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Hungary: the second pillar of the pension system survives in a stripped down form

The Hungarian government revealed on 1 February that only 3.3% of those authorised submitted a declaration of their will to remain in the 'second pillar' of the pension system. This meets the expectations of Viktor Orban's government, which has made efforts to discourage Hungarians from remaining in the private pillar via an active media policy and a number of legal solutions.

According to the amended pension system law, which was adopted in the middle of last December, members of private funds could submit an application for remaining in the private pillar until the end of January this year. If they did not do so, their funds would be automatically transferred to the state-controlled pension fund. A number of unfavourable solutions have been applied with regard to those who decided to keep their funds in the private pillar. One of them is the loss of the right to state pension benefit which is estimated to account for 70% of the future pension (they will receive only the part provided by private pension pillar.).Although such individuals will not be authorised to receive state pensions, their employers will still be obliged to pay a 24% premium to the national pension fund (which in fact has become a tax and is called a pension levy). At the same time, the government launched an active media campaign, indicating among other threats the possibility of the collapse of the public-private pension system. Although the great majority have returned to the state-controlled pension pillar, and public support for the ruling Fidesz party is around 70%, only 37% of the public have a positive opinion of the form of the recently implemented reform.

Hungary is the only country in Central-Eastern Europe to have decided to *de facto* disassemble and not merely modify the public-private pension system. This will allow the state to manage the funds previously kept in the second pillar, worth around ten billion euros. The return to the national pension system will temporarily improve the situation in public finances but, given the unfavourable demographic trends, this will also upset the balance in the state finances in the long term. <dab>