



Pensioner cooperatives combine work and retirement in Hungary

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To keep more pensioners economically active and fill shortages in the labour market, a special type of cooperative, the “pensioner cooperative” (nyugdíjas szövetkezet), was introduced in Hungary in July 2017. Members can receive both income from work and old-age pension benefits, and benefit from preferential taxation.

Description

The 2016 national micro-census registered 126 thousand people aged 60 years or above who had paid work while receiving some type of pension benefit. This is 5.8% of the pensioner population in this age group (CSO, 2017, 12).

The public and the private sectors fall under different regulations. Workers taking up a job in the public sector after retirement must defer their benefits. In the private sector, parallel income streams of pensions and wages are allowed. This option is unlimited if the person has reached the legal pensionable age. However, it is subject to an earnings limit equivalent to 18 months of the minimum wage if the person receives one of the early retirement benefits or is in the “Women-40 programme”, a special early retirement scheme for women (see below). Earnings are subject to personal income tax (PIT) and social security contributions (both employee and employer contributions) and allow the retiree to build up additional pension entitlements. In 2018, the total tax wedge varies between 44.32% and 45.04% of the total labour cost (between 42.51% and 46.15% in 2017).

Against this backdrop, a special type of cooperatives, the pensioner cooperative (*nyugdíjas szövetkezet*), can be established since July 2017. Members of these cooperatives are eligible for

preferential treatment. They are subject only to PIT, making their tax wedge a mere 15% of the total labour cost. This foregone public revenue reduces labour market friction by financing cooperative managements, which mediate between employers and employees, that is cooperative members. Employers can save on recruitment costs and face an organisation that can offer easy replacement in case of absence; employees save on search costs or find an income source they would give up seeking for otherwise. Cooperatives can offer more flexible working hours and bring in some organisation to a segment of a poorly unionised labour force. Cooperatives have established their own trade union, KÖZÉSZ.

Earnings supplement pensions but do not enable the worker to accumulate further social security entitlements.

These new cooperatives are in a growth phase. The latest reports (Magyar Idők 2018) are of about 98 cooperatives with 20 thousand registered members. Estimations of the full potential of cooperatives vary considerably. According to HVG (2018), a leading independent political and business weekly, KÖZÉSZ estimates that there are about 400 thousand potential members, which is nearly 20% of the retired population aged 60 years or older. However, according to other experts, also cited by HVG, the figure is rather about 200 thousand.

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Outlook & commentary

As in many European countries, the average exit age from the labour market has been steadily rising in Hungary. Yet, even this development cannot compensate for past low fertility, which is resulting in declining numbers of 20-64-year-olds. In addition, the negative migration balance of the last few years and the booming economy are creating tensions in the labour market. This is manifested in a rapid growth of wages as well as various efforts of the government to mobilise the less economically active segments of society, such as mothers with young children, the Roma minority and pensioners. The establishment of the pensioner cooperatives is part of this wider development.

The evolution of the average exit age from the labour market differs by gender. Up to 2011 it steadily grew more quickly among women: the gender gap of 2.3 years in

1998 decreased to 0.4 years by 2011. Since then, however, the "Women-40" programme, which opens up the option for women who have collected 40 years of "eligibility" to retire below the legal pensionable age, has widened the gap once again (0.9 years in 2016 and expected to grow further). Indirectly, this early exit route favours women with secondary or higher education and less children. Without the privilege most of them would work longer, would continue to pay contributions and would take up benefits later. The new cooperatives will partially compensate for the employment consequences (if not for the lost social security contributions) of this special retirement option. In this context, the "Women-40" programme seems particularly uneconomical. It is costly and particularly inappropriate now that there are labour shortages in some sectors. Before establishing the cooperatives, the government should have abolished the Women-40 privilege.

Further reading

CSO (Central Statistical Office) (2017): "Ezüstkor – Időskorúak Magyarországon, 2016" [Silver Age – Elderly people in Hungary, 2016]. Budapest: Központi Statisztikai Hivatal.

HVG (31 January 2018): Idősszámítás [Counting the old]. http://hvg.hu/hetilap/2018.05/201805_nyugdijasok_foglalkoztatasa_kubatovlista_olcso_munkaerop_otlas_idosszamitas

Magyar Idők (1 February 2018): Kósa Lajos: nem teherként a 2,7 millió nyugdíjas, hanem lehetőség a társadalom számára [Kósa Lajos: The 2.7 million pensioners are not burden but opportunity for society].

<https://magyaridok.hu/belfold/kosa-lajos-nem-tehertetel-27-millio-nyugdijas-hanem-lehetoseg-tarsadalom-szamara-2-2751868/>

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