and younger generations are particularly ‘at risk’ of experiencing low levels of retirement preparedness. For women, the need to balance family and career means that they are more likely to be absent from the job market.

71% of women in Hungary scored a ‘low’ index ranking (less than six) compared to 62% of men.

For younger workers, it is understandable that retirement preparation takes time. But what is concerning is that successful financial habits are typically not adopted until people move into their late 30s or early 40s. This is simply too late to secure the kind of retirement people anticipate. With workers expecting to need on average 83% of their working age income in retirement, many people will fall short of this if they defer retirement savings into their 40s. The ARRI score of young workers remains persistently low around the globe, despite our research showing that effective savings habits are possible even among those on more modest incomes. Although Hungary has the second lowest ARRI of all the countries surveyed, it is worth noting that Hungary’s ARRI improved by 0.2 this year. Globally ARRI scores have improved for the third year consecutively which begs the question, does this improvement reflect real changes in savings behaviour or do people simply feel more positive about their finances as the effects of the global recession rescind? The following section will explore how people view retirement and what expectations lie ahead.

Chart 2: Women and younger workers have lowest ARRI scores in Hungary

I. Index numbered assigned Base: Not Fully Retired (N=900)

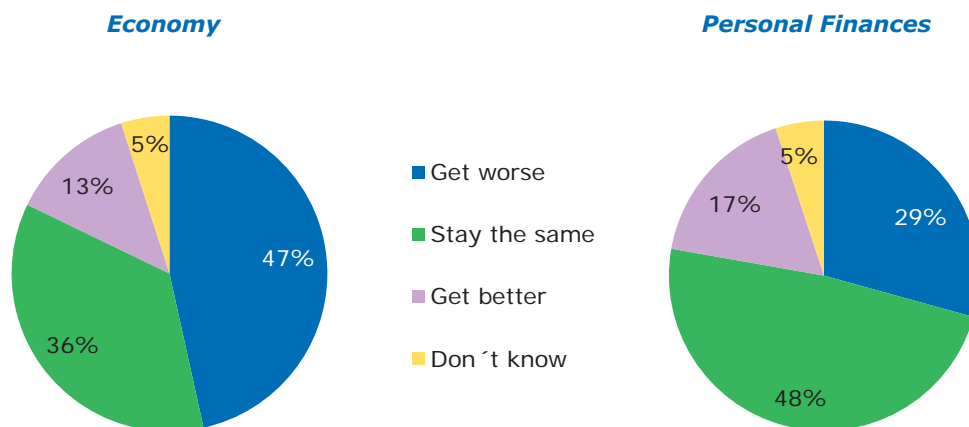


2. Retirement Expectations and Aspirations

Of the 15 countries surveyed, Hungarians have a pessimistic outlook for their country's economy in the next 12 months, almost half (47%) say that it will get worse. Almost half (48%) believe that their own financial situation will remain the same but a sizable minority (29%) say that their own situation will get worse. Men and young individuals are typically more optimistic of improvement in their personal finances.

Chart 3: Economy expected to worsen but personal finances not expected to change

Q. Thinking ahead over the next 12 months, do you expect the economy in Hungary to...? And thinking ahead over the next 12 months, do you expect your own financial situation to...? Base: All Respondents (N=1,000)



While retirement aspirations are similar to the lifestyle of previous generations in retirement - including spending time with friends and family (63%), Traveling (60%) and pursuing new hobbies (41%) - work is likely to play a larger role in the retirement of current workers. At the age of retirement, only 35% of workers say they will immediately stop work altogether.

When asked what words they associate with retirement, Hungarians are mixed in their opinions. While 58% of Hungarians associate positive words with retirement most Hungarians are apprehensive. 69% associate negative words with retirement with insecurity (49%) topping the list, followed by leisure (45%), poverty (34%) and freedom (31%).

Chart 4: Most Hungarians expect an active retirement

Q. Which, if any, of the following are important retirement aspirations for you? Base: All Respondents (n=1,000)

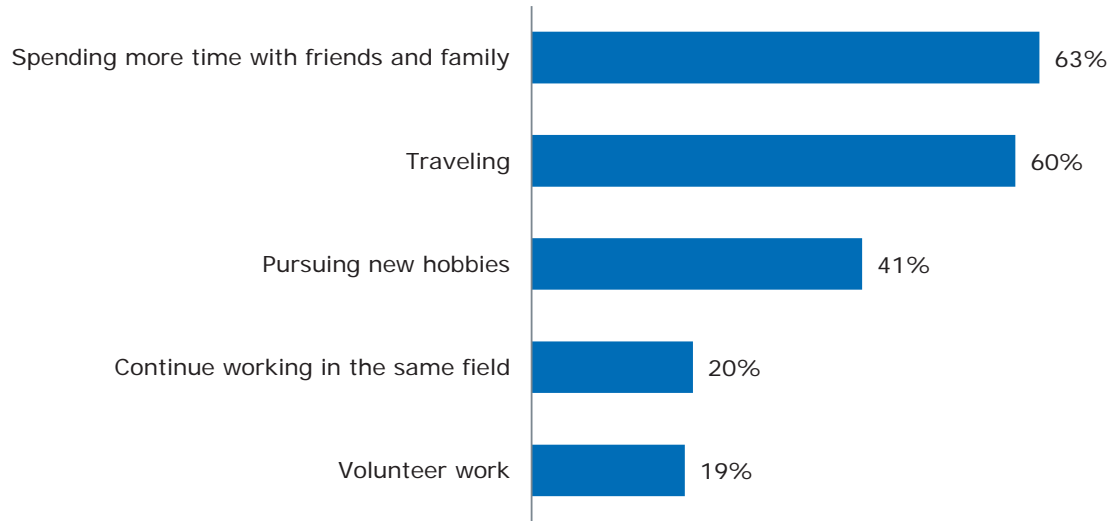


Chart 5: Retirement is generally viewed negatively

Q. Which, if any, of the following words do you most associate with retirement? Base: All Respondents (n=1,000)

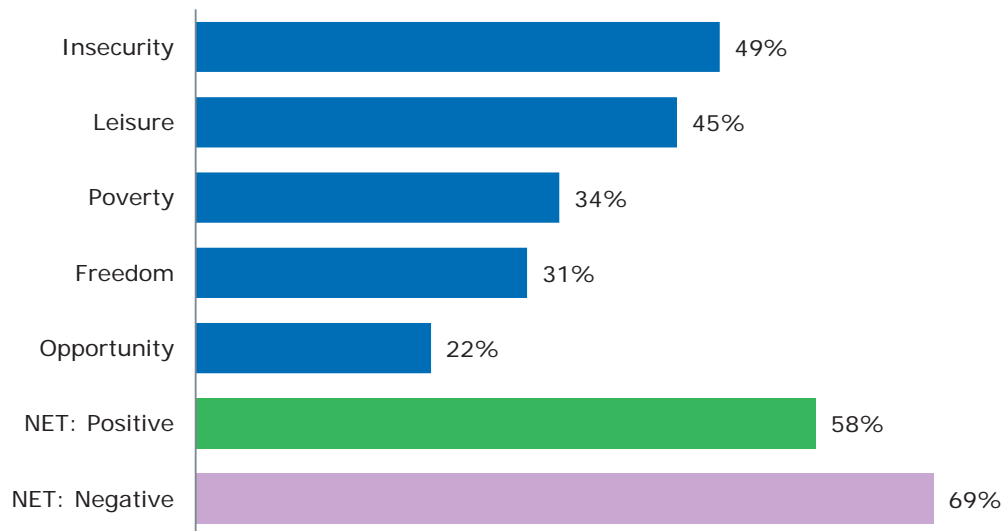
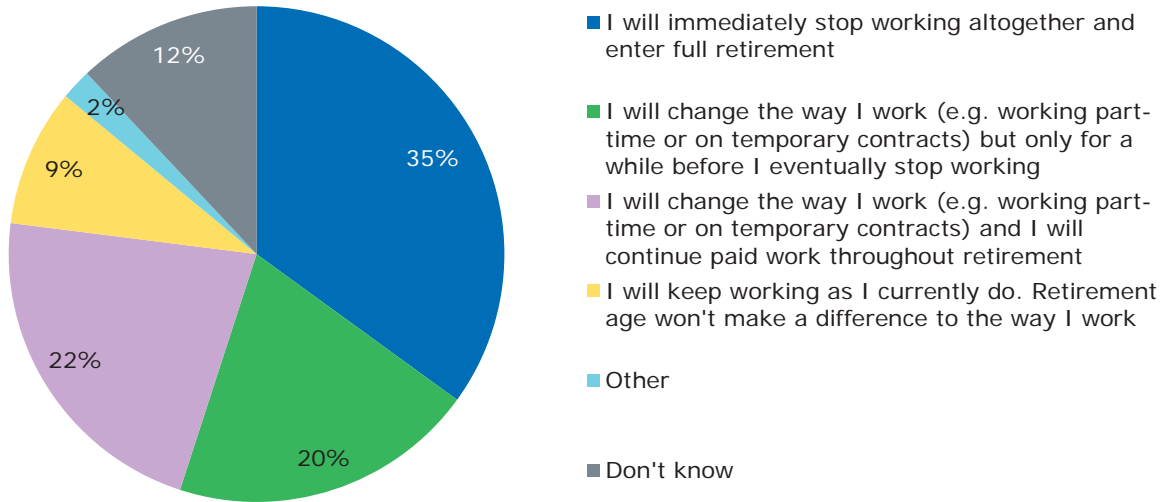


Chart 6: Just Over a third expect to stop working immediately

Q. Looking ahead, how do you envisage your transition to retirement? Base: Not Fully/ Semi Retired (n=830)



Given the level of insecurity Hungarians feel about their retirement, the financial burden of preparing for retirement is a cause for concern. Just over a tenth (12%) of workers are confident that they will retire with a comfortable lifestyle. Medical expenses are another stumbling block for future finances.

There are widespread concerns about the onset of poor health in retirement. Less than half (47%) are optimistic that they will maintain good health. Clearly, the constraints of access to social care are a concern given that over two-fifths (44%) are pessimistic that they will be able to pay for their own and their partner's medical expenses in later life.

Chart 7: Over three-fifths not confident they will retire with a comfortable lifestyle

Q. Overall, how confident are you that you will be able to fully retire with a lifestyle you consider comfortable? Base: Not Fully Retired (n=900)

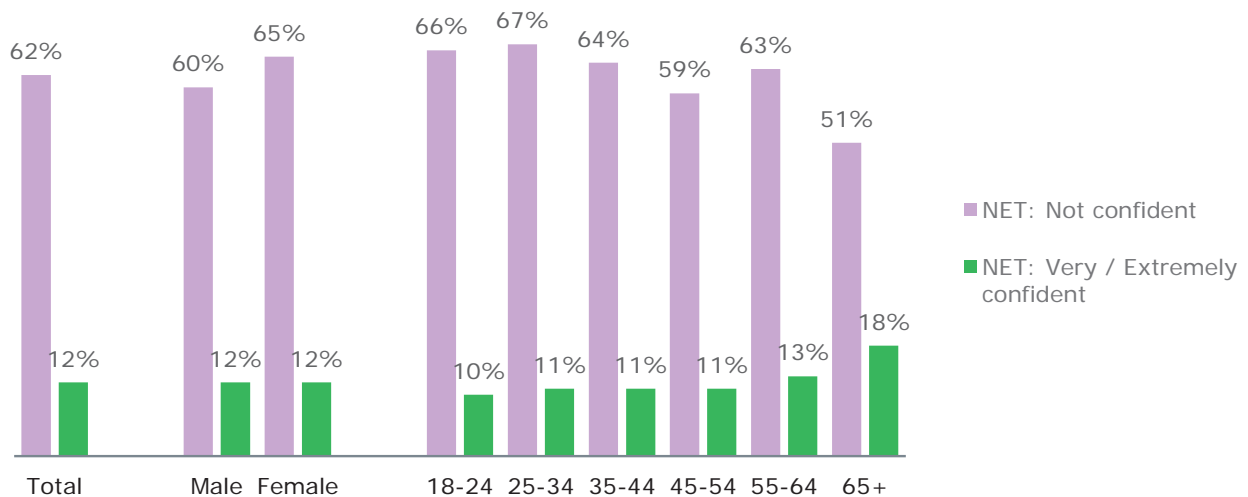
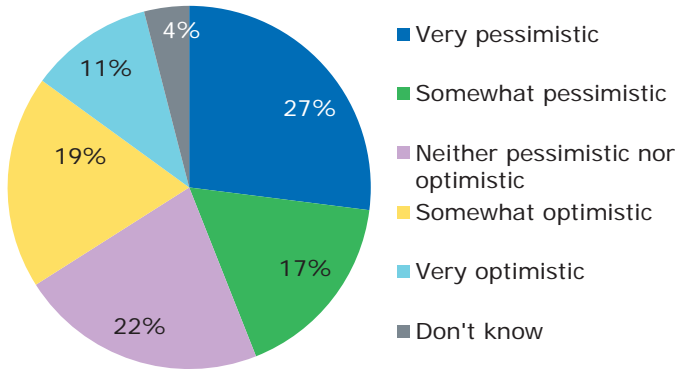


Chart 8: Just under two-in-five are pessimistic about funding medical expenses throughout retirement

Q. When thinking about your retirement, how optimistic are you about having enough money to take care of my (and my spouse's/ partner's) medical expenses? Base: All Respondents (n=1,000)

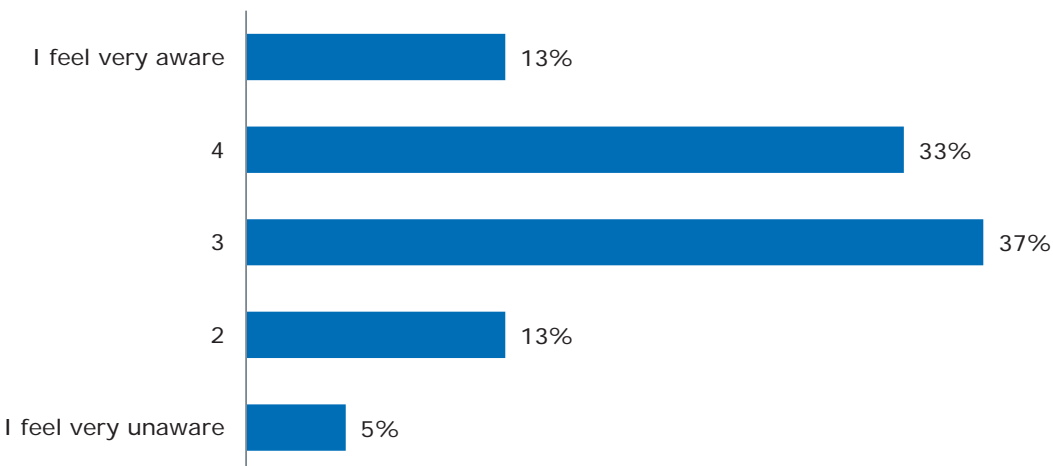


3. Retirement Saving and Planning

Heavily reliant on the mandatory state pension, Hungarian workers feel less personal responsibility and are less aware of the need to plan for retirement than workers in all other countries surveyed. Just over half (54%) feel personally responsible for ensuring they have a sufficient income in retirement. 46% are aware of the need to plan financially for retirement. These attitudes form a barrier to encouraging effective consistent savings habits.

Chart 9: Under half of Hungarian workers feel aware of the need to save for retirement...

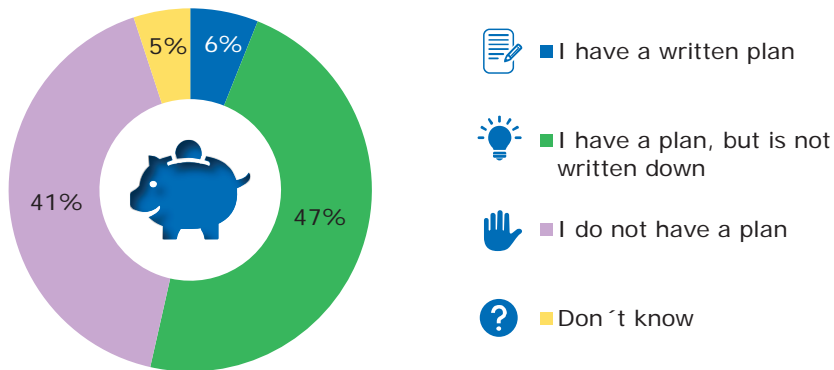
Q. How would you rate your level of awareness on the need to plan financially for your retirement? Base: Not Fully Retired (n=900)



Looking into the details of Hungarian workers' retirement plans, we find that more than two-fifths (41%) have no retirement plans at all. Just 6% have a written plan. While two-fifths (40%) of workers claim that their plans are somewhat or very well developed, only a sixth (16%) feel they are somewhat or very prepared in terms of how much they are putting aside to fund their retirement.

Chart 10: ...Yet few have made formal plans for retirement

Q. Which of the following best describes your retirement planning strategy? Base: Not Fully Retired (n=900)



When making financial plans for the long-term it is clear that people need to think beyond the obvious. Unexpected events such as periods of illness or unemployment, for example, have the potential to derail retirement preparation, so it is important that planning involve a backup plan. Just over one-fifth

(22%) of workers in Hungary currently have backup plans if they were unable to work prior to retirement. Of these plans, the most common strategy is to dip into savings (60%). If workers are to prevent the potential detrimental impacts of these events, adjusting savings habits early on is key.

Chart 11: Just over one-fifth of Hungarian workers have a backup plan for 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)

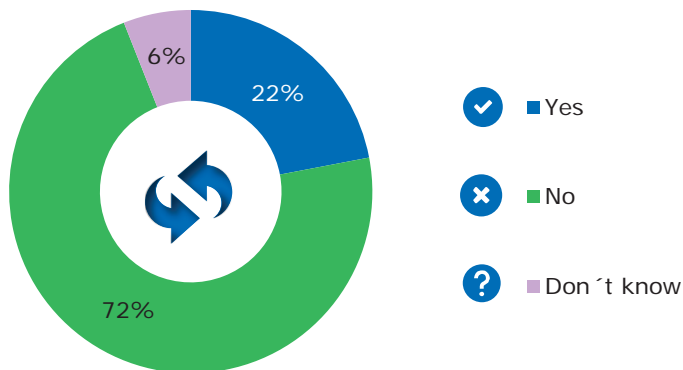
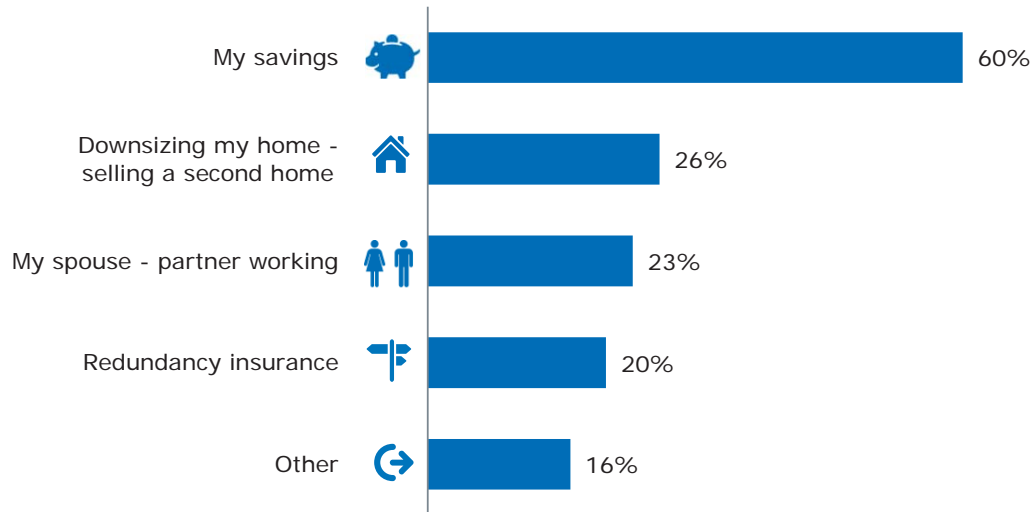


Chart 12: Most often backup plans involve dipping into savings

Q. Which, if any, of the following are part of your "backup plan" for an income in the event that you are unable to continue working due to ill health or job loss? Base: Have "Backup Plan" (n=201)



4. The retirement Savings Habit

As individuals become increasingly responsible for planning and funding their own retirement, personal savings habits take on an even greater role in overall financial preparedness. Our findings reveal that not only do workers need to take steps to start saving, but also to maintain consistent saving over time.

Our research reveals that there is a group of savers, those who save consistently, that are scoring the

highest in the Hungarian ARRI. This group is more likely to have a formal savings plan and feel confident that they are both setting aside enough for retirement and will enjoy a comfortable lifestyle in retirement. When comparing these savers with those who put money aside less frequently, the results are clear: saving consistently even in small quantities, is the best way to improve your readiness.

Chart 13: Aspiring and Habitual Savers are key to improving retirement readiness

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)

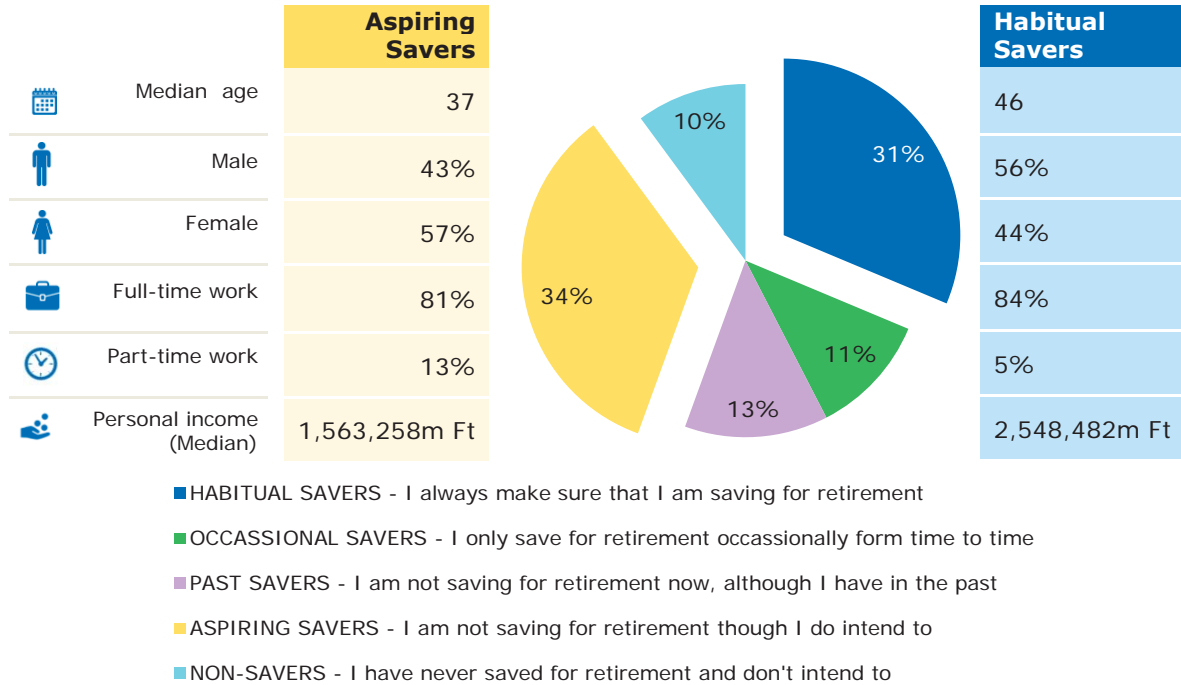


Chart 14: Retirement outlook and planning – Habitual and Aspiring Savers

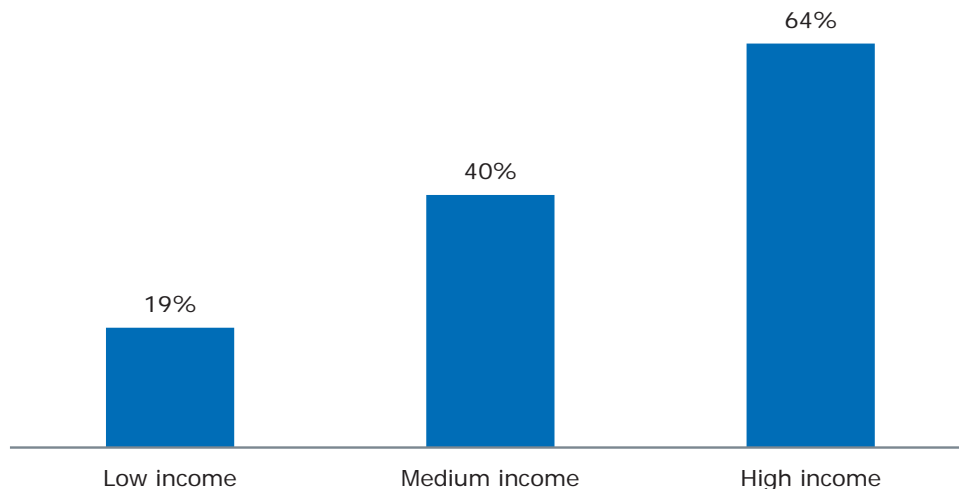
	Aspiring Savers	Habitual Savers
ARRI score	4.2	6.7
Positive associations with retirement	69%	69%
Confident of retiring with a comfortable lifestyle	7%	19%
Optimistic about maintaining good health in retirement	43%	52%
Have a written plan for retirement	1%	19%
Have a backup plan for retirement	13%	41%

Yet the biggest opportunity lies not in those who have already adopted successful savings habits, but in the Aspiring Savers who with knowledge or guidance are ready to take ownership of their financial future. We see a larger proportion of women and younger workers in the Aspiring Savers group who may be finding saving challenging due to constraints such as lower income or less access to employer pension schemes. Creating a pensions landscape which helps convert Aspiring Savers in to actual savers (and Occasional Savers into Habitual savers) should be the goal of all governments and individuals. The starting point is to understand the needs of these diverse groups and remove the barriers to planning and preparing for retirement.

Our research shows that while income can be a barrier to saving for retirement, successful savings habits can still be achieved even with modest earnings. Examining the proportion of Habitual Savers across personal income bands, we find slightly less than one-fifth (19%) of lower income earners (defined as up to 2.03m Ft per year) consistently save for retirement. However, at the medium income band (2.04m Ft to 4.06m Ft) this rate increases to two-fifths (40%). What is important is that individuals adopt a savings mind-set – even at higher income bands not all earners are consistently putting aside money for retirement. While a financially comfortable retirement may not require higher level earnings, taking ownership of one’s savings is a crucial step.

Chart 15: Habitual Savers by Personal Income Band - Hungary

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



Recommendations

- Individuals should take ownership of their financial future. Take steps to learn about retirement finances and make a plan to meet these goals. Saving consistently, even in small amounts, is the best way to ensure retirement readiness.
- The government could facilitate workforce education and wellness programs and create tax incentives to employers who implement them.
- The government could also encourage employees to create a “backup plan” in the event that they are unable to work to their planned retirement age (because of job loss, disability, etc.) by exempting insurance and other financial protection products from tax.
- Reforms should be encouraged to facilitate phased retirement programs. Phased retirement programs enable workers who have reached retirement age to transition to continue working in a reduced capacity (reduced hours, less demanding positions, less pay, or all three). Workers continuing to earn additional retirement benefits proportionately based upon the additional less-than-full-time employment.

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