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Social Ageing, the Labour Market and Pensions

Budapest
1. THE PROBLEM

The situation of ageing labour force on macro level

In 1990 pensioners made up 24.3% of the population. Due to economic crisis and loss of millions of jobs in the early 90s early there was a dramatic increase of early retirement and the take-up of disability benefits. As a result of the different forms of early retirement, this proportion is now close to one third (HCSO, 2004, 91.). This process was combined by a dramatic fall in labour force participation resulted in a large downturn in contributions. The social support provided by the pension system began to exceed the limits of what was possible.

After the pension reform in 1998 the employment rate of older persons has risen parallel with the gradually increase in the retirement age (at present officially 59 years for women and 61 years for men). Between 1994-2003 the employment rate for the 50-54 years age group rose from 60.3% to 67.7%, while the activity level increased to a somewhat smaller extent. In the 55-64 years age group the employment rate is currently 29.2% and the activity rate 29.8%. The improvement can be attributed largely to the higher retirement age, a unified gradually introduced one, 62 years. On the average 51.4% of the 45-64 years age group were in employment, but for those over 55 years this rate was only 25.6%. The employment of persons – aged 45-49 years – within this age group is 70%. In contrast, in the case of persons 55-59 years it is less than 40%. Employment of persons over 60 is marginal, less than 10%.

As a result of the higher retirement age there has been an increase in the number of registered unemployed who were not able to accumulate the period of service needed for a pension.

Between 2000-2002 the overall number of unemployed fell by 12%, but the number of unemployed over 45 years declined by only 7% with the result that the proportion of ageing and older persons among the unemployed rose. Because of the increase in the retirement age there was an increase in the number of registered unemployed unable to accumulate the period of employment required for a pension. The proportion of elder persons among the registered unemployed is exceptionally high in the disadvantaged small regions. It is due to the big surplus of young, trained manpower. The regional differences play an important role in the trend in unemployment of older persons.

A number of taxation and social insurance contribution rules assist employment and entrepreneurial activity for persons receiving a pension. There is no legal obstacle to the payment of pensions and pension-type allowance to persons in employment but it is difficult to mobilise older persons; in smaller settlements the lack of transport also prevents people from entering employment (inadequate networks, schedules not adapted to working hours).
and another obstacle is the rising transport costs which employers no longer cover beyond a certain distance.

Part-time employment is very low in Hungary in general and also among ageing labour force and somewhat higher after 60. Only 7% of those aged 55-59 years but close to 22% of those aged 60-64 years, mostly pensioners work part-time. In both age groups part-time work is more popular among women; in the first age group it is 11% and in the second 32%. The deteriorating state of health of the elderly, the special requirements of their changed capacity for work, women’s differing motivations (e.g. having children) can justify the expansion of part-time employment. From January 1, 2004 the Government repealed the regulations that were acting as a counter-incentive; under the new regulation anyone who employs workers over 50 years part-time is now exempted from payment of the health insurance contribution.

An important question in the examination of the pension system and labour market trends is the situation of ageing manpower from the viewpoint of the firms and the individual. To examine this process in December 2004 we launched a series of investigations using a variety of methods.

- We conducted a telephone survey of managers of 342 enterprises on their opinion of ageing manpower.
- We conducted *depth interviews* with the directors, human resources managers and labour affairs managers of 35 large, medium-sized and small enterprises in a medium-sized town in Northern Hungary.
- We conducted a survey on the situation of ageing manpower in a representative sample of 1000 persons.

### 2. THE ESTIMATION OF AGEING MANPOWER

**Human resources policy**

One third of the 342 enterprises questioned were located in Budapest, 22% in county seats, 29% in towns and 17% in villages. 58% are in the service industry, 39% in the manufacturing industry and 2% in production activity. Half of the enterprises are small ones employing 10–49 persons, 30% are medium-sized with 50–249 employees and 20% large enterprises with over 250 employees. More than two-thirds – according to their own statement – pay their workers average wages and one quarter pay low wages. The majority are in private ownership. When hiring workers the majority do not take gender into account. However, almost a quarter give priority to men, while only 6% said that they favour women.

We compared the situation of the enterprises for two different age structures.

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1 Some of the questions were identical with those asked in a survey of enterprises and the public in December 2001 on behalf of the Institute of Economic Research of the Hitotshubashi University of Japan, a survey covering a sample of 1000 persons representing the adult population of Hungary above the age of 18 years.
a) the situation recorded at the time of the interview, and
b) the opinion concerning the future.

**Age structure recorded as the time of the interview**

Two-thirds of the enterprises employed “mainly under 45 years”, while close to one quarter “mainly 45–54 years”.

There was a considerable difference among the settlement types. The majority of the firms located in villages employed young workers, while in Budapest this proportion was “only” 67%, and the proportion was even lower (57%) in the county seats.

By branch of activity, the service industries were characterised by an age structure with more young employees, while those in production had more older employees. In the service sector, 71% of the firms employed predominantly workers under 45 years. However, half of those engaged in production employed the highest number of workers in the 45-54 years age group. In the smaller and medium-sized firms, young workers represented a higher proportion (71% and 63%). In the medium-sized and large enterprises we found 31% and 25% of ageing manpower aged 45–54 years.

By size, small enterprises with 10–49 employees and medium-sized ones with 50–249 employees strongly favoured workers under 45, while larger enterprises with over 250 employees showed a slight departure from the mean with less discrimination by age. The behaviour of enterprises in different sectors does not deviate from the average, but the reason for this could be that the classification into sectors was too broad.

The demand for ageing manpower differs greatly depending on the settlement type, region and size of the enterprise.

The work schedule is an important factor in the employment of ageing manpower. Close to one quarter of the firms employed workers over 50 part-time. It implies that the firms do not write off ageing manpower if the work involves less strain. But it also means a lower income, which could have a negative effect on the later income situation of the future pensioner.

35% of the enterprises also employed pensioners part-time while the part-time employment of workers of active age was at the same level.

44% of the firms would employ workers over 50 if this involved some kind of benefit”.

**2.1.2. Connection between labour market and pension system**

For 86% of the firms the increase in the retirement age to 62 years has brought changes in the firm.
Negative assessment
Connection with the health status
• A characteristic group of answers (more than one quarter) gave the reason that raising the retirement age was not a good idea because of the state of health of the older age group.

Stagnation of the labour market
• Another large group of answers referred to the state of health and especially to the negative effect of the stagnating labour market. One fifth of the concrete answers given can be classified in this group.

Other (less frequent) types of answers:
• They prefer to employ young people because they can be paid less because they lack experience.
• Many people opt to retire on a disability pension (or on early retirement) because of the higher retirement age, as a result the firms employ more pensioners (part-time).
• The severance pay is higher on retirement and the average wage of older workers is also higher, so it is not advantageous for firms if ageing workers remain on the labour market.
• The situation of ageing manpower is more bleak with the higher retirement age.

Positive assessment
Expertise and patience of elder workers.

Opinions regarding the future age structure
Close to two-thirds of the firms would prefer those under 45. At the same time, 31% would make no distinction on the basis of age. The proportion of those favouring young people rises steadily away from Budapest towards the smaller settlement type.

Among those who mentioned older workers, that is, 45-54 years among the first, there was no substantial difference by settlement type, sector or enterprise size.

2.1.3. Pensioners’ labour market

Employment of pensioners was very high among the firms. In Budapest, towns and county seats approximately 40% of employers employed pensioners full time. This proportion was lower in villages.
The proportion of pensioners employed part-time is high in Budapest and in villages - perhaps because of seasonal work – and lower in towns and county seats.
The proportion of pensioners employed occasionally is lower but still relatively high in the capital and villages (20% and 18%) compared to towns and county seats.

What are the reasons for the return of the pensioners’ labour market that flourished before 1990, or at least was large and important, then almost entirely
disappeared, signs of which could already be observed since the second half of the 90s and in the survey of the general public made in 2001? (Széman-Harsányi, 2002, 38.).

2.2. The labour market situation of the elderly seen from the viewpoint of firms, on the basis of the depth interviews

We conducted the interviews with enterprises and institutions operating in transport, tourism, wholesale and retail trade, baths, culture, hospitality, production industry, agriculture, construction industry, education, hotel industry, banking investment (holdings) and logistics. We also asked a number of institutions financed or supported by the central budget or state/local authorities. It was generally found that firms which had already operated before the systemic change and later were privatised agreed relatively easily to the interview, while newly established, big, profit-oriented firms mostly with a foreign ownership agreed to the interview only after lengthy preparation and checking the project’s questions. It was easier to persuade the small and medium-sized firms with informal help.

**Factors acting against the employment of elder manpower**

1. Aesthetics
   Firms employed exclusively young people in jobs where an attractive appearance and/or stamina were important, as waiters, bar attendants, receptionists, in restaurants and small pensions in some case only young people under 30.

2. Wage consideration
   Wages were generally low for young people, in some cases extremely low but they could participate in training courses.
   The firm’s policy is to hire only students for seasonal work too.

3. Nature of the work and state of health
   They are not able to employ elder workers for permanent or full-time work in jobs requiring great stamina. At a medium-sized construction industry firm, for example, one tenth of the labour force was over 50, a few percent were over 45. The majority of both manual and white-collar workers were young.

**Factors acting for the retention of elder workers**

Many causes explain the presence of elder workers on the labour market.

1. Demand and supply
   Regardless of size, institutions and firms willingly employ manpower over 50 where the balance tipped towards demand. (e.g. in certain white-collar or manual occupations).

2. Nature of the firm
   The mass presence of elder manpower was more typical in state/local government-financed institutions, old firms privatised after 1990.

3. The firm’s market situation
   At firms operating badly, in an uncertain economic situation the situation of workers over 50 was also uncertain.
4. Personality of managers
Whether firms employ ageing workers also depends to some extent on the personality of managers concerned.

5. Natural ageing at enterprises, institutes
Both in medium-sized enterprises in the public sphere, where the staff has begun to age, and at private firms, e.g. transport company.

6. Reliability, expertise, experience, behaviour, patience and training:
in a special area of commerce, in a big private enterprise of Belgian owner, state/public institutions. There was a close connection between fluctuation of the labour market, training provided by the firm and age. Younger cohort are flexible. Older cohorts do not want to leave their firm because they are afraid of not finding jobs on the labour market. As there is a lack in certain jobs which require skills the firm undertakes training itself. The costs of the training is lower when it can keep the labour force.

7. Employment policy concerning the elderly
The company owned by a local authority employing 800 persons is to reactivate persons with work disabilities (including also ageing labour force) who have in some way become unable to work. Persons aged 45-50 years, mainly disability pensioners, make up 60% of the workforce. The operation of the enterprise is supported by the local government and the Ministry of Finance. The longest working day is 7 hours and the shortest 2 hours.

8. Connection between pensions and the labour market
In some occupations, e.g. among drivers in large transport companies (they make up 30% of the labour force), workers over 50 are grouped in a very small cohort, aged 50-54 years. Because of their eligibility for early retirement (2 years earlier for every 10 years of work).

The firms interviewed employ elder workers in many areas on a seasonal basis or on contract for specific tasks and often part-time. In addition to the special enterprise mentioned above, pensioners were present as workers in many enterprises and institutions, in cases even representing a high proportion, e.g. at a transport enterprise (7%), baths (52%).
The retired manpower was generally from the younger age group, persons over 55 years.

There is a close connection between pension policy (macro level), the nature, structure, activity and economic situation of the firms (mezo level), and the endowments, expertise, knowledge and health status of the individual (micro level). Using pensioners’ manpower, the enterprise is able to save on two counts: a) they paid lower wages to the pensioners and b) do not have to pay a social insurance contribution on their wages.

The role of unregistered work and its influence on the pension
a) This does not exist: a) at state firms, b) at firms (also privat) with a good reputation that are frequently controlled, c) at firms producing good quality.
b) It exists: a) in agriculture, b) in the construction industry (if they are not controlled, c) in the hospitality industry, d) in the service sector (mainly in small
Unregistered workers are mainly young people, with a small proportion of pensioners.

10. Connection between the labour market and retirement age, inequalities between women and men
Most of the firms consider that today’s Hungarian labour force is not fit for late retirement. The reasons are varied: state of health, the attitude of the ageing workers: they are unable to accept the idea of high private pension contributions and they do not have the means to accumulate savings. The nature of the work in some occupations would also justify early retirement. However, many firms pointed out that a differentiation by gender in retirement age should be reintroduced. This opinion results from the difficulty of combining economic activity with family obligations (against the macro level will in Hungary according with the guidelines of the European Commission).

Problems
The higher retirement age, the poor state of health of ageing workers and the inadequate system of unemployment benefits, together with all the factors presented above, the majority ageing workers forced out of the labour market escape into some form of early retirement, mainly a disability pension. Disability pensions are awarded on a mass scale throughout the country. On January 1, 2004 there were 1,637,847 persons on normal retirement pension and 806,491 disability pensioners. This means that 32.9% of pensioners were disability pensioners. 18.9% of pensioners became disabled before the retirement age. 57% of all disability pensioners retired before the normal retirement age. (HCSO, 2004. 91) Our interviews also confirmed that the practice of disability retirement still continues. Together with other pensioners retiring before the normal age (e.g. anticipatory pension, pre-retirement, early retirement), the pension system has been burdened with foreign elements or elements which should be present to a much smaller extent.

The individual performs for the enterprise generally for low or average wages which are not sufficient for the accustomed consumer habits or for a livelihood matching the life cycle (e.g. raising children). As a result, in addition to their own, regular work people also carry out activity in the grey or black economy, exploiting themselves. At the same time because of the given level of wage-related costs the enterprise is obliged to employ young pensioners who have already left the labour market. It was also found that most firms consider the higher retirement age too inflexible. It should be emphasised again that against to the macro level and the EU will many firms consider that there is a need for a lower but flexible retirement age for women. This is not out of nostalgia, but because they see women over 55 as the potential carers who could play a big part in providing care for grandchildren and the older age group, filling the gaps in the institutional state care. If these women remain on the labour market

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2 This figure does not include those receiving other pension-type benefits.
without a solution being provided for this gap in welfare policy, the problem in the system of care will also continue to exist. Others speak of the employment trap. If ageing workers are kept on the labour market, younger age groups are unable to enter employment. Many interviewees mentioned the need for a lower retirement age because of the health status of the labour force. The state of health is, in fact, the primary reason behind such demands. But behind it we can detect the connection between prices, wages, the tax system and the black economy, and the poor state of health caused by people’s exploitation of their own labour.

A special problem is that the mezzo level opinion on keeping elder labour force on the labour market is different from the one of the macro will and the EU guidelines. While on macro level Hungary is following the guidelines of the European Commission in reality there is still a gap of promoting equal opportunity between women and men; different elements of the welfare policy and the pension system.

The pension system can only be treated as part of a comprehensive macro policy which comprises processes related to the labour market, wages, prices and tax policy, a social protective net for the labour market, education, other elements of welfare policy, such as care and services for the elderly. As long as these problems are not treated as a whole, pension reform will not solve the problems of keeping ageing manpower on the labour market, or of reducing the number of pensioners, or of social ageing and neither equality between gender on the labour market will be solved.

3. THE ESTIMATION OF THE GENERAL PUBLIC

The picture obtained from both the telephone interviews and the depth interviews was in line with the opinion of the general public.

In answer to the question “In your opinion, who do the employers regard as ageing workers?” two-thirds of the interviewees considered that ageing on the labour market begins at 40. Three age groups have an opinion coinciding almost exactly with the average: those aged 21–30 years, 31-40 and 51-60 years. However, the respondents aged 41-50 years, that is, those in the age group concerned, have a much higher perception, considering that the employers regard them as old from 40. This opinion drops sharply among those over 61 years, being held by one quarter of those in this age group (the majority already retired).

One fifth to one quarter of interviewees consider that firms regard workers as ageing from the age of 45 years. There is hardly any difference between the age groups in this opinion. More than half of the interviewees feel that persons over 45 are at risk on the labour market. Persons in the 41-50 years group feel themselves especially at risk; more than two-thirds felt that employers regard persons over 40-45 years as ageing.

The age of 50 years represents another borderline. One quarter of the interviewees think that employers count manpower as ageing from this point.
The only slight departure downwards from the average is in the 41-50 years age group (18%).

Only 8% set the age at 55 years. Only those in the 41-50 years age group hold an opinion differing downwards from the average and from the opinion of the younger age groups and those over 61.

A very small percentage (5%) held that employers regard workers as ageing over the age of 61 years. At the same time, 10% of the age group concerned believed that firms regard ageing as beginning from this point. This perception is obviously related to the practice to date of the retirement age. The uniform retirement age of 62 years will apply from 2009. This measure taken at macro level aims to prolong presence on the labour market, the start of ageing on the labour market in the perception of the general public has shifted downwards, starting with 40 and ending with 50. There is a discrepancy between the official governmental idea and the situation perceived on the labour market by the public.

The majority of the general public thus feel that employers regard them as ageing from the age of 45 years and this feeling largely reflects the situation shown by the employers (two-thirds of the enterprises employed manpower below 45).

The subjective perception of a labour market process also showed the decline over time in the concept of ageing. 42% of respondents in the youngest age group and close to half of those in the 41-50 years thought that there was a change in the concept of ageing. Now, “persons over 45 years” are now regarded as ageing from the viewpoint of employment”. How is this related to the retirement age? In answer to

41–46% of interviewees in all age groups considered that the shift towards this relatively young age on the labour market was related to the higher retirement age. In view of this, it can be said that the higher retirement age further strengthened in the general public the feeling of uncertainty existing at the level of individual workers. The explanation for this is related to the enterprise behaviour patterns revealed in the depth interviews. With the restrictions imposed on the welfare elements of the pension system and the elimination of some, and the raising of the retirement age, enterprises no longer had access to this humane way of sending workers into retirement (low stage of their lifecycle, 50, 52 for women,). All this means that in the perception of both the general public (economically active, inactive, actual or potential employees), and the employers the age regarded as marking the onset of ageing is 17 –12 years (counting ageing from 45-50 years ) lower than what is officially regarded as the desirable retirement age. Such a wide discrepancy between reality and macro-level will is a serious potential danger: with its present demographic composition the population will be incapable of supporting the inactive age group. In Hungary the 45-49 years age group which currently has a relatively high level of activity will no longer be of working age in 15-20 years time. The currently aged 25-29 years will remain among those of working age while the proportion of those over 64 will rise substantially.
While in the opinion of the general public employers consider the labour force to be ageing in an early stage of the life cycle (40, 45, 50 years), at the same time, the public generally shifts the concept of old age upwards. More than one third regarded persons over 60 years as elderly, while less than one third considered persons over 70 years as old and only 9% put the limit of old age at 50 years, and 6% link old age to retirement. 14% did not link it to a particular age. The concept of ageing in general and of ageing on the labour market differ greatly.

Two important questions in the 2004 survey were comparable with the 2001 survey. This enabled us to map not only the present situation but also the process. At the time of the present survey 59% of those over 21 (N=928) were in employment (the proportion was similar at the time of the survey in 2001). Among those who had a job (N=545), in answer to the question

“In your opinion, is it true or false that in your workplace the firm willingly hires pensioners for certain jobs?”

In 2004 compared to the 2001 survey, the proportion of those who consider that their firm employs pensioners increased from one quarter to one third. With the exception of those over 61 where there was no change, a higher proportion of all age groups thought that their firms employed pensioners. This also means that in the opinion of the younger cohorts movement on the labour market has halted. In the case of those over 61 years the unchanged high proportion of “true” answers reflects a segment of reality. Some pensioners succeed in returning to the labour market. The opinion of the general public coincides with the findings of the telephone interviews (and the depth interviews).

Table 1. The firm willingly employs pensioners for certain jobs.

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Note: the data are weighted and rounded. (N=545)
There was another question on both the 2001 and the 2004 surveys designed to explore an important economic process and its influence on the pension system.

“In your opinion is it true that in your workplace the firm hires people it pays informally?”

In 2004 on the subject of unregistered workers (that is grey or black market employment), 30% believed that their firms employ such workers. With the exception of those over 61 years, who pushed the value upwards (39%), the answers were not age-dependent.

Compared to 2001 three times as many people considered the statement to be true. In 2001 belief that informal payment was made was somewhat above the average for those up to 50 years, below the average for those aged 51-60 years and considerably below the average over 61 years. The subjective opinions given in the survey in 2001 probably reflect the reality, namely the fact that employees over 51 years withdrew from the labour market and had some other source of income, e.g. early retirement pension, disability pension, or a social benefit, but the labour market employed mainly young people as unregistered workers.

The increased proportion in such a short time (3 years) of those who believe that this practice exists can be attributed to numerous causes. 1) Because of the high wage-related contributions and the strengthening competition, firms and employers make increased use of unregistered workers in more age groups. 2) More researchers are dealing with this problem. And the general public is more open to talk about this question. 3) The withdrawal of the elder age group from the labour market and its disappearance in the black economy is contrary to the EU trend which urges the retention of ageing workers or the return to the labour market of ageing manpower. 4) At macro level too, decision-makers are paying growing attention to legalising the grey and black economy. 5) Therefore the general public also speaks more openly about the problem.

Whatever the case, the Hungarian economy is definitely burdened with the grey or black economy (or second economy). This trend is dangerous because it will have an impact in many areas. The people employed in an unregistered way fall out of the pension system partly (if they have a legal workplace but in addition also work in the black economy) or entirely (75% of the unemployed in our sample said they had a workplace). They do not appear in the system, or if they do, their official presence there is short-lived or is negatively influenced (e.g. they pay lower contribution to social insurance). The social insurance payments do not appear at macro level either, harming the redistribution based on the pay-as-you-go system. Unregistered labour harms the economy at the macro level because it deprives the central budget of taxation and contributions revenues. Individuals may do both registered and unregistered work at the same time. In this case the unregistered work has an increasingly detrimental
effect on the health, acting in the direction of retirement on a disability pension, which burdens the system with a welfare element.

Table 2 The firm hires people it pays informally

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<tr>
<td>51-60 years</td>
<td>17</td>
<td>53</td>
<td>31</td>
<td>100</td>
</tr>
<tr>
<td>over 61</td>
<td>26</td>
<td>35</td>
<td>39</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>54</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: the data are weighted and rounded. (N=545)

4. SUMMARY AND SOME FURTHER THOUGHTS

Summing up the experiences of the telephone interview of enterprises, the results of the depth interviews (which are also in line with the results of other national surveys (Gazdaságkutató Rt., KSH, manpower survey) and the findings of the survey of the general public, we can say the following. Different interests come into conflict in the problem of employment and retirement.

The majority of employers like to hire young, ambitious, healthy manpower with a big capacity for work and fresh knowledge, and who can be paid lower wages. The decline in employment begins above 45 and speeds up with advancing age. Employers avoid hiring persons over 50 years, at the most they are prepared to continue to employ people who came to the firm when they were young. There is also demand for ageing manpower in certain jobs, activities, settlements. In leading position the knowledge, experience and skill of the older worker is an important factor as well. Depending on the sector there is also demand for older manpower. All these show that there are many factors which have an influence on keeping the ageing labour force on the labour market. However, there is still a widespread discrimination against ageing manpower. Workers at present in the 40–45 years age group have little chance
of remaining active members of the labour market right up to the official retirement age of 62 years.

The opinion of individuals is similar to that of the firms; they think that firms regard the definition of ageing manpower as beginning at 40 or 45 years. The actual situation is thus regulated by the market, as perceived by employees.

It would be very advantageous for maintaining a balanced central budget if the population of working age could be kept on the labour market as long as possible, and people could provide for support of themselves and their families. This would save on expenditures for unemployment benefits, social aid and pensions. To ease the growing pensions burden, the government would like to keep the elder age groups on the labour market by raising the official retirement age. 62 years will be the uniform retirement age from 2009. At present the retirement age is still being increased in stages: in 2002, for example, the pension age was 58 years for women and 61 years for men.

The conflicting interests appear most strikingly at the level of the individual. The actual, average retirement age is generally much lower than the official retirement age. The retirement age set by law does not coincide with the actual withdrawal from the labour market. The age of individuals at retirement is influenced by the following factors:

- the declared age limit,
- the period of service accumulated (minimum service period required, rules for calculating length of service),
- possibilities for earlier retirement,
- gender,
- chance of continuing work after retirement age,
- individual life situations.

In the case of period of service, when the individual leaves the labour market, how many years have been spent in unregistered employment and how much time has been spent on unemployment aid are all crucial factors.

Besides all these, many other factors also influence people’s retirement habits. They include the current economic situation, the capacity of the labour market to absorb manpower, gender, the different service units of the welfare state (services available for the elderly, institutions for children) and the rules governing the employment of pensioners which can make paid employment easier and more attractive for those who have reached the retirement age, or on the contrary, more difficult. It helps paid employment for the elderly that the taxation of earnings parallel to the pension is more favourable, encouraging employment from the employees’ side. At the same
time there is very little nothing to encourage employers to employ the elderly since
the manpower costs are the same or even higher as those for other workers.

The 45-49 years age group which currently has a relatively high level of activity
will no longer be of working age in 15-20 years time. It is only the so-called
"Ratkó grandchildren" (those born when Anna Ratkó was Minister of Health and
the birth rate was high due to a ban on abortion and other measures), those
currently aged 25-29 years who will remain among those of working age with a
relatively high level of economic activity. The proportion of those over 64 will
rise substantially⁴. With the present retirement age of 62 years, the first big
wave of retirements can be expected in 2017, and the second in 2038. The
increasingly high participation of these age groups in the labour market will be a
vital question both for the economy (macro level) (the size of the labour pool),
and for the livelihood of the elderly (micro level).

The increase of pension age was unavoidable. The Hungarian economy
definitely needs the work of ageing manpower as the population aged 0-19
years is steadily declining and that of 60+ and 65+ years continues to increase.
By 2008 the number of persons aged 60+ will reach that of those aged 0–19 years,
and by the 2020s the proportion of those 65+ will also reach this level. On the
average for the EU, for every 100 economically active persons there are 131
inactive persons, while the employment level is high. Hungary has a high
dependency ratio – 151 dependants for every 100 economically active persons
– and the employment level is low compared to the EU. (Habicsek-Pákozdi,
2004). In 2002 in the EU-15 on the average 69.6% of the population aged 15-64
years was present on the labour market, while in Hungary the corresponding
figure was only 59.7%. The sessions of the European Commission on
employment of the ageing population held in Stockholm in 2001 and Barcelona
in 2002 each set a goal. One was to raise the rate of employment of the
population aged 55-64 years from 40% (accession countries general at that
time: 30.5%, Hungary: 25.6%) to 50% by 2005. The aim was to raise the
average age of persons withdrawing from the labour market – which was 60
years in the case of the EU-15 in 2001 – by five years. This proposal was based
on the average life expectancy for persons over 60 years in the old member
countries, which was 19 years for men and 24 years for women, and which
considered it could be expected that they remain on the labour market for a few
more years. The situation is worse in the majority of the new EU countries, but
an improvement can be expected in the future in these. As a consequence of
the lengthening of the age-tree and the low level of economic activity, the
economy in Hungary needs ageing manpower over the long term. Employment
tensions will grow perceptibly stronger already towards the end of the present
decade. New jobs must be created, appropriate incentives must be provided for

⁴ According to population forecasts, the proportion of persons over 65 years within the total population
will be 19-21%.
firms, some elements of welfare policy must be changed, etc. Special attention
should be paid on how to integrate ageing women into the labour market. To
solve this problem many other issues should be taken into consideration such
as to increase care services, level and infrastructure of health care, to release
families (mainly female) of family obligations. Only in this context can be treated
the pension age and the equal labour force participation of gender. The general
problem is how to solve the connection between the labour market and the
pension system. This can only be solved if a number of taxation and social
insurance contribution and wage rules, positive discrimination of ageing labour
force and also state support will be taken into consideration. These solutions
require the elaboration of a comprehensive plan, taking into account the
problems arising from the above processes, to be drawn up by experts in the
different fields and disciplines (economists, financial experts, demographers,
sociologists), together with the decision-makers.
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