Hungarians protest end of state-sponsored DC plan

By Editorial Staff *Thu, Dec 4, 2014*

Despite a protest march in Budapest, the government has threatened to shut down the last four funds in the "second-pillar" system unless they can prove that at least 70% of their members have paid regular fees for at least two months over a six-month period.

Hungary's experiment with mandatory, privately managed individual retirement accounts, which began back in the bullish days of the late 1990s, appears to be almost over, *IPE.com* reported.

Under a bill submitted to the Hungarian Parliament, the government will shut down the four remaining funds in the mostly-dismantled "second-pillar" system unless they can prove that at least 70% of their 60,000-odd members have paid regular fees for at least two months over a six-month period. Membership peaked at three million in 2010.

On November 25, several thousand people, rallied by postings on Facebook, marched in protest from the Ministry of National Economy to the Parliament building in Budapest.

If passed, the law could go into effect as early as January 2015. The four funds still in operation are the Budapest Magánnyugdíjpénztár, Horizont Magánnyugdíjpénztár, MKB Nyugdíjpénztár and Szövetség Magánnyugdíjpénztár. Economic minister Mihaly Varga submitted the legislation.

Due to a lack of inflows, the second pillar funds haven't been able to generate enough retirement income for members, who would be better off forwarding all their contributions to the country's basic pay-as-you-go, earnings-related Social Security-style state pension, according to Varga.

In a 2011 paper, "The Mandatory Private Pension Pillar in Hungary: An Obituary" Andras Simonovitz, Institute of Economics, Hungarian Academy of Sciences, wrote:

> In 1998, the left-of-center government of Hungary carved out a second pillar mandatory private pension system from the original mono-pillar public system. Participation in the mixed system was optional for those who were already working, but mandatory for new entrants to the workforce. About 50% of the workforce joined voluntarily and another 25% were mandated to do so by law between 1999 and 2010.
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> The private system has not produced miracles: either in terms of the financial stability

> of the social security system, or greatly improved social security in old age. Moreover, the international financial and economic crisis has highlighted the transition costs of pre-funding. Rather than rationalizing the system, the current conservative government de facto ‘nationalized’ the second pillar in 2011 and is to use part of the released capital to compensate for tax reductions.

Leaders of the four pension funds warned that a diversion of contributions back to the state pension would lead to the dissolution of the funds. If they were dissolved, the Hungarian government would acquire some HUF200bn (€651m) in assets, although this has not apparently been factored into the 2015 Budget.

Prime minister Viktor Orbán’s government first took aim at the mandatory pension funds in 1998 by freezing contributions. In 2001, membership of the system became voluntary. On his return to power in 2010, he threatened those who refused to opt back into the state system with the loss of their state pension. Although that move turned out to be unconstitutional, Hungarians began abandoning the funds.

According to data from the National Bank of Hungary, some €12bn of assets were transferred to the state, while the number of members shrank to some 100,600 in 2011 from more than three million in 2010. As of the end of September 2014, membership stood at 61,523 and assets at HUF205.4bn.