



Reorganisation of the pension administration in Hungary

ESPN Flash Report 2016/52

ROBERT GAL – EUROPEAN SOCIAL POLICY NETWORK

JULY 2016

In June 2016, the Hungarian government launched a reorganisation of the pension administration which will take place in two stages. The pension administration, currently a separate entity, will be first merged with units of the National Health Insurance Fund dealing with cash benefits and then integrated into the State Treasury. The entire process will be completed by 31 March 2017.

Description

Old-age pensions and survivors' benefits are paid by the Pension Insurance Fund, whereas disability pensions, child care allowances and sickness benefits (including benefits for accidents) are paid from the Health Insurance Fund.

A recent government decree published on 13 June 2016 requires the merger of the administration of these cash benefits under the auspices of a new institution: the Office for Family Benefits and Social Security (Nemzeti Családtámogatási és Társadalombiztosítási Hivatal). At the same time, the Central Administration of the Pension Insurance Fund (Országos Nyugdíjbiztosítási Főigazgatóság, ONYF) and the administrative agency of the Health Insurance Fund (Országos Egészségbiztosítási Pénztár, OEP) will cease to exist. ONYF and the cash benefit units of OEP will form the new office. The in-kind units of OEP will be merged into the Ministry of Human Capacities. The process has to be completed by the end of this year.

The newly established office is meant to be short lived as it has to be integrated into the State Treasury by 31 March 2017.

Although the State Treasury is supervised by the Ministry of the Economy, it is not part of the Ministry. It is a separate unit having an independent legal entity, separate operation and financial management. It deals with the daily management of public cash-flow.

The entire integration is supervised by the Ministry of Human Capacities; the person responsible for conducting the process is the director of the, by now former, ONYF.

This reform is part of a large scale reshuffling of the public administration. More than 50 background institutions of various ministries that used to function as separate units will be integrated in the government. The aim of the reorganisation is to create a more transparent institutional structure and save on costs including reductions in the work force.

Beyond these general goals the integration of ONYF and OEP into the State Treasury will give the government a closer view of its cash-flow vis-a-vis its citizens.

Outlook & Commentary

The ratio of public employees to the total number of employees is high in Hungary in European comparison, which justifies the effort. However, the integration of background institutions into ministries is no guarantee by itself of cutting back redundancies. With one exception these institutions will keep on working as part of the administration. Proper cost cutting would require further re-planning of tasks and duties.

The reform process is characterised by short deadlines and uncertainties. A plan

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

to close or merge over 70 separate administrative units was first announced in January 2016, but the final, shorter list was not known till April. The merger of ONYF and OEP was publicised also in April. Various details of how the administration of cash benefits, including for instance the calculation of entry pensions, will be integrated into the daily operation of the Treasury, are still unclear.

More generally, the integration of the pension authority into an administrative unit set up and optimised for the daily handling of public cash-flows reveals an exceptionally cross-sectional image of the pension system. There is a risk that the largest component of the public lifecycle financing system could be reduced

to period inflows and outflows and viewed essentially through the narrow lens of cross-sectional financial equilibrium. Yet, if properly managed the integration of the individual level administration of all cash payments will also offer a chance to set up individual accounts including all outflows over a lifetime. In order to achieve this goal the organisation currently focusing on daily operations should be extended with units handling individual lifecycles.

Further reading

Magyar Közlöny (Hungarian Gazette) 2016/85 p. 6440-6441.

<http://www.magyarokozlony.hu/dokumentumok/cb315ca5a3b38af40a509f936a7cfdc563fa1bf0/megtekintes>

Author

[Robert Gál](#), Hungarian Demographic Research Institute, TARKI Social Research Institute and Corvinus University of Budapest