



The New Social Contract: Empowering individuals in a transitioning world

Aegon Retirement Readiness Survey 2019
Hungary Country Report

Table of Contents

Foreword from Hungary CEO Zatykó Péter	3
Introduction - Nine essential features of the New Social Contract	4
Key Findings	
Part 1: The future of retirement	8
Part 2: Reimagining the ideal retirement plan	11
Part 3: Envisioning age-friendly communities	16
Part 4: Working towards a New Agreement between the State and Individuals	18
Part 5: Recommendations	20
Appendix	
Appendix 1 - ARRI methodology	23
Appendix 2 - Answers to the “Big Three” financial literacy questions	24

Note: Percentages are shown to zero decimal places. Rounding percentages to the nearest whole number may result in slight differences; for example, the percentages in some charts summing to slightly under or slightly over 100 percent.

Foreword

Retirement systems around the world are coming under increasing financial strain as people are living longer and spending more time in retirement than they did a generation ago. Hungary is no exception, only 4 percent of people believe the government should not do anything, the social security system will remain perfectly affordable.

An even more worrying fact is that the Hungarian population is ill prepared to face the financial challenges stemming from the expected decline in state-provided pensions. While assuming individual responsibility in financial matters, planning and saving for the future should play an ever-increasing role in retirement planning, only 27 percent of Hungarian workers say that they are always saving for retirement and the population in general still expects 54 percent of its pensions to be provided by the state. This varies by age groups, with Baby Boomers expecting 70 percent to come from the state compared to 42 percent amongst Millennials.

Careful planning and acting upon the plan are not yet widely acknowledged. In a world where employees decide how much they want to save for their retirement and how they invest their savings, promoting financial literacy among the working population is essential, just as teaching children the basics about finances. It is alarming to see the lack of widespread financial literacy. It is the responsibility of policymakers, educators, employers and other social institutions to make progress.

Traditional views of retirement are changing, people see it an active phase in life where they can pursue their aspirations to travel, spend more time with friends and family and take up new hobbies. This requires two things: health and income. Increasing life expectancy presents us with several challenges if we are to ensure good health in retirement. It requires that we change our lifestyle: we stay active, rest more, and eat healthy. Well-being at retirement needs careful planning and we need to start saving as soon as possible.

Planning is important, especially in Hungary with its ever-changing retirement system. The Hungarian tax and retirement system supports employment beyond the traditional retirement age which creates new income opportunities. At the same time increasing average wages and the relatively low inflation rate decreases the purchasing power of retirement income.

This is why employment at old age is welcome, but it will only be of real value if retirees look at employment as a source of joy and not only as a source of income.

Being a company committed to society's everyday security and sustainable finances it is our mission to call people's attention to issues on the sustainability of the retirement system.

I hope you will join us acting together for a healthy and secure retirement!



Zatykó Péter
CEO Aegon Hungary

Introduction

The Aegon Center for Longevity and Retirement (ACLR) is proud to present findings from its eighth annual Aegon Retirement Readiness Survey, [*The New Social Contract: Empowering individuals in a transitioning world*](#). This survey is the result of a collaboration with nonprofit organizations Transamerica Center for Retirement Studies® (based in the US) and Instituto de Longevidade Mongeral Aegon (based in Brazil). It represents Aegon's long-standing commitment to building a greater understanding of how social, demographic and economic changes are impacting the sustainability of retirement systems around the world. This Country Report explores the experience of retirement readiness in Hungary, covering the country's evolving pension system and how individuals are living, working and aging in a way to best attain a comfortable retirement.

Social contracts between governments, employers, and individuals are central to retirement systems around the world. While social contracts forged during the 20th century across the world are crumbling under the pressures of rapid social and economic changes, Hungary's current social contract is one far younger. Since the fall of communism, Hungary's economy has negotiated the freeing of markets, opening of trade and privatization of industries. However, as individuals have been able to build more wealth than previous generations, the country has equally weathered initial unemployment spikes through the decentralization process in the early 1990s, and the fallout of the global financial crisis. While an open market has helped to buffer overall wealth levels, previous decades' certainty of employment and stability into old age is no longer a given.

Current Hungarian workers, who have met minimum pension requirements for pensions and are approaching retirement age, can expect to receive a relatively high proportion of their final salary in net terms under the country's first pillar defined benefit pay-as-you-go social security system. However, with public budgets stretched as today's workers fund a growing older population, a need for a shift in thinking on retirement savings is clear. The government has introduced several measures to address the long-term sustainability of the retirement system. It has put in place measures since 2012 to make early retirement more difficult; it has introduced measures whereby companies will not have payroll taxes for workers over retirement age; and it is incentivizing families to replenish workforce numbers. The government also introduced tax advantages to encourage greater retirement savings, however, the up take on these savings plans has been disappointingly low.

In response to strains on current retirement systems worldwide, ACLR proposed a [*New Social Contract for Retirement: a blueprint for retirement in the 21st century*](#) in 2018 that brings the opportunity to modernize retirement systems around the globe. The new social contract should be flexible and adaptable, but sustainable and resilient to ever-changing times. It harnesses innovations based on behavioral economics, healthy aging, and other enhancers and detractors of retirement security – while applying lessons of experience. The new social contract comprises nine essential design features, one of which is “creating an age-friendly world”; one that emphasizes not just access to incomes, but also to lifestyles and vital services.

[*The New Social Contract: Empowering individuals in a transitioning world*](#) drills deeper into ACLR's call to action in 2019. This report seeks to expand the financial plan for retirement into a holistic retirement plan specific to the country, including working, an active lifestyle and independent living (“aging in place”). Aging in place is underpinned by the emergence of a new concept age-friendly communities. In this new community, fears of loneliness or ill-health are addressed as people can expect continued access to healthcare, sharing in future advances in medical science, as well as enjoying broader access to social care and age-friendly housing. Continued access to employment will also be a feature of the new retirement, as well as being able to access new digital services via the internet. It is only by creating communities which support people of all ages, whatever their needs, can today's workers hope to realize their aspirations for a prosperous and enriching retirement.

Nine essential design features of the new social contract are :



1. Sustainable social security benefits

Preserve this fundamental source of guaranteed retirement income for today's and tomorrow's retirees.



2. Universal access to retirement savings arrangements

Ensure coverage for employed workers, the self-employed and those with parenting, caregiving, or other responsibilities.



3. Automatic savings and other applications of behavioral economics

Leverage automatic savings features and matching contributions to make it easier and more convenient for people to save and invest for retirement.



4. Guaranteed lifetime income solutions

Educate people on how to strategically manage their savings to avoid running out of money; raise awareness about ways to annuitize all or part of their savings.



5. Financial education and literacy

Improve people's basic understanding of financial matters, starting in early childhood through adulthood, to help people make informed decisions.



6. Lifelong learning, longer working lives and flexible retirement

Provide tools and resources for reskilling and keeping their skills up to date and options for phased retirement so that people can remain economically active for longer and transition into retirement on their own terms.



7. Accessible and affordable healthcare

Reinforce healthy aging through quality healthcare. Provide access to healthy work environments and workplace wellness programs at the employer level.



8. A positive view of aging

Celebrate the value of older individuals and takes full advantage of the gift of longevity.



9. An age-friendly world

Enable people to "age in place" (in their own homes) and live in vibrant communities designed for people of all ages to promote vitality and economic growth.

Key Findings

- **People in Hungary want to enjoy the free time that their retirement will afford them.** Sixty-five percent want to spend more time with friends and family and 62 percent want to travel.
- **Their current life priorities revolve around family with three-in-five (63 percent) stating as their top priority.** Rounding out the top three life priorities are planning for their financial future (49 percent) and enjoying life (49 percent).
- **Men and women in Hungary expect to live to a median age of 80, with 70 years spent in good health.** Although the average life expectancy for women in Hungary is 80, for men this falls to just 73 – meaning men in Hungary may be overestimating their lifespan.
- **Declining physical health is Hungary's biggest retirement concern (54 percent),** followed by running out of money (51 percent). People in Hungary are far more likely to be concerned about running out of money than globally, where just 40 percent report this.
- **Thirty-five percent of Hungarians say that they are stressed about their long-term financial planning for retirement on at least a monthly basis.** Women are more likely to say that they are stressed about their long-term planning monthly than men (40 percent, compared with 30 percent).
- **People in Hungary are much less confident about their ability to achieve a comfortable retirement than other countries in the survey.** Just 22 percent are confident, compared with 29 percent globally.
- **Hungary achieves a low ARRI score this year of 5.3, which puts it in 14th place** - a slip from 13th last year. The global average has moved up to a medium level this year (6.0; 5.9 in 2018), however Hungary's score has stayed static.
- **Just over a quarter of workers (27 percent) in Hungary are habitual savers** - far fewer than the 39 percent globally. However, encouragingly almost a third of workers intend to do so in the future, compared with less than one-in-five globally (30 percent vs 18 percent globally).
- **Just seven percent of Hungarian workers are "retirement strategists," that is, those with a written plan for retirement.** Almost half of Hungarian workers (46 percent) have an unwritten plan. Two-in-five workers in Hungary have no plan for retirement at all.
- **A quarter of workers in Hungary do not have a back-up plan in case they are unable to continue working before they reach their planned retirement age.** Below the 35 percent reported globally.
- **People in Hungary are slightly less likely to engage in healthy behaviors than seen globally.** 58 percent avoid harmful behaviors like drinking too much or smoking tobacco (60 percent globally), and 43 percent take their health seriously by going to routine medical check-ups (47 percent globally).
- **Just a quarter of people in Hungary correctly answered all three financial literacy questions (24 percent).** The 'Big Three' financial literacy questions were designed by Drs. Annamaria Lusardi and Olivia S. Mitchell and cover interest rates, inflation and risk. Financial literacy is lowest among women, Millennials and those with lower than undergraduate education (all 19 percent), as well as those with a low personal income (16 percent).
- **Medical alert systems (39 percent) and panic buttons to call emergency services (38 percent) top the list of features and devices people envision they will need in their home as they get older.** The ability to stay in one's own home as one grows old can be both emotionally significant and a way that individuals can maintain independent.
- **Affordable cost of living (67 percent), access to excellent healthcare and hospitals (56 percent) and leisure and recreational activities (50 percent) top the list of features people in Hungary think form the foundations of an age-friendly community.** Whilst employment opportunities are towards the bottom of the list, with only 25 percent of people in Hungary (compared with 24 percent globally) seeing these as necessary.

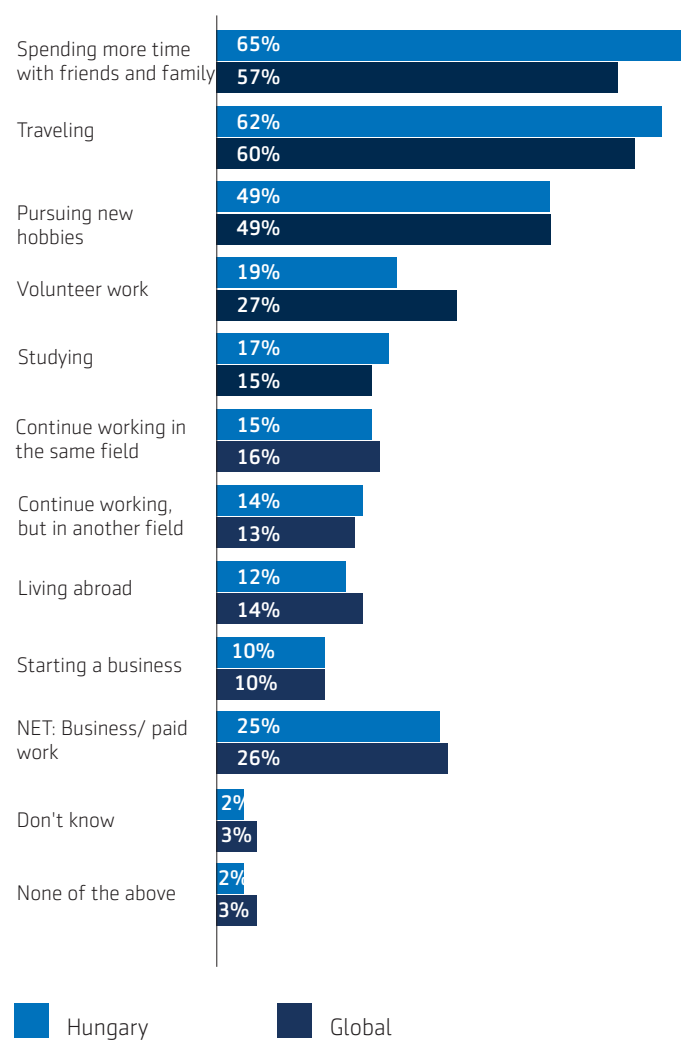
- **One-in-six (16 percent) of workers in Hungary say that they are offered flexible retirement plans that allow them to work beyond the usual retirement age.** Only 12 percent of workers in Hungary have access to retraining and education to keep their skills up to date.
- **People in Hungary expect over half of their retirement income to come from the government (54 percent,** in line with the global average). Twenty-nine percent is expected to come from their own savings and investments, and 16 percent from their employers.
- **Two-in-five Hungarians feel government should increase taxes to fund an increasing Social Security bill (40 percent vs 34 percent globally).** Ten percent of people in Hungary say, that the government should reduce the overall cost of social security (below the global average 16 percent).



Part 1. The future of retirement

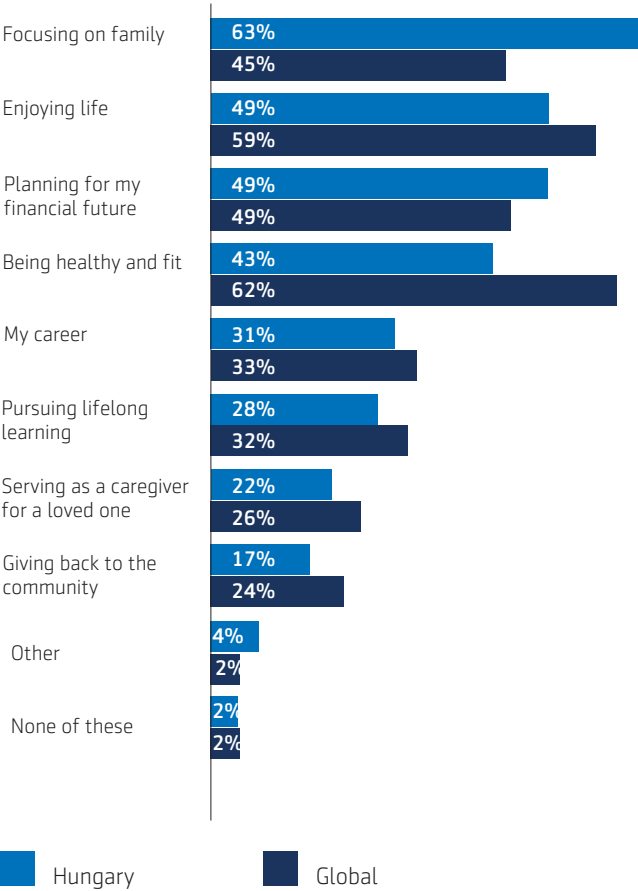
Improvements in healthcare, diets, and health and safety regulations have helped to improve longevity around the world, gifting people with a new life stage: retirement. People in Hungary want to enjoy the free time that their retirement will provide them. Sixty-five percent aspire to spend more time with friends and family, and 62 percent want to travel. Hungarians are less likely to pursue volunteer work (19 percent) than people globally (27 percent). Volunteering in Hungary is a relatively new activity, with multinational companies bringing it to ex-socialist countries following the fall of the Soviet Union. As such, one of the main reasons behind people in Hungary not pursuing volunteering as seen in other countries is that public organizations may not have the infrastructure or appetite to take on volunteers.¹

Table 1. Spending more time with friends and family, traveling and pursuing new hobbies top the list of retirement aspirations held by people in Hungary



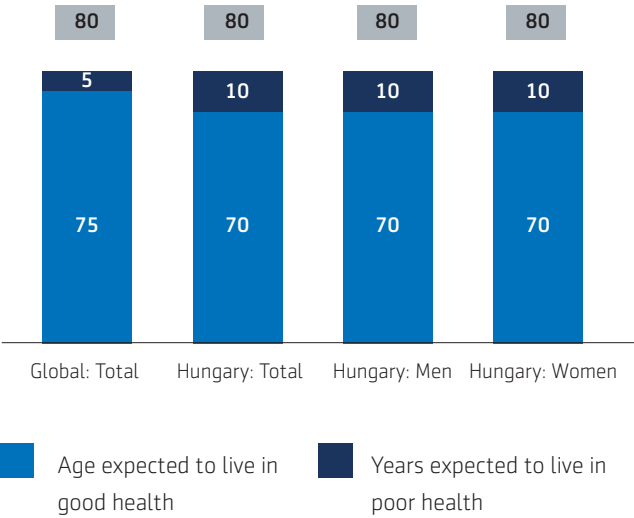
People in Hungary have life priorities that generally align to their retirement aspirations. They want to focus on family (63 percent), plan for their financial future (49 percent) and enjoy life (49 percent). People in Hungary value spending time with their family more strongly than other countries in the survey.


Table 2. Family, planning finances for the future and enjoying life form the top three life priorities people in Hungary hold




Men and women in Hungary expect to live to a median age of 80 years, with 70 of these years spent in good health. Although the average life expectancy for women in Hungary is 80, for men this falls to just 73 – meaning Hungarian men may be overestimating their life expectancy.² Globally, people expect to live to a median age of 80, with 75 years spent in good health. Hungarians expect to live twice as long in poor health compared with people in other countries. Health levels in Hungary are lower than that seen globally: non-communicable diseases (e.g., chronic diseases such as cardiovascular, cancers and respiratory) account for 71 percent of all deaths worldwide; in Hungary this rises to a staggering 94 percent.^{3,4} There are also significant differences in generational expectations in Hungary. Baby Boomers in Hungary expect to live longer in good health (78 years) compared with Millennials who expect 66 years in good health.

Table 3. People in Hungary expect to live to 80 years (median), 70 of which will be in good health





51%
of people in Hungary say running out of money is a major retirement concern



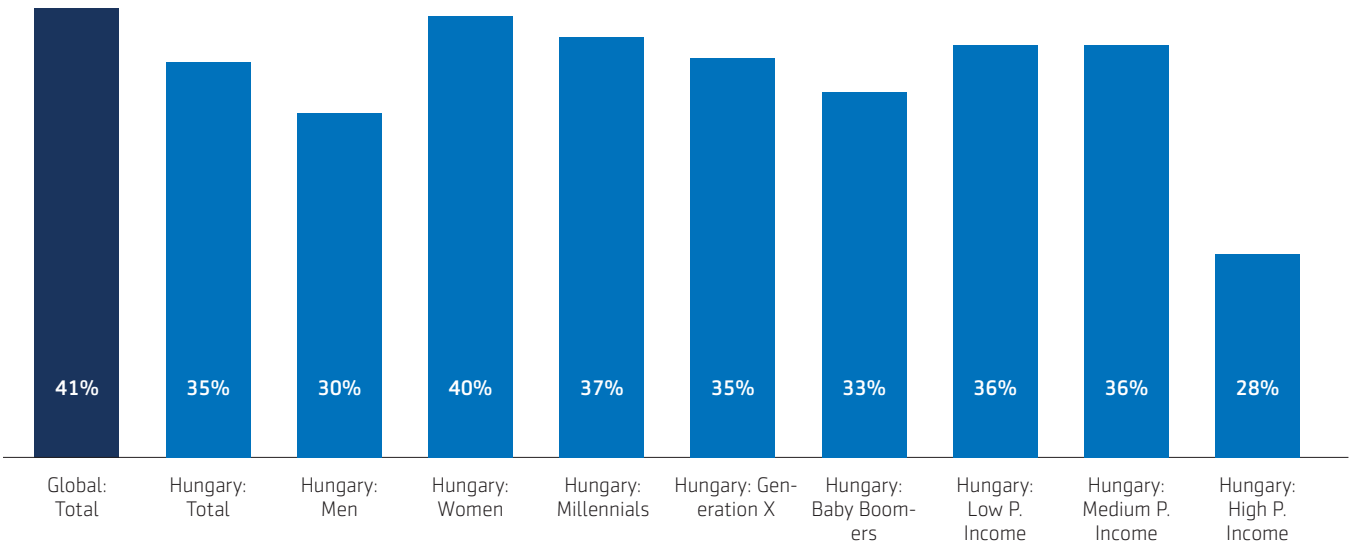
54%
say declining physical health is a major retirement concern



As health levels in Hungary are lower, it is unsurprising that declining physical health is Hungary's biggest retirement concern (54 percent). The second biggest concern for Hungarians is running out of money (51 percent) and people in Hungary are far more likely to be concerned about running out of money than that seen globally in the survey (40 percent). With people living longer, making retirement funds last and ensuring people are healthy will be pressing priorities.

A challenge, however, is that expected pension income can be difficult to forecast in Hungary. Net pension income is a convoluted calculation, involving: gross wages (adjusted by taxes), inflated up to the current price level to produce an average, which is then multiplied by the "retirement factor", based on the total working years. The complexity of these multiple elements makes establishing the value of a pension challenging. Ultimately, for the individual, predicting whether they will have enough money to last them in later life is a difficult call indeed.

Table 4. Over a third of people in Hungary are stressed about their long-term financial planning for retirement at least once per month



■ Stressed about long-term financial planning for retirement at least once per month

This strong dual concern of health and wealth in retirement is putting pressure on people. Thirty-five percent of Hungarians say that they are stressed about their long-term financial planning for retirement on at least a monthly basis. This is below the global average (41 percent), however women in Hungary are far more likely to stress about their long-term planning monthly than men (40 percent, compared with 30 percent). Women in Hungary on average have lower pension payments than men: in 2018, on average, the old-age pension paid to women fell more than 17,000 HUF short of the sum paid to men⁵. And with women's average life expectancies longer than men's, creating long-term financial plans may be particularly stressful

Part 2. Reimagining the ideal retirement plan

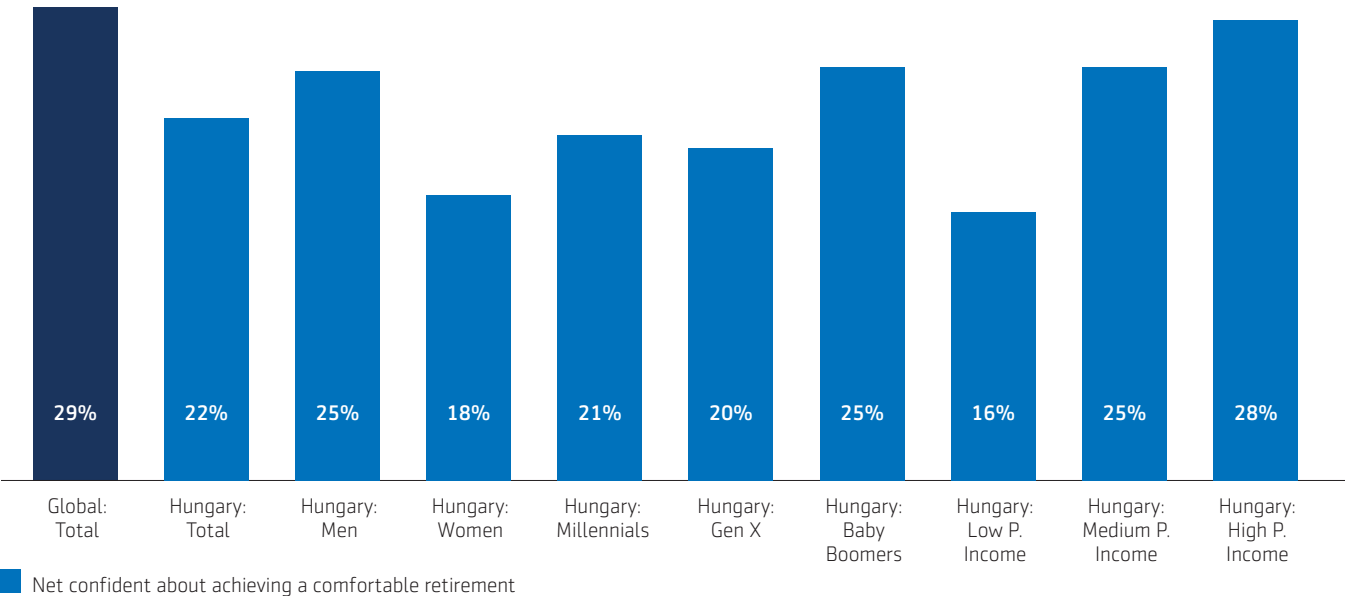
What retirement looks like in Hungary has changed considerably in the past several decades with the rise of the country’s market economy. The expansion of career paths and opportunities, an aging population and legislative changes in plans structures that has meant that the ways and means by which people plan for retirement have shifted significantly since the early 1990s. The establishment of the three-pillar retirement system in 1997, and subsequent integration of the second private pillar into the state-led first pillar in 2010 means the income that can be expected to come from a variety of sources.

Workers in Hungary are not overly confident about retiring in a lifestyle they consider comfortable (22 percent compared with 29 percent global average), with Hungary’s low-income workers the least confident (16 percent). Retirement income in Hungary is predominantly supplied by the state defined benefit system, based on: number of service years, average indexed net earnings, the “retirement factor” (i.e., decrements/increments for early/late retirement) and the inflation rate.

But there is generational difference in the expectation of sources for retirement income in Hungary. Baby Boomers expect 70 percent of their retirement income to come from government and in contrast to 42 percent for Millennials, perhaps representing a significant shift in expectations of retirement provision.

Hungary has a moderate pension replacement rate of 67 percent of pre-retirement earnings.⁶ This does not guarantee nationwide retirement security, however. European Commission research has found that the number of retirees in Hungary at-risk of poverty has increased considerably since the global financial crisis, from 4 percent in 2010 to 10 percent in 2018.⁷

Table 5. Under a quarter of workers in Hungary are confident about achieving a comfortable retirement

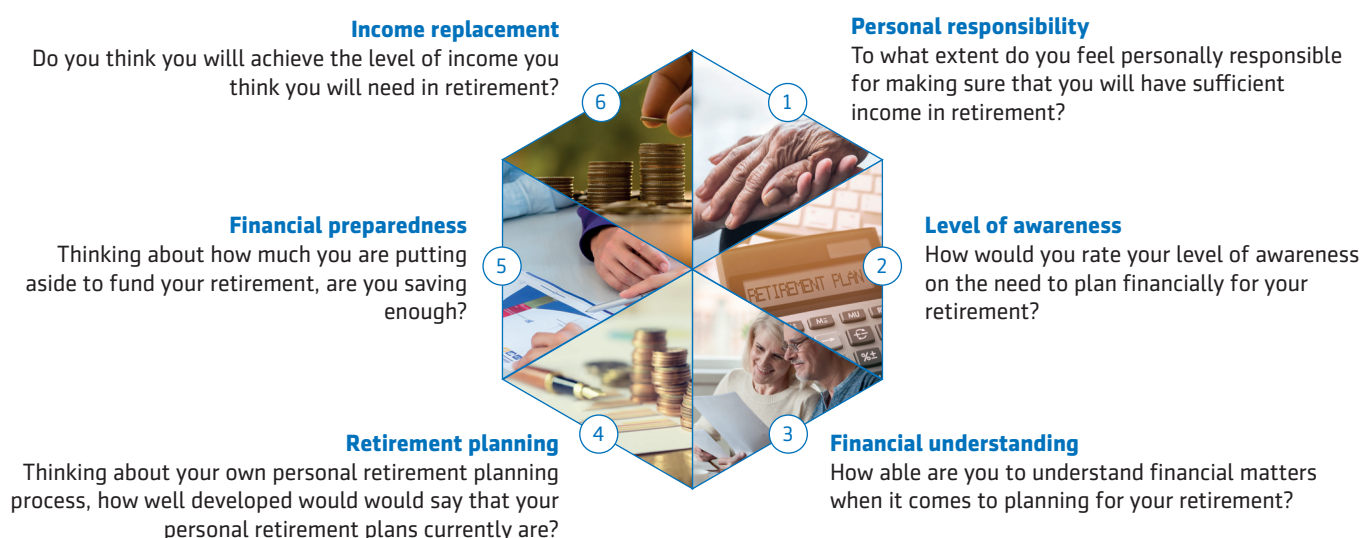


Unlike other countries in the survey, in Hungary people feel the responsibility for ensuring a comfortable retirement sits with the state rather than the individual. Although there are a handful of private savings vehicles with incentives for individuals to save for the long-term, take-up of these is relatively low despite growing disposable income, spurred by a tightening labor market. Even as the state system evolves and develops, more must be done to empower workers to take on difficult and complicated financial decisions, to plan for their retirement and make sure that their health and wealth are sustained throughout an ever-increasing retirement duration.

Aegon Retirement Readiness Index and the Role of Individuals

The role of the individual in preparing for retirement is becoming increasingly important. The Aegon Retirement Readiness Survey (now in its eighth year) measures the level of retirement planning workers undertake as responsibility gradually shifts towards the individual. The ARRI provides an annual score based on responses to six separate questions: three broadly attitudinal (Questions 1,2,3) and three broadly behavioral (Questions 4,5,6). These questions are illustrated in the diagram below.

What factors shape the ARRI findings ?

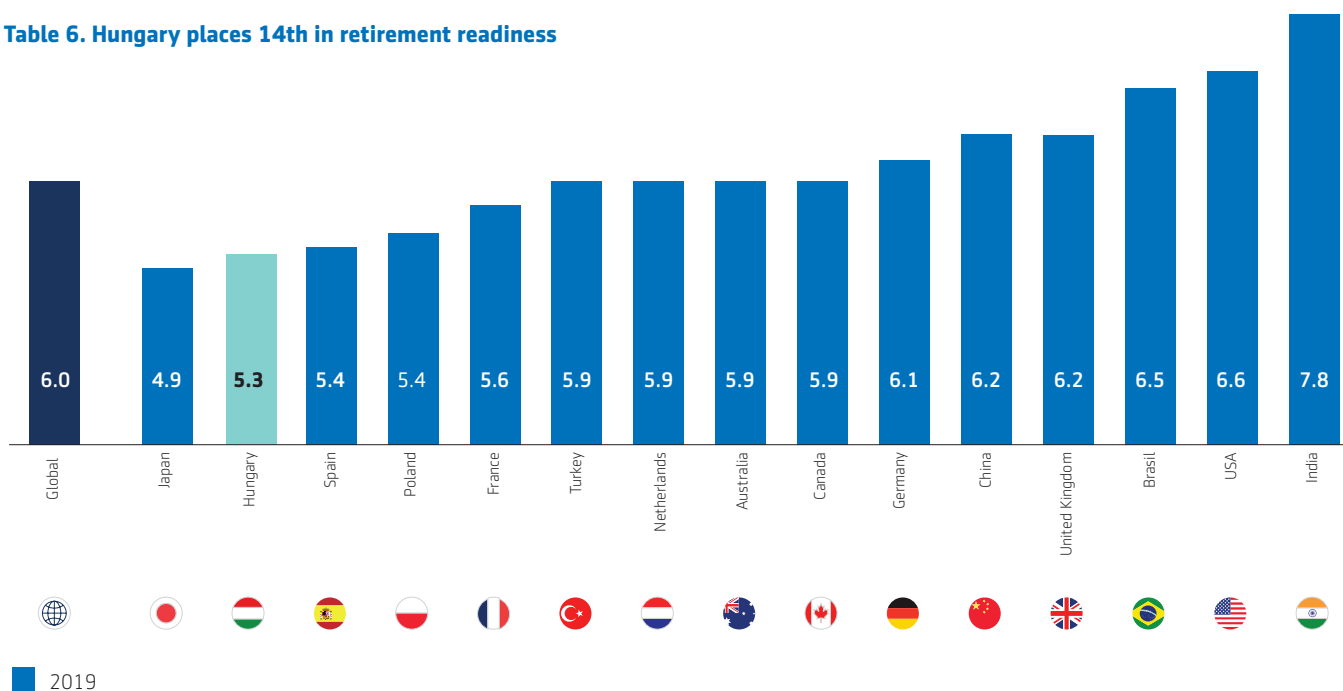


The ARRI ranks retirement readiness on a scale from 0 to 10. A high index score is between 8 and 10, a medium score between 6 and 7.9, and, a low score being less than 6. (For additional information about the ARRI and its methodology, please see appendix 1.)

Hungary achieves a low ARRI score this year, 5.3, which puts it in 14th place – a slip from 13th last year. The global average has moved up to a medium level this year (6.0 compared with 5.9 in 2018), however Hungary's score has stayed static. Out of the six factors comprising the ARRI score, Hungary scores in line with the global average in terms of how well-developed personal retirement plans are, and the level of required replacement income in retirement they are likely to achieve. Hungary's score even exceeds the global average in terms of ability to understand financial matters when planning for retirement.

There are, however, two factors where Hungary's score falls well below the global average, causing its low ranking: awareness of the need to plan financially for retirement, and saving enough to fund retirement. These two codependent factors may be endemic to the Hungarian pension system. With a long history of a social security system that provides a moderate pension replacement rate the requirement to plan financially for retirement and subsequently put money aside is not as integral in Hungary as seen in other countries in the study. There needs to be a shift towards a savings culture in Hungary so that workers today plan and save for their own retirement income to give themselves the best chance of achieving a comfortable retirement, whilst maintaining social security provisions in later years. The five fundamentals for saving for retirement, outlined below, serve as a potential path to achieve this.

Table 6. Hungary places 14th in retirement readiness



The Aegon Five Fundamentals for saving for retirement

1 | Start saving early, save habitually

Just over a quarter of workers (27 percent) in Hungary are habitual savers – far fewer than the 39 percent globally. Encouragingly though, a substantial proportion are not currently saving but intend to do so (30 percent vs 18 percent globally). Forming a saving habit is the best way to keep building up retirement savings. Starting at a young age will allow workers to take full advantage of the benefits of compound interest. Worryingly, one-in-eight workers in Hungary (12 percent) have never saved for retirement and do not intend to. By not setting money aside for their retirement these workers will be reliant on other sources such as social security.

2 | Develop a written retirement strategy

Just seven percent of Hungarian workers are “retirement strategists,” that is, those with a written plan for retirement. In the survey, it is only Japan that has a lower proportion (5 percent). Almost half of Hungarian workers (46 percent) have a plan which is not written. Two-in-five workers in Hungary have no plan for retirement at all. Putting a plan for retirement down in writing formalizes the process, it helps workers think through and visualize how much they are going to need.

Table 8. Just seven percent of workers in Hungary are “retirement strategist” with a written plan for retirement

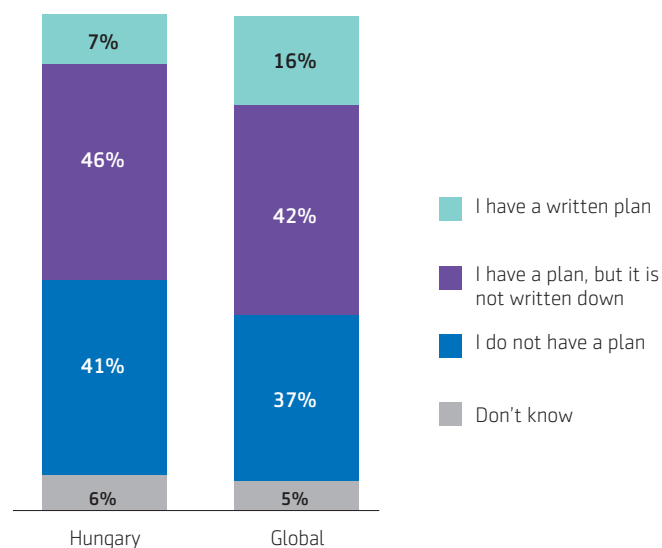
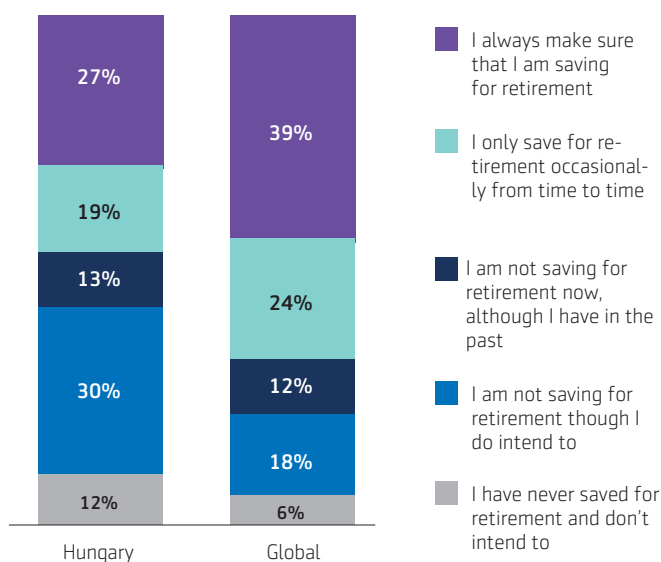


Table 7. Just over a quarter of workers in Hungary are saving habitually for retirement

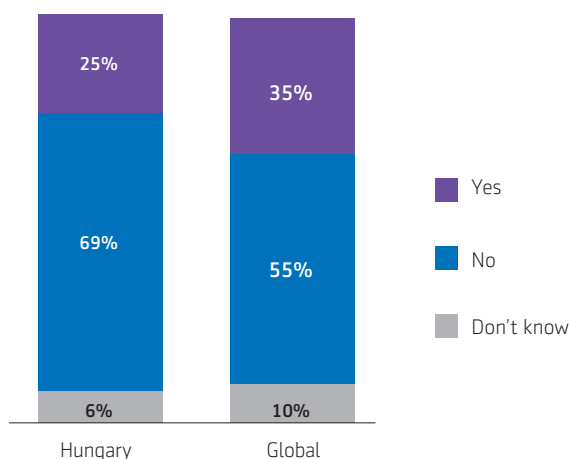


3 | Create a back-up plan

A quarter of workers in Hungary (25 percent) do not have a back-up plan in case they are unable to continue working before they reach their planned retirement age, falling below the 35 percent reported globally. This figure should be viewed alongside how current retirees left the workplace: two-in-five (39 percent) of current retirees in Hungary left work sooner than planned, constant with the global figure. The top reason both at a global and at a European level for early retirement was ill-health (34 percent and 39 percent respectively) also consistent with the trend seen in Hungary.

The retirement age in Hungary is rising from 63 at the present to 65 by 2022 and as a result, there will be a higher risk of workers not working up to retirement age due to illness. Therefore, it is imperative for individuals to plan for an eventuality where they have to stop working prematurely.

Table 9. Only a quarter of workers in Hungary have a back-up plan

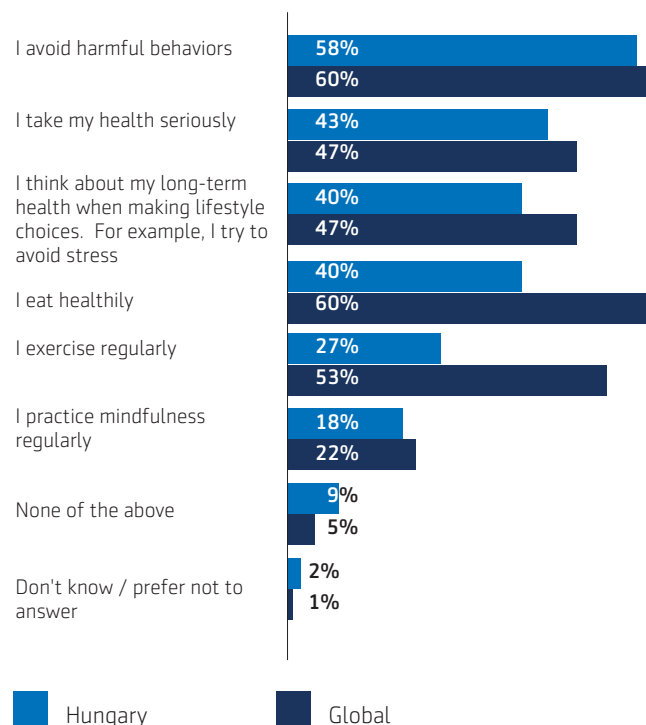


4 | Adopt a healthy lifestyle

Staying fit and healthy means workers can work for longer and contribute to their retirement savings for longer. It also means that when they reach retirement age, they will be better able to enjoy an active retirement and avoid heavy healthcare costs and burdens. People in Hungary are less likely to engage in healthy behaviors than seen globally: 58 percent avoid harmful behaviors like drinking too much, smoking tobacco (60 percent globally), and 43 percent take their health seriously by taking routine medical check-ups (47 percent globally). Notably, Hungarians fall significantly behind in eating healthily (40 percent; 60 percent globally) and exercising regularly (27 percent; 53 percent globally).

Adopting healthier lifestyles ensure individuals can stay in work, and therefore is essential in preparing for retirement. It is estimated that nearly 40 percent of the overall disease burden in Hungary in 2015 (in terms of disability-adjusted life years) could be attributed to unhealthy lifestyles.⁸

Table 10. Hungarians fall behind the global average across all health behaviors

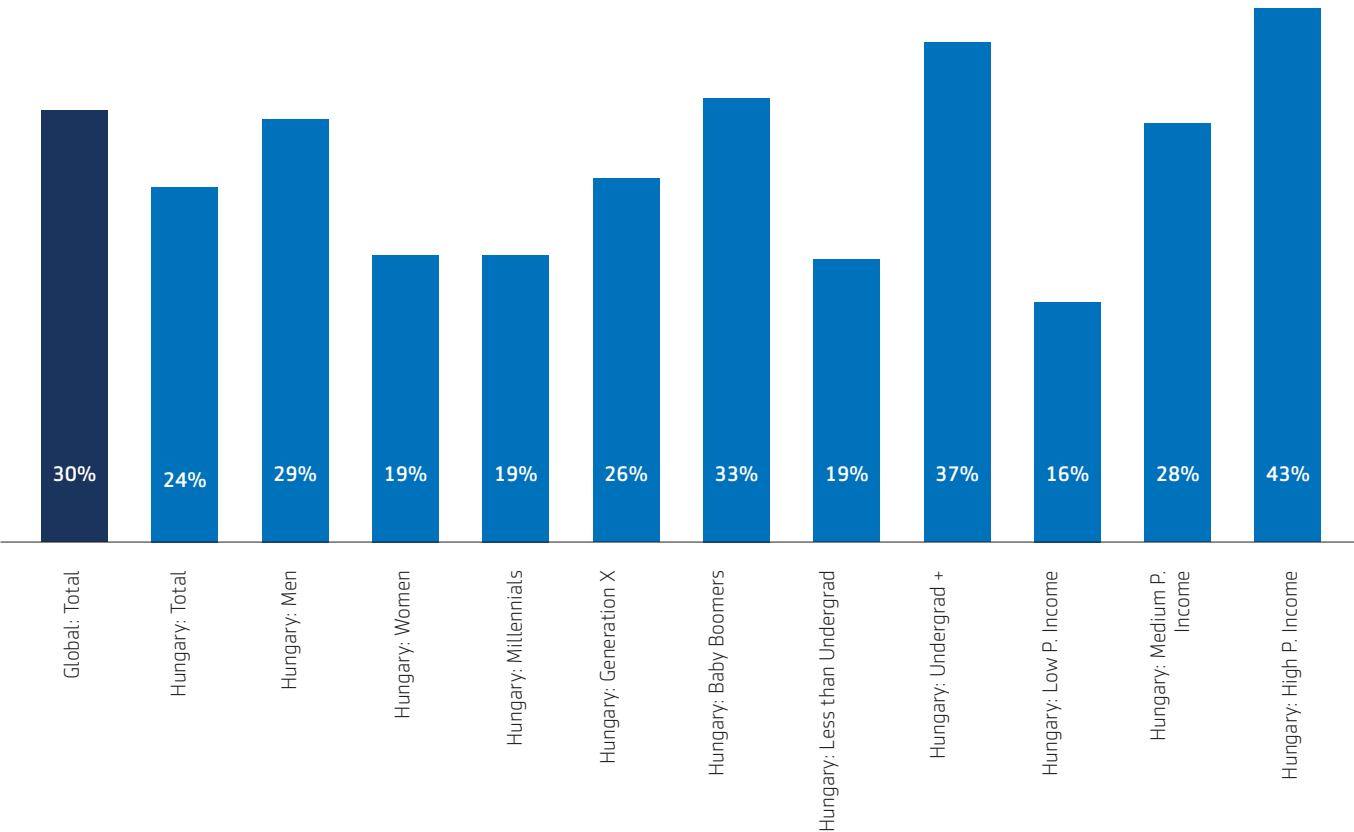


5 | Embrace lifelong learning

With more responsibility for financial planning shifting to the individual, it is imperative that workers have a solid understanding of financial matters so that they can ask questions and make informed decisions when it comes to their finances. Using a framework developed by Drs. Annamaria Lusardi and Olivia S. Mitchell dating back to 2004, the survey measures financial literacy across the 15 countries. Lusardi and Mitchell created the ‘Big Three’ questions that measure understanding of compounding interest, inflation, and risk diversification (see Appendix 2). Their questions test actual knowledge of the topics, rather than self-reported knowledge. The survey findings corroborate Lusardi and Mitchell’s research that financial literacy is low around the world, with only three-in-ten people (30 percent) answering all three questions correctly. In Hungary however, this falls to just a quarter (24 percent).

There are at-risk groups in Hungary that perform worse than the national average: women, millennials, people with lower than undergraduate education (all 19 percent), and those with a low personal income (16 percent). Given the need to diversify long-term savings beyond reliance on the state pension, it is imperative that workers have a good solid financial understanding. There are steps being taken in Hungary to improve financial literacy at a younger age, with the Ministry for National Economy introducing financial literacy at all schools between the 7th and 10th grades.⁹

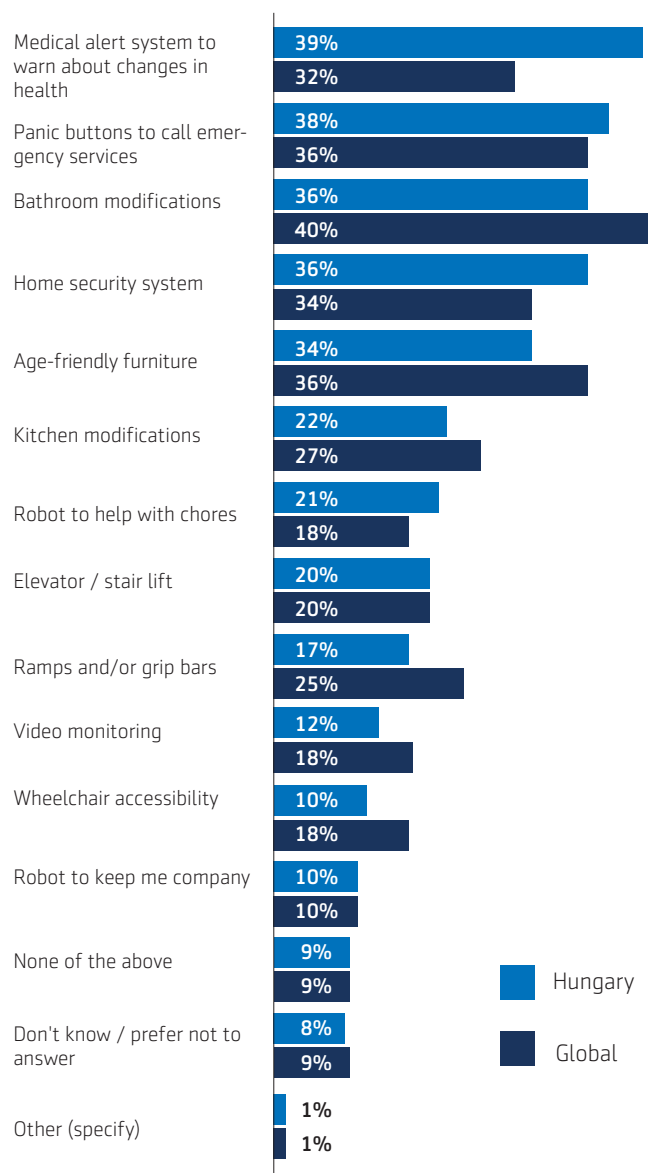
Table 11. A quarter of people in Hungary answer all three financial literacy questions correctly



Part 3. Envisioning age-friendly communities

The ability to stay in one's own home as one grows old can be both emotionally significant and a way individuals can maintain independence – particularly in Hungary where home-ownership levels are among the highest in Europe (85 percent are either paying their mortgage or have finished paying their mortgage).¹⁰ For the older population, over 90 percent live in their own house.¹¹ When asked which features and devices people envision having in their home as they get older, Hungarians stated medical alert systems (39 percent) and panic buttons to call emergency services (38 percent) as the top features and devices they envision needing in their home as they get older.

Table 12. Medical alert systems, panic buttons and bathroom modifications form the top three features people in Hungary think they will need in their home as they age

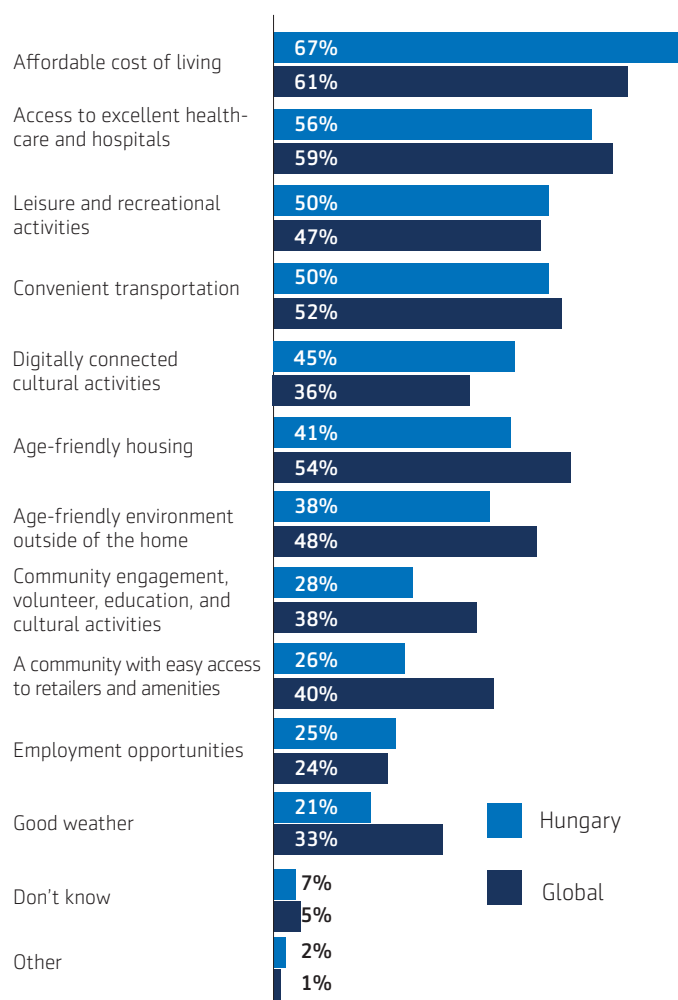


With regards to creating an age-friendly community, affordable cost of living (67 percent), access to excellent healthcare and hospitals (56 percent) leisure and recreational activities (50 percent) top the list of features people in Hungary think will be necessary. Living costs in retirement may be impacted by potential home modifications required as people grow older and remain in their own home, or the costs of moving elsewhere. With regards to access to excellent healthcare that people in Hungary feel are necessary for an age-friendly community, the country's healthcare system must be considered. Universal healthcare is publicly funded - however spending per capita on healthcare

(€1,428 adjusted for differences in purchasing power) is around half of the average amount in the European Union (€2,797), and a third of healthcare spending comes from out-of-pocket expenditure.¹² In order to sustain age-friendly communities, having high-quality provision across the country will be essential to help individuals reduce personal costs for required healthcare and ultimately serve to alleviate worries of those in retirement.

It should be noted that employment opportunities sit way down the list of features, with only 25 percent in Hungary (and 24 percent globally) seeing these as necessary. This is despite the general consensus worldwide that people in the future will need to work longer and into retirement as lifespans increase. Deferring retirement comes with monetary incentivization in Hungary: Those who reach retirement age, have contributed to the system for more than 20 years and who continue to work for at least 30 days beyond retirement are entitled to a pension increase of 0.5 percent of the amount of the pension for each supplementary 30-day period.¹³ In January 2019, the government excused employers from paying payroll taxes for retirees employed as a way to fill labor shortages. However, these measures are yet to successfully convince Hungarians of working through retirement.

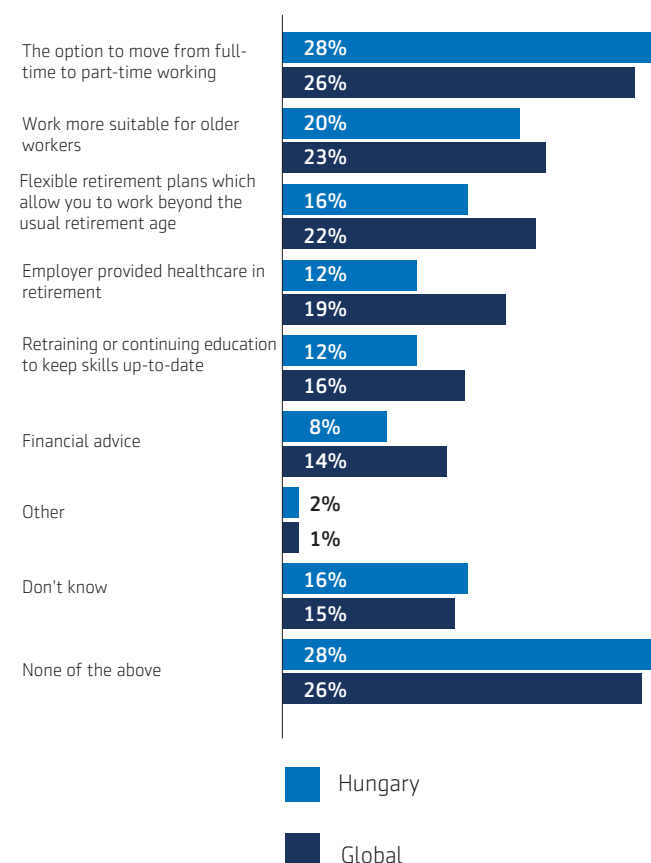
Table 13. Affordable cost of living and access to hospitals top the list of features necessary to create an age-friendly community in Hungary



Workers' ability to stay on at work past their retirement age can depend on their employer. Just 16 percent of workers in Hungary say that they are given flexible retirement plan that allow them to work beyond the usual retirement age. Only 12 percent of workers in Hungary have access to retraining and education to keep their skills up-to-date.

These are alarming figures given that people are living longer and will have to work longer to fund increasing years in retirement, as well as pushes from the government to encourage post-retirement working. Indeed, apart from having the option to move from full-time to part time work, workers in Hungary have less access to services from their employers to help them phase into retirement than the global average.

Table 14. Just 16 percent of workers in Hungary say that their employers offer to help workers work beyond the usual retirement age to phase into retirement



Part 4. Working towards a New Agreement between the State and Individuals

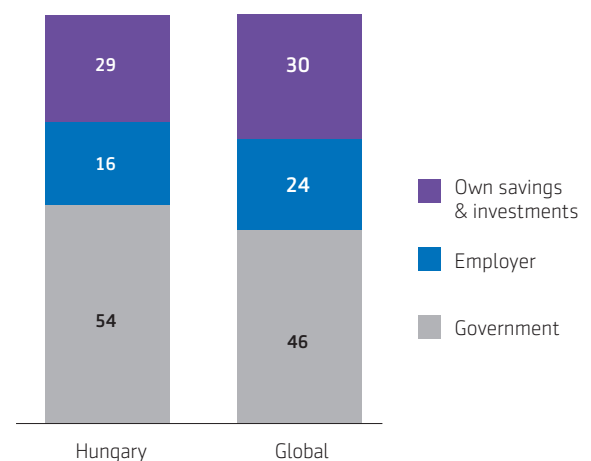
The population in Hungary is aging: fertility rates have declined from 2.5 per (one) woman in 1975 to 1.32 in 2015 and life expectancy has increased since the end of the communist era, from 69 in 1990 to 76 in 2017.^{14,15} The country's old-age dependency ratio (those aged 65 relative to those aged 15-64) was just over a quarter in 2015 (27.5 percent). Eurostat's prediction is that the dependency ratio will reach 53.2 percent by 2060,¹⁶ putting increased strain on the retirement and healthcare systems.

As a result, the government has introduced measures to encourage people to have larger families, such as lifelong exemption from income tax for women who have four or more children, loans to newlyweds of 10m HUF that could be partially or fully written off if they have two or three children, money for family car purchases, increased childcare facilities, and work leave for grandparents similar to maternity/paternity leave. But these will take time to bring down average ages and dependency ratios. The population is projected to decline by 16 percent by 2050 and age substantially at the same time. Hungary's population aged 80+ is projected to increase from 4.4 percent today to 11 percent by 2050.¹⁷

This puts significant pressure on the working age population supporting the social security system and has important implications around how retirement and how healthcare and social care is funded. It also presents increased caregiving responsibilities for individuals and asks questions about how communities and the built environment is placed to accommodate such a large increase in the elderly population.

People in Hungary expect over half of retirement income to come from the government (54 percent, slightly above the global average). Twenty-nine percent is expected to come from their own savings and investments, and 16 percent from their employers

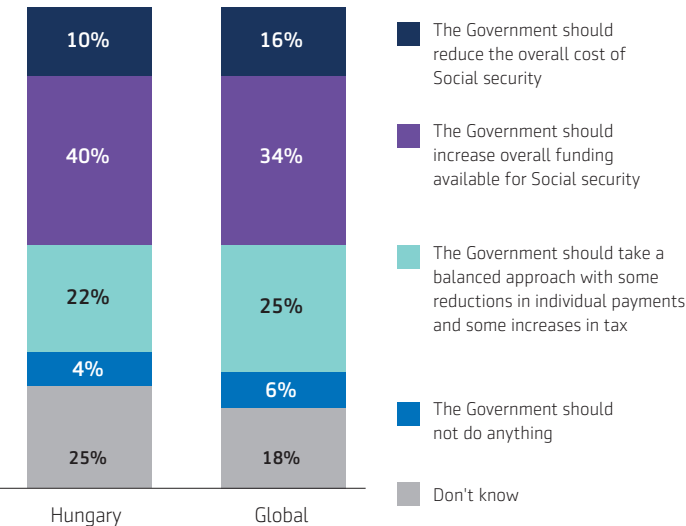
Table 15. Over half of retirement income is expected to come from the government



To foot the cost of a rising social security bill, the most popular course of action Hungarian people feel the government should take is to increase overall funding for Social Security by raising taxes (40 percent vs 34 percent globally). Public spending on public pensions in Hungary is among the lowest in the OECD countries, but is predicted to increase by around three percentage points by 2070.¹⁸ Fewer people in Hungary (10 percent) than globally (16 percent) think the Government should reduce the overall cost in social security. Between these two positions, a fifth (22 percent) of people in Hungary believe the government should take a balanced approach, with both some reductions in individual payments and some increase in taxest.

Meanwhile outside of the workplace, as explored in Part 3, the savings level of individuals in Hungary will need to be addressed to improve retirement readiness in the country, as well as empower individuals to take greater control of their ability to have a comfortable retirement. This can be achieved through a strong financial services market, providing a range of products for individuals to choose from when they reach retirement age. Today’s workers will need access to financial products which ensure that their retirement savings last throughout their lifetime protecting their finances against a range of long-terms risks such as longevity, inflation and investment risk.

Table 16. Two-in-five people in Hungary think the government should increase funding available for Social Security



The Hungarian government should continue to play a significant role in helping people to realize their retirement aspirations, through both the social security system in place and the wider orchestration of the mechanisms required to create a new agreement between the State and its citizens.

Although there is not a specific workplace pension scheme, the contributions that employers make to the system are an integral way in which a new player contributes to the relationship between employer and the State. Beyond the traditional role of providing these contributions, employers are also helping their employees achieve a successful retirement in other ways. Occupational benefits are evolving to help a new generation of workers achieve a healthy lifestyle – which is an essential aspect of remaining in the workplace and building savings as well as possible. This matches the expectations of workers in Hungary, with 42 percent saying they would be interested in healthy food or snack options at the office and 40 percent interested in preventative screenings and vaccinations provided by their employer.

Part 5. Forging the New Social Contract

As recognized in Aegon's previous annual retirement readiness reports, a new social contract is needed to deliver a financially secure and healthy retirement in an aging society. Following are recommendations to guide individuals, employers, governments and other parties to the new social contract to achieve this more holistic approach, with a special focus on aging in place.

The Individual

Develop a plan to save for the envisioned retirement.

From envisioning and establishing goals for retirement, as well as healthy and active aging, individuals can put together a plan which incorporates how and when they want to retire, their goals, where they want to live and how much money will be needed to achieve this.

- *Establish a retirement savings goal and develop a written plan, that considers expected government retirement benefits, and additional personal savings needed to provide the desired income for life in retirement.*
- *Take time to learn and understand the fundamentals of financial literacy:* Take advantage of online calculators and informational materials about saving, employer and government retirement benefits, as well as investment products that manage savings and investments to a desired goal. Financial professionals can provide needed guidance in all of the above and help develop a savings and investment strategy.
- *Save early and consistently.* Saving by payroll deduction into an employer retirement savings plan is the easiest way to achieve these goals.
- *Establish a backup plan*, in the event that the desired savings are not achieved by the time of retirement. Life, disability and critical illness (e.g. cancer) insurance can provide income protection in the event of income loss due to unforeseen circumstances.
- *Manage debt and establish an emergency savings account, to eliminate or minimize the need to dip into retirement savings to pay off debt or for unexpected emergencies.*
- *Adopt a healthy and active lifestyle.* Maintaining a healthy and active lifestyle will help both to ensure that retirement goals can be reached, and minimize the chance of time out of the workforce for disability or ill-health, as well as forestall the need and expense of long-term care in older age.
- *Engage in life-long learning and keep skills up to date.* Maintaining and learning new skills can help prepare for changes in the workforce and for new and longer careers.

Employers

have a significant role in helping individuals prepare for a secure retirement:

- **Prepare workers with information regarding, and the ability to, transition into retirement.** Provide workers with information regarding ages at which workers are eligible to receive benefits under any workplace retirement savings plan, as well as how to access information on social security and other government retirement benefits and remind workers of this information as they approach traditional retirement ages.
 - *Provide workers with flexibility* to phase in or transition into retirement by working in a reduced capacity or different job, without any adverse impact to workplace retirement benefits.
 - *Accommodate worker physical and mental limitations as they age* in much the same manner as employers accommodate workers with disabilities. Examples of accommodations for older workers include providing ergonomic equipment, easy access to exits and restrooms, increased lighting, etc.

Provide workplace benefits to help workers obtain financial and health security:

- *Life-long learning and skill training* to help them enhance current skills, as well as to learn new skills that will enable them to prepare for workforce changes and continue to add value to the workforce in the later stages of their career.
- *Life, disability, long term care and other insurance*, through the workplace. Offering income protection products through the workplace can facilitate access, often at a lower cost than similar insurance obtained outside the workforce and can form part of a sound financial retirement plan.
- *Wellness and other programs to encourage healthy and active lifestyles*, such as exercise facilities, mindfulness training, and providing healthy food and snacks.

Governments

Governments have a significant interest in helping their citizens prepare for a secure and healthy retirement and therefore alleviate the budgetary pressures of worker income and health benefits over longer lifespans. Concrete actions that governments can take to help individuals achieve a secure retirement and a healthy and active lifestyle include:

- **Ensure sustainability of social security benefits** through necessary reforms to accommodate longer lifespans and the relative aging demographics (relative to workers entering the workforce).
- **Reform labor and workplace benefit laws** to accommodate older workers and to enable them to phase or transition into retirement without any adverse impact on their retirement benefits.
- **Mandate financial and health literacy to be included in school curriculum.** Learning about saving, investing and healthy lifestyles in school can help individuals understand the need for and to prepare for a financially secure and healthy and active life, including in older age.
- **Implement urban planning and infrastructure reform to enable individuals to age in place and engage in active aging.** This includes developing zoning and building designs to enable individuals to continue to age in place as they physically decline, and transportation plans to enable aging individuals to easily reach their jobs and participate in community activities, for example.
- **Foster innovation and technology to help people age in place.** Governments should reduce the regulatory burdens of, and incentivize, technological and product innovation designed for older individuals.
- **Promote a positive view of aging and an age-friendly culture.** Governments should lead in changing the societal view of aging individuals and retirees to create a positive view of aging and an age-friendly culture. Through its programs and policies, governments can help promote the value of older individuals to the economy and society and fully integrate them into society.

Financial and medical professionals, educators and community groups

As partners in the social contract, financial professionals, educators and community groups must inform and help individuals understand financial matters and establish holistic retirement savings plans tailored to the transitioning world.

- **Teach financial literacy lessons:** Schools should promote the need to start saving early and consistently for retirement, and otherwise preparing for a transitional world.
- **Financial professionals make path for achieving goals:** This includes helping clients develop a written retirement strategy and financial plan, including a back-up plan, the “spend down” of retirement savings and covering long-term expenses.
- **Prepare a will, medical directive and power of attorney:** Plans should include structures to facilitate the orderly transfer of financial and medical decisions if the client’s mental health declines and in the event of death.
- **Medical professionals, educators and community groups assist individuals in gaining health literacy:** Teaching individuals how to eat a healthy and balanced diet, as well as the importance of exercise and physical movement. Adopting a healthy and active lifestyle at an early age can help people combat non-communicable diseases such as diabetes and heart disease that often afflict older individuals and enable them to remain active longer.

Appendix 1 – ARRI Methodology

The 2019 ARRI is based on the sample of 14,400 workers, and has been developed to measure attitudes and behaviors surrounding retirement planning. Six survey questions (known as 'predictor variables') are used, three broadly attitudinal and three broadly behavioral:

1. **Personal responsibility** for income in retirement
2. **Level of awareness** of need to plan for retirement
3. **Financial capability/understanding** of financial matters regarding plans for retirement
4. **Retirement planning** – level of development of plans
5. **Financial preparedness** for retirement
6. **Income replacement** – level of projected income replacement

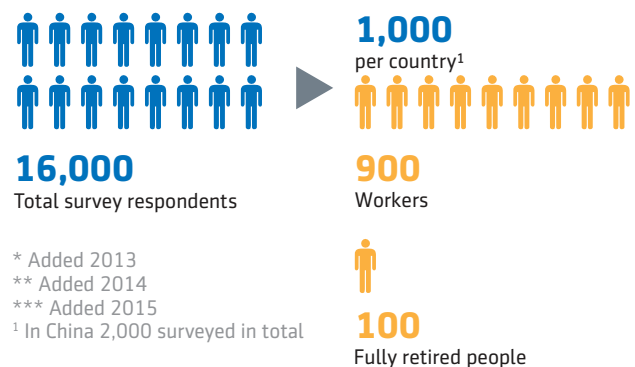
As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

In order to create the index, score the predictor variables are correlated with the dependent variable to obtain a measure

of influence (known as an 'R' value). The mean scores of the predictor variables 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.




Note on the effect of increasing the number of survey countries year-on-year

The first Aegon Retirement Readiness Survey, published in 2012, was based on research conducted in nine countries. A separate survey in Japan was conducted and reported on later that year. Therefore, 2012 is regarded as a 10-country study. In 2013, two new countries (Canada and China) were added bringing the universe to 12. In 2014, a further three countries (Brazil, India and Turkey) were added increasing the universe to 15. In 2015, the overall size of the survey was maintained at 15 countries although with the introduction of Australia and removal of Sweden. In 2018, the countries surveyed remained the same as 2017.



Appendix 2 – Answers to the “Big Three” financial literacy questions

Correct answers to the “Big Three” financial literacy questions on page XX are highlighted in green below.

	FL 1 – Suppose you had Ft100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?	<input checked="" type="checkbox"/> More than Ft102 <input type="checkbox"/> Exactly Ft102 <input type="checkbox"/> Less than Ft102 <input type="checkbox"/> Do not know <input type="checkbox"/> Refuse to answer
	FL 2 – Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in this account?	<input type="checkbox"/> More than today <input type="checkbox"/> Exactly the same as today <input checked="" type="checkbox"/> Less than today <input type="checkbox"/> Do not know <input type="checkbox"/> Refuse to answer
	FL 3 – FL3 - Do you think that the following statement is true or false? “Buying a single company stock usually provides a safer return than a stock mutual fund.”	<input type="checkbox"/> True <input checked="" type="checkbox"/> False <input type="checkbox"/> Do not know <input type="checkbox"/> Refuse to answer

Notes

- ¹ GHK, [Study on Volunteering in the European Union – Country Report Hungary](#). Study on behalf of the European Commission (Directorate-General for Education and Culture), February 2010
- ² World Bank, [Life expectancy at birth, total \(years\) – Hungary](#), accessed July 2019.
- ³ World Health Organization, [Noncommunicable diseases](#), 1 June 2018
- ⁴ World Health Organization, [World Health Organization in Hungary](#), 2018
- ⁵ Central Statistical Office (KSH), [Nyugdíjak és egyéb ellátások](#), 2019. augusztusi letöltés
- ⁶ Hungarian Central Statistical Office, [Aggregált helyettesítési ráta \(2003–2017\)](#), Accessed August 2019
- ⁷ Eurostat, [At-risk-of-poverty rate by poverty threshold and most frequent activity in the previous year](#), updated 4 July 2019
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- ¹⁰ Eurostat, [Housing statistics – Tenure status](#), June 2019
- ¹¹ European Commission, [Pension Adequacy Report 2018: Current and future income adequacy in old age in the EU](#). Volume 2 – Country profiles. 2018
- ¹² Ibid European Commission, [The 2018 Ageing Report: Underlying Assumptions and Projection Methodologies](#)
- ¹³ European Commission, [Employment, Social Affairs & Inclusion: Hungary – Old-age benefits](#), accessed August 2018
- ¹⁴ World Bank, [Fertility rate, total \(births per woman\) – Hungary](#) (accessed July 2019)
- ¹⁵ Ibid, Világbank, Life expectancy at birth, total (years) – Hungary
- ¹⁶ European Commission [The 2018 Ageing Report: Underlying Assumptions and Projection Methodologies](#), November 2017
- ¹⁷ Hungarian Central Statistical Office, [Interactive population pyramid of 120 years](#) (accessed July 2019)
- ¹⁸ OECD Ecoscope, [The pension system in Hungary is under pressure from demographic changes](#), 31 January 2019.

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