Hungary Nationalizes Personal DC Account Assets

By Editor Test *Wed, Dec 1, 2010*

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Following Argentina's 2009 example, cash-strapped Hungary appears to have appropriated the assets of its national defined contribution plan in order to fund its operations, IPE.com reported.

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Despite protests from the European Commission and from its own pension funds and analysts, the Hungarian government terminated the country's mandatory "second-pillar" pension system, consisting of notional individual accounts, and put the nearly €10 billion into the state treasury.

Hungary has a three-pillar pension system. The state-funded pay-as-you-go scheme, similar to Social Security, is the first pillar. In 1997, the country added a second pillar—a mandatory private pension funded by payroll deferral and invested in financial markets to generate additional returns and fund future individual pensions. Hungarians who adopted the second pillar were originally promised a three-quarters state pension.

The government now wants to scrap that program and absorb the savings amassed by the nearly three million people over the past 13 years back into the national treasury.

Participants left the second pillar plan en masse after György Matolcsy, the national economy minister, announced that those who didn't agree to turn their contributions over to the state would lose their entitlement to any pay-as-you-go first pillar state pension. Before that announcement, polls suggested that up to 70% of participants would choose to keep their second-pillar accounts.

A financier with ties to the governing Fidesz party said: "This is no longer a purely economic issue. If only 30% had opted back in, it would have represented an enormous loss of prestige."

A government spokeswoman said that pension contributions would be renamed a pensions tax, implying that the government could spend contributions on anything it likes. Fund members have until the end of January 2011 to decide, but experts say the move makes it all but certain that the bulk of the country's HUF2.7 trillion (€9.6bn) in second-pillar pension assets will be returned to the state treasury.

Gabriella Selmeczi, the prime ministerial commissioner entrusted with communicating the new plans, said today that future payouts would be based only on income and length of service, and not on the scale of an individual's contributions.

A voluntary "third pillar" program enables people to save more money for retirement by contributing to private pension funds. Starting in 2012, management fees for those plans will be reduced from 4.5% to a maximum of 0.9% of total assets, a level most industry experts regard as too low to pay for effective fund management.

A spokeswoman for Olli Rehn, the European Commission's finance commissioner, said: "We are concerned by the Hungarian authorities' latest announcement concerning the pension system. The announcements appear to reflect an aim of fully abolishing the private pension system."

The Commission was concerned about the sustainability of the measure. "The pension funds' accumulated assets are being used to finance current expenditure," the spokeswoman said.