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APPROACHING RETIREMENT IN POVERTY

Revised version of the paper prepared for the Pension Reform in Transition Economics

Hosted by the Institute of Economic Research (IER), Hitotshubashi, Kunitachi, Tokyo, Japan, February 22, 2003

The revised version was made on March 31 2003

Abstract

Despite the reform of 1997, numerous negative elements remained in the pension system which operate towards a levelling of the future pensioner society, regardless of the earlier position and time spent on the labour market or of the earnings. As a result the system in part reproduces poverty among the elderly. Due to problems with the second pillar of the pension system, further changes were made recently to the system. However, the move towards private insurance predicted by experts has been less than expected because employees do not have confidence in the social insurance pension system.

Society must face the problem that within the stratum of pensioners who make up close to one third of the total population, substantial numbers of pensioners have incomes close to the subsistence minimum. In order to ease this trend 1) there is a need to introduce regulators on the labour market imposing stricter sanctions on the evasion of social insurance by both employees and employers (e.g. through unregistered work), thereby increasing social security in old age for employees. 2) Pensions should be indexed not to a combination of wage increases and inflation, but solely to wage increases since at present these exceed inflation.

Biological and social background of the problems of the pension system

Demographical ageing

Hungarian society is a rapidly ageing society in both the demographical and the social senses. In 1980 persons over *60 years* represented 17.1% of the population, 10 years later this figure was 18.9% and by 2000 it had risen to *19.7%*. Similar demographical ageing characterised the 65 years and over age group. In 1990 persons 65 years and over represented 13.4% of the population and those 85 years and over represented 2.6% (U.S. Department of Commerce, 1993). By 2000 persons 65 years and over already represented 14.6% [Hungarian Central Statistical Office (HCSO) 2001, p. 44.] (Table 1). The trend is also found for persons over 70 years (HCSO, 2000, Statistical Pocket-book of Hungary ‘99, p. 14, Budapest).

Table 1. Distribution of the population by main age group in 2000

	0-14	15-44	45-64	65+	Total
HUN	17.1	42.7	25.5	14.6	100.0

Source: Demographical Yearbook 2000 [HCSO 2001, p. 44]

The total population (10,044,000 persons; HCSO, 2000, 14) increase fell to –3.8 per 1000 in 2000 (Table 2), a drastic decline compared to the 1970 rate of +3.1, and even the 1990 rate of –1.9 (HCSO, 2000, 20) (EUROSTAT 2000, p. 2. table 2). This process in itself disrupted the demographical equilibrium.

Table 2. Population change in 2000 (first estimates), per 1000 population

	Live births	Deaths	Natural increase	Net migration	Total increase
HUN	9.6	**13.3**	-3.8	0.0	***-3.8***
EU-15	*10.8*	*9.8*	*0.9*	*2.2*	*3.1*

Source: Eurostat [2000a, p.2]

Social ageing

The biological ageing is further aggravated by *social ageing*. By this expression Hungarian society, social and economic policy-makers, decision-makers, experts dealing with elderly people and civil society mean the proportion of pensioners and persons of pensionable age. While in 1990 the proportion of pensioners within society was only 24.3%, in the short space of ten years (by 2000) this figure rose to 31.2%. The changed social and economic circumstances are to be found behind this increase. During these 10 years *early withdrawal* from the labour market through various channels was one of the most widely used ways of avoiding unemployment. These channels have been: r*etirement on disability pension before reaching retirement age* (Széman 1990*). Pre-retirement* was introduced in 1990 and in this form employers transferred the benefit for employees no more than five years younger than retirement age to social insurance body until their employees reached the normal retirement age. A*nticipatory* retirement was introduced a year later, in 1991 as part of the unemployment system and it was paid to registered unemployed whose eligibility for unemployment benefit had expired and they had no job offer (it was eliminated in 1997). Since 1997 as part of the new pension reform the so called *advanced pension* for certain cohorts, a type of early withdrawal was introduced.

In addition, traditional forms of “ normal early withdrawal” *(persons working in jobs detrimental to the health* cold go into retirement earlier before reaching retirement age) increased variety and possibility of withdrawal from the labour market earlier.

1.Traditional forms of early withdrawal (existing also before the systemic change, before 1990)

a) Disability pension before early retirement
b) Pension for persons working in jobs detrimental to the health

2.New forms of early withdrawal (after 1990)

a) Pre-retirement (1990)
b) Anticipatory retirement (1991-1997)
c) Advanced retirement for certain cohorts (after the pension reform in 1997)
d) Advanced retirement on reduced pension
e) Partial old age pension with lower service period for certain cohorts

As a result of the rapid early withdrawal not only people reaching retirement age got a pension or pension type-benefit. In January 2001 a total of 3,116,000 persons received some form of social insurance pension or pension-type benefit. Of these, two thirds *received old-age pensions in their own right* or old-age-type pensions (e.g. persons on disability pension who have reached retirement age, persons on advanced and early retirement).

Because of the above trend the social ageing is more serious than biological ageing not only because of its greater proportions but also because of the many attendant problems such as effect on the labour market and the negative budgetary impacts. E.g. the dependency rate is very high compared to other countries. In 1995, for example, for every 100 economically active persons there was 124 dependants, compared to only 104 in Sweden, 107 in Germany and 108 in the United Kingdom (KSH, 1997, 246) (See also Simonovits 2002).

Because of cuts in the social protection system (e.g. there is no longer any real welfare protection after the expiry of the 6 months of unemployment benefit) (Lévai-Széman 1993) people wanted to withdraw from the labour market earlier, in part because of deteriorated health and in part because the pension, by insuring a small, steady income, provides a kind of social protection against unemployment. As a result, there has been an increase in expenditure on social insurance, social and welfare services which have reached 20.7% of GDP. Large sums were spent from the steadily declining GDP[1] on benefits for the aged.[2] From 9.1% in 1989, expenditure on pensions reached 11% in 1991 and the level was only slightly lower in 1994. In addition, because of pre-retirement the outstanding assets of the Pension Fund increased 6.7-fold, from 890 million to 6 billion HUF (9.1 million and 63 million USD) between 1992 and 1995.[3] There was a lack of a flat-rate pension as well.

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[1] In 1990 the GDP index was -3.5 %, in 1991 -11.9 %, in 1992 -4.5 % (Magyar Statisztikai Zsebkönyv '93, 1994: 196).

[2] In 1991 pensioners received annual compensation of *24 %* linked to net average earnings (the inflation rate was 24%). In 1995, the increase was only 11 %, while the average inflation rate was 28,8%.

[3]Bankruptcy proceedings were initiated against *5.3 %* of firms in industry (788 out of 14,796), against 3.4 % in the construction industry (298 out of 8687) and 10 % of those in agriculture (373 out of 3750). (Monthly Statistical Reports 1992/12, KSH: 87).

Subsequently the share of welfare expenditures in GDP declined (Table 3) despite the fact that pensions were increased continuously from the early 1990s. At the same time, various penalty points have been incorporated into the calculation of pensions which means that persons newly retiring are awarded lower pensions than persons who had retired earlier.

Since the economically active population has continued to decline, while the proportion of pensioners has been rising a new, uniform, higher retirement age was introduced as part of the pension reform in 1997. The retirement age was raised to 62 years from the earlier 60 years for men and 55 years for women.

Table 3

Changes of real values of welfare expenditures in % of GDP, 1991-1999 (1991 = 100)

	1991	1999	1991	1999
Education	5,6	4,4	100	87
Health	5,5	4,3	100	85
Social insurance, social and welfare services	20,7	14,9	100	79
Housing, settlements and regions	4,0	1,1	100	31
Spare time, culture	1,7	1,2	100	77
Environment protection	0,7	1,0	100	159

Source: Ministry of Finance

Regulatory measures and other factors influencing the situation of future pensioners

One of the penalty elements introduced into the pension system was the introduction of an upper limit on individual pension contributions from

1992. Earlier, between 1988 and 1992 there had been no ceiling on pension contributions and hence on the income that could be taken into account in calculating the old-age pension. However, from 1992 the upper limit of pension contributions was set each year. In this way, someone with high earnings between 1988 and 1992 could increase their future pension substantially, in contrast with the situation following 1992. In 2001 and 2002 the ceilings were still relatively low (Table 4). At the time of writing it has not yet been decided whether this limit will be raised in 2003.

Table 4. Upper limit of income taken into account in calculating contributions and pensions

Year	Upper limit of income taken into account (HUF)	Upper limit of income taken into account (USD)	Average monthly income	Increase over basis year (based on annual income)
2001	2 197 300	9554	183 108	Basis year =100%
2002	2 368 850	10 378	197 404	107.8%
2003	3 905 500	16 980	325 458	177.7%
Increase in 2002–2003				
2002 = Basis year				100%
2003				164.9 %

Calculation of the amount of pension awarded is determined by the much discussed Pension Act based on three pillars[4] which came into

4. The first pillar is still the compulsory pension fund operating on the same principle as before the reform. The social insurance pension continues to operate in the “pay as you go” system.
The second pillar is the private pension funds operating on the funded principle (also known as compulsory private pension funds). Citizens pay a certain per cent of their income (up to a ceiling of double the average earnings) into one of these funds which invests the savings to increase the sum that will be the basis for the future benefit. On retirement the pensioner then receives the resulting sum in the form of an annuity or (exceptionally) as a lump sum.
The third pillar is the voluntary mutual benefit funds, as well as commercial insurance policies and other forms of saving.

effect in 1997 (see, e.g. the paper presented at the workshop by A. Simonyi). In this paper I concentrate primarily on the present situation; I shall not analyse the changes planned for after 2008 (e.g. taking into account the gross average earnings, calculation of the service period in the light of whether the person paid pension contributions solely to the social insurance system or also paid contributions to a private insurance fund). The amount of the old-age pension depends on the years of service recognised and the monthly average earnings. (The pension is *tax exempt*, consequently at present the calculation is based on net income.) The present pension system contains both positive and negative features:

The method used to calculate pensions is very complicated. The range of persons entitled to pensions is also very wide. a) Persons who have reached the age of 62 years and have at least 20 years of service are entitled to the full social insurance old-age pension. b) Persons *three years younger* than 62 years and with at least *40 years of service* are entitled to an *advanced pension*. c) Insurees who have reached the age of 59 years and who have *no more than 3 years less* than the 40 years of service may be awarded a *reduced advanced pension.* d) *Partial old-age pensions* may be awarded to persons with less than 20 years of service[5]

Up to the end of August 1999 the reform also gave employees who were not beginners the opportunity to join a private pension fund. At least half of those in employment took advantage of this possibility. Those who opted for the mixed pension system renounced one quarter of their future social insurance pension in the hope that their contributions to their own account in a private pension fund, through investment, would eventually amount to more than this. In 2002 people were given the possibility up to the end of the year to leave the private pension fund and return to the purely social insurance system. The justification for this measure was that the conditions serving earlier as a basis for the calculations had changed over 5 years. Originally, the compulsory contribution to be paid to private pension funds would have been 8% for the last 3 years. However, the government in power in 1998–2002 reduced this by one quarter to 6%. The state guarantee that the part of the pension derived from private pension funds would not be less than 25% of the total pension was withdrawn. The new Socialist-Free Democrat government is increasing this contribution by 1% in 2003 and in 2004 it will reach the level originally planned. The private pension funds are in decline and this can have a negative influence on active workers on the labour market, the pensioners of the future. This situation is also reflected in individual household savings. (Szeman, Zs (2001).

[5] A) Men or women who reach (have reached) the age limit applying to them between June 30 1993 and January 1 2009 and have obtained at least 15 years of service up to that point.

(Article 7 of the Pension Act), and e) there are special rules applying to persons who have worked in jobs imposing exceptional physical strain and detrimental to the health. f) Separate regulations apply to disability pensions.

The longer the period spent on the labour market the higher the pension. After 20 years the pension is 53% of the average earnings and after 40 years 80%. The Pension Act rewards those who remain active after reaching retirement age and those with a longer period of labour market activity. Each year above 40 years of service means a 1.5% increase in the average earnings. (Table 5)

Table 5 The amount of pension as a function of the period of service

Period of service	Percentage of monthly average earnings
20 years	53
25	63
35	73
40	80

Each subsequent year: 1.5%

<u>Potential poverty traps in the pension system</u>

The period of service increases the pension while the degression in the calculation of income decreases the pension awarded. This has an unfavourable influence in the case of persons with higher active earnings during their active years and leads to a decline in the standard of living and a degree of impoverishment in old age. For those with higher incomes this *degression* restricts the amount calculated from a relatively low average earnings. The regulator in force in 2002, for example, applied a very high degressive key to average earnings above 80,000 HUF (approx. 343 USD) (Table 6).

Situation of pensioners

As a result of the increases in the pensions of more than 3 million pensioners, the average real value of pensions increased somewhat. Nevertheless, in January 2001 the value of the average pension compared to average annual earnings was only 59.1% (HCSO, 2002. 92).

Comparing pensions and pension-type benefits to the subsistence minimum, we find that the two values are very close to each other. The average pension is around 10% higher than the subsistence minimum calculated by the Central Statistical Office. In January 2001 close to one third of all benefits were between 30,000–40,000 HUF (130 USD – 174 USD), while the average pension was 35,931 HUF (157 USD) (HSCO, 2000, 81.). This means that a substantial proportion of pensioners received sums below or very close to the subsistence minimum. Pensioners living alone were in an especially bad situation. According to the subjective opinion of pensioner households the “official” subsistence minimum is sufficient only for a very limited livelihood and in reality they need a larger sum (Kardos-Szabó-Szeman-Talyigás, 2003.). Moreover women, who made up a majority of pensioners, were in a much worse situation than the men. In early 2001 there was a difference of more than 6600 HUF (29 USD) between the pensions of men and women, to the detriment of the latter. This is due to the shorter period of service accumulated by women and to the lower level of women's earnings (an average of 20–30% lower than those of men). Why did a relatively large stratum of poor persons arise among pensioners and how is it reproduced?

One of the explanations for the reproduction is to be sought in the regulatory system itself. While the *advanced old-age pension* allows members of the labour market to retire relatively young, three years before the normal retirement age of 62, this also requires a very long period of service, at least 40 years which cannot be accumulated if a person has been unemployed for even a short while or has dropped out of the labour market for some other reason.

The Pension Act is more lenient in the case of *reduced advanced old-age pensions* allowing people to retire earlier with a shorter period of service but in this case they receive a lower pension.

Also in a worse situation are men and women *entitled to a partial old-age pension* who have less than 20 years of service, and *disability pensioners* whose pension in all cases is much lower than the old-age pension.

With low average earnings, even with a relatively long service period, poverty in old-age can be reproduced. A person with a relatively long service period of *35 years* and an average wage of 54,600 HUF (243 USD) will receive a pension of 39,858 HUF (177 USD) (according to a calculation by a social insurance expert). This sum will be *below the average pension* and as a result the pensioner *falls into the poverty trap despite the fact that he or she worked for 35 years and the Pension Act recognises this as a long period*.

Another problem of pensioners is that differences between the earnings in the active period are blurred in the benefits paid by social insurance: differences often as high as 10–15-fold in incomes in the active period are reduced to 3–4-fold in retirement.

What is the situation if someone has worked for a long period (e.g. 44 years) and always earned more than the given pension ceiling? If someone earned five times the average wage (approx. 110,000 HUF/489 USD) in the period 1988–1992 and applied for retirement in 2002, he or she could count on a pension of 110,000 HUF. This would have meant that his or her income, which has been 330,000 HUF (1467 USD) would suddenly fall to one third. The use of degressive calculation and a ceiling can be regarded as a form of penalty.

The result of all this is that persons withdrawing from the labour market experience a deterioration in their standard of living which can lead in the long term to poverty, even if they were earlier in a good position with a high income and had a long period of service. Most active earners are unable to accumulate savings from their earnings because of the high cost of living, providing an education for their children, helping them at the start of their career and obtaining housing for them.

The poor have even less possibility for savings. A survey on poverty found that more than one third of households in the sample had no savings but if the compulsory social insurance was not taken into account the proportion of households without savings was twice as high: 66% of all households had no savings (Ferge-Tausz-Dávid, 2002, 45).

This means that for the most part pensioners live on their pensions, which are low. In January 2002 only 0.3% of all pensioners received a pension higher than 100,000 HUF (430 USD), which can be regarded as a high benefit. Less than 2% had a pension of over 80,000 HUF (348 USD). One fifth had pensions of 25,000–30,000 (130 USD) and around 40% had pensions of 30,000–40,000 (131–174 USD), when the average pension was 47,500 HUF (206 USD). In other words, the majority of pensioners continued to receive sums below the average pension which, as already noted, was around the subsistence minimum or sufficient for only a very modest livelihood (Kardos-Szabó-Széman-Talyigás, 2003).

It is a further indication of the poor situation of pensioners that more than 800,000 pensioners applied for *pension increase on the grounds of neediness* when this possibility was introduced as a measure to raise the level of the lowest pensions. This figure represents more than one quarter of all pensioners.

In principle the Pension Act ensures the possibility for people to live without care in retirement. Why are Hungarian pensioners poor despite this and why is this trend continuing? The trend will depend to a great extent on changes made in the regulators. Besides the award of pension increases in cases of neediness, the plan to raise the pension ceiling will also act against impoverishment.

Poverty among pensioners has not arisen because people were not willing to work. Part of the poverty has always been related to certain elements in the pension system and their amendment over time, to connections between the pension system and the labour market, and to the system of regulators applied to the labour market, e.g. the failure to adjust past earnings for inflation when calculating the pension, the restrictions imposed, the period of service taken into account, etc. In principle, it is possible to achieve a pension equivalent to 100% of the previous earnings. However the Act does not allow a pensioner to receive a benefit higher than the earlier average adjusted income. Moreover, such a case (100% pension) would have been possible only if the person had earned around the minimum wage.

There is also another important element in poverty: the nature of the connection to the labour market.

The prospects in retirement of persons who are poor while still active

What happens to persons in an economic and social position that allows them to join the labour market for only a very short period?

In 2001 as part of an ILO (International Labour Organisation) project, research was carried out on “Struggle against poverty and social exclusion”, examining households in the poorest third of the population. The households were selected by multi-step, random sampling. 73% of the household heads were men and 27% women. The selected interviewees were aged between 18–60 years and a few of them were pensioners (mainly disability pensioners) (Ferge, Zs. Tausz, K. Darvas, Á. 2002, 19).

Part of the survey of importance to our subject will be analysed in the following (with the permission of the authors). As we have seen, one of the key elements in calculating pensions is the period of time spent on the labour market. In reply to the question *“How many years in insured employment giving pension entitlement have you accumulated?”* 19% of the household heads gave the answer 1-9 years and 40% 10-20 years.

In this same poverty sample representative of the lower third of the population, 72% of all household heads aged 55–60 years were disability pensioners. Close to one third of the disability pensioners had no more than 20 years covered by insurance and 5% had less than 10 years. A further one quarter had 10–20 years of service. This low period of service can be explained by early withdrawal (Tables 7a, 7b). As a result these people received pensions much lower than the old-age pension. Disability pensions can be granted to persons a) who have lost 67% of their capacity for work due to deterioration of their health and no improvement is expected in this state for one year, b) have obtained the necessary service period, c) are not working regularly or are earning substantially less than before the disability. The Pension Act sets out the period of service required for the different age groups in the case of disability, rising steadily from 1 year at the age of 22 years (to 15 years at 45–54 years). From the age of 55 years a person must have 20 years of service to be awarded a disability pension. This means that being a disability pensioner inevitably results in a state close to poverty in old age. It has already been observed that the average pension is very close to the subsistence minimum. However, a distinction must be made between the average pensions for different categories of pensioners. The highest average pension is that of persons receiving full old-age pensions. The *average monthly benefit of disability pensioners below retirement age is around 20% lower.* It can be seen that right from the outset the disability pensioner is much closer to the poverty trap than a person who withdrew from the labour market through the "normal" channel even if with penalty points. Nevertheless, the fact of being on a disability pension does offer a certain degree of protection with the low but regular income that it gives, compared to the insecurity of unemployment. In the poverty sample 17% of the household heads were unemployed and in the case of those *over 46 years* this proportion was still a high 15%. Close to one fifth of the men but only 11% of the women were unemployed (Ferge-Tausz-Dávid, 2002, 74). Under the provisions of the Pension Act, from December 31, 2008 the sums paid in the form of unemployment benefits, unemployment aid before retirement (as well as child-raising support and nursing fee), and other income derived from insurance during the period covered by these benefits will not be taken into account in calculating the average monthly earnings forming the basis of the old-age pension, unless this sum is more favourable for the applicant. (In the latter case the combined sum of income derived from insurance and the benefits listed must be taken into account as earnings.)

In 2002 a person over the age of 46 years had a high chance of becoming unemployed before reaching retirement age since, as confirmed by another survey, *society, and especially firms, regard those who have reached 40 or 45 years as "elderly*" members of the labour market, or at least on the way towards ageing. (Others regard manpower as elderly "only" at a later age, after reaching *50 or 55 years)* (Széman, 2002).

It is striking that the proportion of disabled persons is also high in the under 30 years age group. 18% of those in this age group were disabled. Most of these people had accumulated only a very short service period. The great majority (79%) had less than 10 years of employment. This is important because in principle the elder age groups have a whole life career in which to avoid the poverty trap – although it must be stressed that this is only in principle – while people leaving the labour market before the age of 30 have already fallen into that trap. At the same time, these younger people whose health has deteriorated almost certainly took advantage of the possibility of retirement on a disability pension, particularly since there was a great risk of unemployment for people under the age of 30 too. In the survey on poverty 23% of those in the sample aged 18–29 years were unemployed (Ferge-Tausz-Dávid, 2002, 99).

Table 6.a Percentage of disability pensioners and service period accumulated, by age group

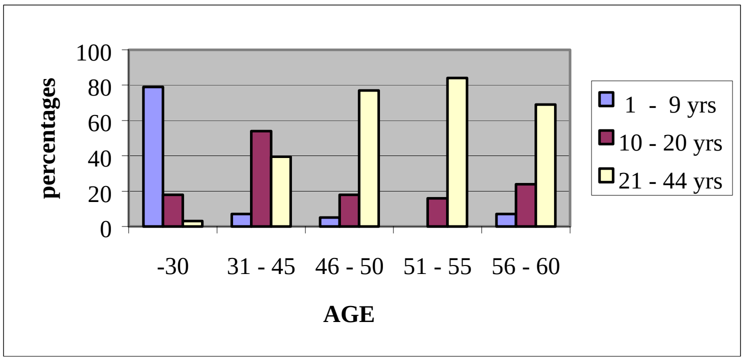
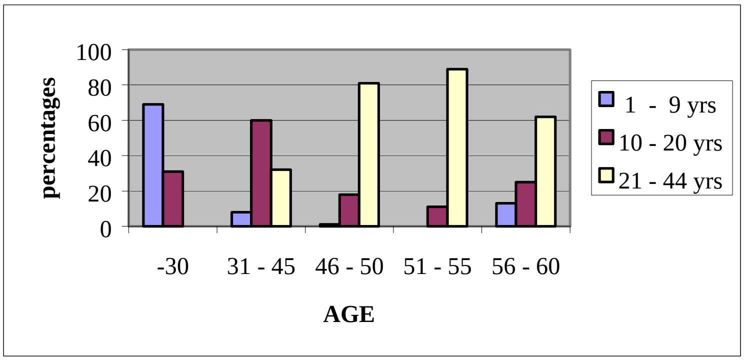


Table 6.b Breakdown of the economically active by age group and



period of service accumulated

For the above reasons, withdrawal on a disability pension is a widely used form for leaving the labour market. In January 2000 disability pensioners below retirement age represented 13% of all pensioners, while disability pensioners who had reached retirement age made up 10.9% (HSCO, 2000, 81). The representative survey with a sample of 1000 persons over 18 years carried out in 2001 on behalf of the Economic Department of the Hitoshubashi University showed the following. The *lowest activity rates* were found *in the 51–60* years age group where only *36%* were active, but *one third were disability pensioners* and close to *one quarter old-age pensioners* (Széman-Harsányi, 2002)

It is quite obvious that disability pensioners are at a disadvantage from the outset. But what are the prospects for those in the sample who have not yet reached retirement age, especially elder workers? Table 7b shows that one third of the economically active in the 56–60 years age group have very few years of service. Assuming that they will all leave the labour market at the age of 62 years, a) more than one tenth still need 2–7 years to reach the retirement age of 62 years (the age when they become entitled to a full old-age pension), b) one quarter have a low service record even if we assume that they will spend the next 7 years continuously on the labour market. However, since they represent the lower third of the population, even if they remain on the labour market they have little chance of achieving a higher pension. In the case of those with low earnings this is due to the earnings which will be reflected in the eventual pension.

As already noted, withdrawal before the normal retirement age on advanced pension or advanced reduced pension must be regarded as an element reproducing poverty, channelling the future pensioner towards the poverty trap.

In the case of those with higher earnings, the failure to adjust earnings in the last three years before retirement for inflation when calculating the pension, reduces the sum of the pension awarded.

There is another factor that must be taken into consideration when discussing the reproduction of poverty among future pensioners. This is activity on the black market, in which case the person does paid work but *does not accumulate years of insurance*. At the workshop in February 2002 I already indicated this trend characterising the Hungarian economy. (In a survey conducted in a sample of 1000 persons, we asked whether they regard the statements listed below as true or false.)

Because the trend is important for our subject, it is worth considering the statements and answers.

Table 7 Statements concerning discrimination

Statement	Considered true N	Considered true %
1.They prefer(red) to hire young people.	592	54.8
2.They only hire(d) people with the right experience.	590	51.9
3.They do (did) not hire ageing manpower.	590	45.8
4.They hire(d) people that they can pay less.	588	44.9
5.They hire(d) young people for creative work and older people for work requiring experience.	590	37.0
6.Young workers are better appreciated than older ones.	585	27.9
7.The firm requires workers to give invoices.	587	27.7
8.They prefer to hire women.	589	26.8
9.The firm willingly hires pensioners.	586	21.6
10.There was strong ethnic discrimination in hiring.	586	13.6
11.The firm hires people it pays unofficially.	586	9.3

The fact that close to one tenth of interviewees admitted that firms hire people they pay unofficially means that the presence of *black labour* in the economy can be estimated as being at least double the amount admitted.

Depth interviews conducted since then with directors of construction firms (Széman 2002, 2003) have confirmed that the firms use various illegal or semi-legal techniques: a) they pay employees unofficially, meaning that neither the firm nor the employee pays a social insurance contribution, b) the firm officially employs persons for the minimum wage or close to that level, paying other remuneration informally in cash or in kind, c) the firm only employs the worker if he gives an invoice (as a self-employed person or small business). In such cases the onus of reporting to social insurance and paying the contribution falls on the person giving the invoice, not on the firm.

This means that employers may employ ageing workers legally, semi-legally or illegally. The individual, from his own point of view is active in the sense that he is present in the labour market, is part of the GDP and in this way is also linked to the macro economy. At the same time he does not appear in the statistics, or only in hidden form, or does not appear at all in the social insurance systems. In the case listed under a) he falls into a black hole as regards social insurance. In the case of c) he himself determines the extent of his connection to social insurance which in general means that he opts for the smallest cost over the short term (the smallest social insurance coverage). This problem is indicated in the answers given to a question in the survey concerning problems related to entrepreneurial activity. Among the various possible answers, the most frequently selected was wage-related expenditures (social insurance contribution, unemployment contribution), followed by irregular revenues.

Causes of unsuccessful connection to the labour market

Problems of entrepreneurial activity could be selected from seven given statements. These were the following.

Statement	**% of interviewees selecting**
1. wages and wage-related costs (social insurance, unemployment contribution)	64.1
2. irregular revenues	62.7
3. uncertain sales	54.2
4. low revenues	54.9
5. little or no demand	38.6
6. difficulty in procuring raw materials	14.4

7. lack of suitable manpower. 13.0

Statements 1 and 2 were selected most frequently. Almost two-thirds of the businessmen interviewed indicated *problems with wages and wage-related costs, and irregular revenues* as problems. Statement 1 clearly indicates what a heavy burden the tax system imposes on businesses, while statement 2 once again confirms the financial insecurity characterising small businesses.

Another fact indicating the problem of lack of a social net is revealed in the survey on poverty where the majority of interviewees considered that they will receive a pension, despite the fact that only around 50% pay a pension contribution or were aware that the employer was paying a pension contribution for them. Close to 40% of self-employed persons and 20% of the unemployed had no insurance (Ferge–Tausz–Dávid, 2002, 45).

Conclusions

Despite the reform of 1997, numerous negative elements remained in the pension system which operate towards a levelling of the future pensioner society, regardless of the earlier position and time spent on the labour market or of the earnings. As a result the system in part reproduces poverty among the elderly. Therefore, the move from private insurance predicted by experts has been less than expected because employees do not have confidence in the social insurance pension system.

Society must face the problem that within the stratum of pensioners who make up close to one third of the total population, substantial numbers of pensioners have incomes close to the subsistence minimum.

In order to ease this trend 1) there is a need to introduce regulators on the labour market imposing stricter sanctions on the evasion of social insurance by both employees and employers (e.g. through unregistered work), thereby increasing social security in old age for employees. 2) Pensions should be indexed not to a combination of wage increases and inflation, but solely to wage increases since at present these exceed inflation.

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