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中国－欧盟社会保障合作项目

Report of Pension Insurance System Study Tour to Italy and Hungary

OA EU Study Tour Delegation

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According to annual work plan of EU-China Social Security Reform Cooperation Project, a study tour of pension insurance system was undertaken to Italy and Hungary from December 1 to December 22, 2009 to know more about pension system in the two countries. In Italy, the delegation visited the Ministry of Human Resources, Health and Social Policy, Retirees Trade Union of Roma, National Social Security Institution, Social Insurance Bureau of Viterbo, another Trade Union, INPS Office and pension administration organization. In Hungary, the delegation visited Budapest and Pest District Pension Insurance Headquarter, office of the Pensions Institution, Szeged, which is the South-Plan District Pension Insurance Headquarter, Budapest Pension Administration Organization and also Szeged Pension Insurance Center.

During the visiting period, we met relevant departments and discussed the organizing system and managing mechanism of pension insurance. Please find more detail on the visiting as follows.

1. General Introduction and Reform Trends of Pension System in Italy

1.1 General Condition of Social Insurance in Italy

Italy has started pension system for staff in local government since 1874. By now, social security's history has exceeded 100 years in Italy and its system also developed and improved along with the development of society, politics and economics. Nowadays, social security has almost covered the whole population in Italy and the benefit level is not low.

Italian social security system consists of three parts, social insurance, health care and social assistance. Social insurance means giving benefits to citizen who has suffered certain accident and lost certain income. Pension, work injury insurance, and unemployment insurance all belong to this part. Health care means national health care service system, which is also called medical insurance. Social assistance is to prevent or eliminate other poverty condition which cannot be covered by social security system. Public relief, welfare for disabled group, elderly people and children are covered in this part.

When Italian social security system is started (for pension and medical insurance), social insurance fund got plenty of surplus because there were more contributors than benefit claimer. As time went by, population structure changed a lot. Birth rate was very low which made the society step towards aging society fast. Compared with condition in 1950s and 1960s, young people entered labour market later and later. At the same time, more and more freelancers and self-employers turned up, which made taxpayer decreased and benefit claimers increased and surplus could not support benefit payment. In 1997, over 25% of financial expenditure of the government was spent on subsidy for social insurance fund gap. In 1999, expenditure for social security was 17.4% of GDP.



1.2 Social Security System Reform in Italy

In these decades, the Italian government has implemented several reforms on regulations related to the social security system in order to expand the sources of funds and reduce the deficit. In these series social security reforms, the reform of 1995 is described as a "major operation", which focused on the following three perspectives: **First, changing the calculating and paying measures of pension.** Before 1995, Italian pension was based on the average wage of workers paid in last two years, which was according to his working years. The relation between it and the length of paying duration is not strong, which results in high old-age insurance. In 1995, the reform of pension insurance system was changed from PAG to individual accounts system which also means pay-as-accumulation. The new system is linked to the amount of payment, which is the more you pay for it, the more benefits you will enjoy. However, the new system does not completely replace the old system which is only applied to the workers who join the labor market after 1996. The government applied gradual transition measure for the old workers. Year 1996 should be taken as the boundary of pension system and the measures have two stages. This reform has achieved initial success and the pension replacement rate has fallen from 80% to 65%. The Government hopes to resolve 15% reduction in pensions through supplementary pension insurance. **Second, to rise the retirement age.** Prior to 1995, regardless of the number of actual age, the workers can receive a full pension as long as he meets the retirement which is having 35 years of service. After the reform, the retirement age will be unified to the male 65-year-old, female 60-year-old. The government implements the new measure step by step and increase one year more by every 1.5 years. **Third, to expand application of pension.** Prior to 1995, the Italian freelancers, individual industrial and commercial households and other non-wage workers may choose to join the social security or not. But in the late of 1990s, such workers' participation rate in social security has been increased sharply. In security reform of 1995, it required this group of workers to join the social security compulsorily and developed a series of regulations on it, such as paying rules and participating rules. **Fourth, to promote the supplementary pension insurance actively.** In April, 1993, the Italian government passed a law confirming the supplementary pension insurance as the second pillar pension insurance. Since it was implemented, it has been revised in 1996 and in 2000. The government set principles on financing, management, operation, supervision and protection of the contributors' rights, obligations and tax incentives to ensure the supplementary pension insurance system will work smoothly and effectively. Supplementary pension insurance becomes one of the main elements in pension insurance reform. Operation of Supplementary pension insurance has several characters, such as: voluntary organizations, open operating, financial institutions operating, individuals as major contributors, the state tax incentives, and the State supervision on operations process. Supplementary insurance and commercial insurance are different. The latter one can be viewed as a personal choice, but the first one is designed for a particular group. It is necessary to set a sector as a fund unit, when it is approved by the Ministry of Labor and Social Welfare, the supplementary pension insurance will become the main content in pension insurance reform, and a supplementary pension fund will



be built and make it possible for all the labors to participate. **Fifth, to develop commercial insurance.** In recent years, the Italian government put great efforts to develop commercial insurance which can be used as an important supplementary for social insurance and it has issued a series of supporting policies to encourage people to participate in commercial insurance. Since 2001, Italy government set regulations that insurance payments can be inherited by the family and exemption from inheritance tax, if the insured was dead. The insurance funds may not be seized or confiscated; the insured may apply for to loans from the insurance company. With the encouragement of the government and commercial insurance company's efforts, a number of insured benefit from the commercial insurance. Now, a lot of Italian citizens and even many families would like to buy commercial insurance.

1.3 The Italian pension system

Since 2004, Italy started a new round of pension system reform which is based on the previous three times of reform: 1992, 1995 and 1997. To a large extent, these reforms unified "statutory pension system" which used to be isolated to each other.

Italy have specialized services for private sector pension insurance institutions (INPS) that manage more than two thirds of the private company employees and the self-employed pension insurance. And they also have specialized services for the public sector employees pension insurance institutions (INPDAP). In Italy, all registered employees are covered by the statutory pension system, including pensions, disability pensions, survivors pensions. Employee pension contributions account for 32.7% of total revenue (Employees pay 8.9%, employers pay 23.8%). Self-employed persons and similar non-contract employees pay 17.5%, this figure will gradually increase to 19%.

Until December 31, 1995 has paid contributions for pension insurance for more than 18 years and 18 years, the staff can be directly calculated under the new pension system for the treatment. The new pension system requirements (at the end of 2007) treatment of the release of pension age for men and 65, women 60 (and the requirement to pay at least 20 years); seniority pension age for men treatment for the release of 58 (their own jobs were 58 years old), and asked to pay for at least 35 years. If the link to pay for 38 years, you can receive seniority pension (in 2006 increased to 39 years in 2008 to 40 years). If the outstanding prior to the end of 1995 at least 18 years, then the same time, two systems based on the old and new "mixed terms" treatment, a specific method of calculation need to consult the old and the under the new system the number of working years.

Carried out in 2004, an increase of pension system reform of the enjoyment of the statutory retirement age for seniority pensions, from the past 57-year-old to the present 60-year-old (and required to pay 35 years, their own jobs are for 36 years). Will further increase the retirement age by 2010 the retirement age will increase to 61-year-old men, 2014 men and 62 years old



(and the requirement to pay at least 35 years). For women, as of 2015 pairs of women's enjoyment of the retirement age for seniority pension will be increased to 57 years old, and asked to pay at least 35 years

Before the reform, to improve pension insurance benefits can increase the minimum payment amount of old-age insurance, while lower-income elderly people can apply for social assistance pensions. After the reform, the minimum value of the social assistance pensions, the elderly aged 65 years, after verification, may apply for pension benefits. People over 70 to enjoy the minimum pensions and social benefits for transfer to € 7.069 per year.

Italian pension reform of 1995 era forged strong links between collection and treatment, thus providing an appropriate incentive mechanism, allowing new entrants into the labor market, to make people work longer. In 2004 introduced new measures aimed at promoting longer working life, affecting the right to early retirement under the old system people. In any case, these measures will bring about a long-term transition, and the advancement of women and older workers employment rate is essential for solving future problems. The future labor market measures will ensure that older workers to actively seek employment. It is worth mentioning measure is the statutory retirement age for men and women, the differences will be gradually narrowed, so can increase the female employment rate. Ensure that funds are sufficient to require by contract the power of old-age insurance to protect employees, the future capital adequacy may be dependent on the participants to continue their work in the labor market. This can increase the female employment rate. It required to protect the old-age insurance benefit right of employees by contract, so to ensure that the funds are sufficient. The adequacy of future fund could depend on that the participants continue their work in the labor market.

The aim of recent reforms is to reduce the replacement rate by statutory rules. The fund adequacy of future pension also depends on the development of the complementary right of social security, which is achieved through the TFR expiring grants. TFR could automatically transfer to the occupational pension scheme (except those employees who follow the "default" mechanism); this can greatly facilitate the development of supplementary pension insurance.

2. The Overview and the Reform Trend of Hungry Pension

2.1 Overview

Since 1998, Hungary has introduced a "three pillar" pension system, including the traditional "pay-as-go" national social security pension, statutory private pension, voluntary old-age insurance.

A. Old-age Insurance.

Hungarian retirement age remains unchanged for a long time, that is 60-year-old for men, 55-year-old for women. In order to adapt to demographic changes, and consider the affordability of the fund, from 1998 to 2008, the retirement age has been postponed to



62-year-old for men and 59-year-old for women (that is every two years to postpone 1-year for women). In addition, Hungary also has introduced a flexible retirement system, allowing people who have worked long could enjoy early retirement.

The calculation of pension is based on an average income (wages), and the wage is the basis on contribution. Before January 1, 2013, the benefit standard is 43% of average income for a contributor who has contributed for 15 years, if the contributor has paid more than 15 years, then there will be a 2 percentage points increase for every one year exceed; paid for 25 years, the pension will increased to 63% of the average wage; paid more than 25 years, less than 36 years, there will be an annual one percentage points increase, the ceiling is 74%; paid more than 36 years, there will be an annual 1.5 percentage points increase; paid more than 40 years, the annual percentage points increase will be 2. Hungary pays much attention to continuously improve the standards of pension. Its adjustment principles are: (1) If the forecasted GDP growth is less than 3%, it will increase pension standard according to forecasted consumer prices; (2) If the forecasted GDP growth is at least 3% but less than 4%, it will increase pension according to forecasted average consumer price and the forecasted national average net income growth, the weight is 80/20 %; (3) If the forecasted GDP growth is at least 4% but less than 5%, it will increase pension according to a weight of 80/20% of the forecasted average consumer price and prediction of the national average net income growth; (4) If the forecasted GDP growth is at least 5%, the weight is 50/50%.

B. Survivor's benefits.

The main conditions for survivor's benefits is that the deceased person must has a contribution year which achieved the required old-age insurance or disability pension year, or before his or her death, he or she has been receiving pension or disability pension. After the death of a spouse, the bereaved family can enjoy a temporary one-year survivor pensions. A permanent survivor pensions' condition is that the survivor has reached the retirement age required for pensions, or has two kids to take care of (or a disabled or chronically ill child). Temporary survivor pension standard is 60% of pensions. If the survivor does not give up him self's or her self's pension, survivor's pension standard is also 60% of the permanent pension.

C. Statutory private pension.

Statutory private pension is the second pillar of "three pillars". Hungary set up private pensions in 1998. According to relevant laws, employers, chambers of commerce, economic associations, local governments can establish private pensions. The largest private pension funds are supported by commercial banks and private insurance. In 1998, 1.3 million people participated in private pension funds. To the end of 2008, the number of participants increased to 2.9 million.

D. Voluntary pension.



In December 1993, Hungary introduced a law to allow the establishment of voluntary pension funds, to complement the existing pensions. Employers could use its resources to establish a voluntary pension. The insured person's contributions can be tax-free. Up to 1999, there are about 250 voluntary pension funds. According to the data of 2008, the number of voluntary pension is only 70, but the insured persons are nearly 1.4 million, accounting for 30% of all employees. The accumulated fund is about 700 billion Hungarian forint (about 35 billion U.S. dollars).

E. Pension funding.

Hungary introduced social security pension system in 1929. At the beginning, the fund is adequate; it implemented a defined benefit system. However, due to the Second World War and inflation, the fund has a large number of losses and was forced transferred to the current pay-as-go model. Funds come mainly from employees' and employers' contributions. The employers' contributions are much higher than the employees'. In 2009, employers paid 24%, and employees paid 9.5%.

2.2 The reform on the pension system in Hungary

Since Hungary performed the reform on the pension in 1997, it adopted the compulsory public pension system consisting two levels. The first level adopts public management, "pay-as-you-go"(PAYG). It is a defined offer pension scheme, which covers all employees and self-employed worker, providing them with pension, disabled subsidy and death subsidy. The sum of money is mainly from independent pension collection. As regulated in the former system, the legal retirement age of collecting full pension for women is 55, and for men is 60. This line is rising. Until 2002, the retirement age for men was raised to 62; until 2009, the retirement age for women will be raised to 62 as well. 30% collect public pension. A quarter of pension will be used for disabled subsidy, and most beneficiaries (57%) are younger than the claiming age. Pension, disabled subsidies, death subsidies and treatments related to accidents will be calculated according to the average salary and price rising, etc. The contribution of employers and individuals is declined from 31% in 1998 to 26.5% in 2003. 18% of the pension is contributed by employers and is deposited into pension fund. The insured on the second level give 8% of the contribution to the fund scheme; those non-second level insured's whole contribution is in the public pension scheme. Only until employers' salary arrives at a certain level will they contribute. In 2005, this level is 3 times the average salary. There's no requirement to employers about salary. In 2004, 76.4% of pension fund and pension related expenditure is from this contribution, and the rest is paid by the central financial department. The cooperation between the implementation of pension schemes and other social security supplementary fund allocation is performed, which is based on the survey of households' economic situation. The minimum contribution time in order to collect minimum pension in the pension scheme is 20 years. To claim pension when reached the legal age, can reduce the gap between the currently claiming age and legal claiming age, and raise the employment rate of seniors. If have contributed up to



15 years, people can claim part of their pension, and there's no definite regulation on the minimum amount. In 2004, the minimum pension is 40% of the average pension, and only 2% people were benefited from it. Those who are not entitled to claim pension, or their pension is lower than a certain amount are possible to receive a sum of pension subsidy. From a long view, the compulsory second level covers all paid labor relationship. The employee who just enters the labour market will be included in this paid labor relationship automatically. The employees, who joined the pension system before 1998, will be added to the new system according to their will when the new systems begin to run. Recently, 50% of the employees in the first level are transferred to the new system, and lost 25% of the benefit in the original PAYG system. Those who haven't joined the second level, still remain in the PAYG. The more they contribute the more benefit they enjoy. At present, around 60% of the labors are covered by the second level. As the promotion of the compulsory insurance, and the number of the insured increasing, the coverage of the second level will be enlarged as well. The compulsory pension system of the second level consists of the "defined contribution" private pension fund (MPPFs), which has sufficient fund. The fund constantly aggregate the contribution in the insured's individual accounts, and make investment with this money. After retirement, this money in the accounts will become security of the insured's lives. This sum of money is provided by fund, or a life-insurance company. If the insured die or become disabled, compensation will be paid as well. After the death, the designated beneficiary will receive a certain amount of one-off compensation. If become disabled, compensation will be paid according to a commonly used annuity calculation standard.

The Occupational Schemes are unusual in Hungary, but the voluntary individual scheme has been universal in Hungary since 1994 as "Voluntary Mutual Pension Insurance Funds"(VMBFs). By now, 32% working population have belonged to different voluntary fund schemes. It is forecasted that the proportion will rise. In fact, the contribution rates are differentiated in different fund schemes. In 2004, the average membership fee that the members pay to join in the pension fund schemes is equivalent to 3.6% of total revenue, in which two thirds fees are paid by the employers. The schemes also always provide them with some tax incentives. Up to 2000, about 320 "Voluntary Mutual Pension Insurance Funds" had been established. However, this figure had declined rapidly in the following years. In 2005, there were only 75 voluntary supplementary pension fund schemes operating. Suppose that the average period that the members participate in the voluntary pension insurance schemes comes to 30 years, they can get the supplementary pension that is equivalent to 8% to 10 % revenue.

Hungary, like other state members, is facing the trend of aging problem. It is estimated that the elderly dependency ratio will increase from 22% in 2003 to 48% in 2050. With regards the employees at the level of the average wage as well as in the first level and second level of the mandatory system, the substitution rate that the reform brought almost doesn't change. For instance, one employee works for 40 years, and if he or she retires at the age of 65, his or her net substitution rate is 100%. And if he or she works for 38 years, and if he or she retires at the age of 62, his or her net substitution rate is 80%. As for the employees whose salary is just



equivalent to two thirds average salary, their substitution rate will maintain stable. It is estimated that it will increase from 90% in 2005 to 92% in 2050. The theoretical gross substitution rate will benefit from the fund in the system, and it will increase from 66% now to 78%. It is estimated that these fund factors will make up the losses caused by the decline of the level of the public pension. However, the total net substitution rate will not have big change, and it will have a small decline (from 102% to 98%).

In the past ten years, Hungary has carried out many important revolutions. At the beginning of the 1990s, Hungary postponed the retiring age and enhanced the ties between the contribution rates and benefits. The reform in 1997 helped Hungary introduce the fund into the mandatory social security scheme, which will enhance the stability of the fund system in the long term. On the other hand, its transformation cost also brings big challenges to the pension insurance fund and the whole public finance. Perhaps the public “pay-as-you-go” system need to deeper reform, especially it should improve in the aspects of limiting the early retirement and lengthening the working period. The better management of pension insurance fund, tax, financial control management and private fund as well as the cooperation among different units, especially the cooperation in terms of collection of contributions can reduce the phenomena of contribution evasion. Both of the good cooperation between different funds and strong collection of central contributions are in favor of the enhancement the effectiveness of the contribution benefits in the second level.

As mentioned above, the reform in 1997 helped Hungary introduced the fund into the mandatory social security scheme. However, when a certain proportion of contributions switch to the second level, it caused the deficit problem for the first level. Furthermore, the deceptive reporting work and contribution evasion problem have occurred in pension insurance funds and private funds at times. The reform has gradually declined the employers’ contribution rate from 24% to 18%. Meantime, by the end of 2003, it had increased from 6% to 8.5%. The adjustment made the total contribution proportion of the whole system to the total salary decline from 31% to 26.5%, which supposed to help with the employment promotion. However, its effectiveness has not been so obvious in the employment market. Therefore, the decline of the proportion of the salary to the GDP has caused the decline of the contribution benefits. On the other hand, it aggravated the difficulties of the financial balance of pension insurance payments. Although the increasing in the transparency and the maintaining the fairness as well as the introducing the linear accumulative rate into the pension formula will contribute to encourage the employees work longer, but it will not be introduced until the 2013. Due to the pension reform implementing recently, the financial pressure on pension expenditure that the Hungary faces is relative small. In 2004, according to the national budget forecast made by the long-term public finance stability assessment, it shows that from 2009 to 2050, the pension expenditure in Hungary will remain at about 7.5% of GDP. Moreover, according to the forecast of AWG in 2005, although part of funds have switched to fund schemes, the public pension expenditure will increase from 10.4% of GDP in 2004 to 17.1% of GDP in 2050. Meantime, the fund schemes develop gradually stronger, and the pension expenditure will increase from 10.4% of GDP in



2004 to 20.3% in 2050. The reason accounting for the increase is that the constant improvement of the level of salary has continuous impact on the standard of pension. Such a high expectation on the increase in the pension expenditure ranks first in EU states, which also contributes a lot to the total public expenditure concerning the age in all over the EU. It is estimated that the proportion of the total expenditure will increase from 20.7% of GDP in 2004 to 27.7% of GDP in 2050.

Hungary has maintained adequate pension levels in recent years. The relatively poor age population is very small. The majority of the senior citizens have the equivalent level of revenue with the serving staffs. However, some measures in the current reform will bring some hidden perils. In addition, many people who manage the farm as their main economic activities are not included in the mandatory pension insurance system. However, it made a large progress in pension reform in Italy, employment rate is still low, for elder people is more difficult. In terms of pension policy, pushing employment rate for elder people plays significant role to ensure affluent and stable lives. From pension calculation formula, Italy introduced linear cumulative rate method; it extends time of employment, strong equity situation of employment. However, this method has to wait until 2013 to introduce.

3. Main implications

3.1 Implementation unified Urban, Rural pension insurance system

Italy and Hungary set up a complete legal pension insurance system, moreover with coverage of urban and rural pension insurance smoothly, there are slightly differences between urban workers and rural workers in income, and also they are involved in pension insurance. In China, we adopted dual economic structure in urban and rural areas practically; between employees and farmers, there are crucial differences in incomes, consume, and life styles. It will be a long-term project for eliminating the gap between urban and rural areas in order to implement a rural-urban equal pension insurance policy. Through this study tour, we realized that the direction and the basic view of integration of rural-urban pension insurance; it will be a unified policy.

3.2 EU countries have complete pension insurance transfer methods

There is a collective agreement among the EU countries to harmonize the legislation of them, in order to transfer relationship of the social security insurance. The duration of transferring time, EU countries insist three principles: first is integration of legal system. Every staff could maintain their own national legal system, also could coordinate EU countries' social security relationship according to different situations. The staffs in EU countries do not make double payment of insurance; second, the maintaining of social security insurance rights. No matter in which EU countries, these rights could be kept by EU staffs; third, is an equal treatment. The EU staffs could apply an equal social security treatment in EU countries. On May, in 2011, it will set up



collective database bank, under information platform supporting in transferring the relationship of social security insurance. Meanwhile, EU carries out “segment accounting” method. This method is benefit in protecting legal employees’ rights, clear contribution responsibility. Under national conditions in China, there are plenty of difficulties to apply, such as, our management methods, information systems and credibility system. A large amount of retirement data bases are hard to operate, management costs are high. Therefore, at present, it is not best time to use this method. We have to consider our national conditions to work out pension portability ourselves.

3.3 The age of retirement being extend

At present, in Italy, the retirement age, male is 62, female is 60; the length of working is 40-years, age 65, or 38-years, age 62 in Hungary. In next scheme, these two countries purposed to extend the age of retirement. Also we have a large population, the labor force is oversupply. The contradiction structures of employment are obvious. It is going to be a long way to implement the same policies as them. However, it is necessary to borrow the EU experiences in solving the problems of retirement age in China. For example, female cadre members’ retirement age is 55; female workers’ is age 50. They cannot integrate; it is difficult to apply extending retirement age policy in local areas, because of breaking status boundaries between cadre and workers. Also this caused administrative review and legal action. We suggested the government should integrate the age of female retirement is 55 gradually and designedly. There are two approaches: first, female employees could chose to retire between 50 in 55 themselves; second, the age of retirement could be integrated at 55 when the conditions are ready.

3.4 High level coverage of Rural Pension

No matter in Italy or in Hungary, they applied unified rural pension policy with urban areas for farmers, farm workers and homestead. High level coverage rates of rural pension and participation rates is extreme important in ordering to improve economic development and protect the basic life for farmers. At present, we set up experimental provinces to implement new pattern of rural pension policies. Also we borrowed the methods from EU, complete the policies, and enlarge the numbers of experimental provinces, strength fiscal support. In experimental provinces, we make sure to protect farmers’ basic social security rights, to share the achievements of revolution.

3.5 Pay attention to management of Social Security Agency

To place importance on managing social security agency, they set up the relevant organizations in Italy and Hungary. Especially in Italy, they pay attention to manage social security agency. The government established social security institute and local social security organizations. Social security plays the division of functions in Italy; there are more than 20 departments. Ministry of labor and ministry of economic affairs supervise the operation of social security. Ministry of



labor supervises the rights of employees and ministry of economic affairs supervises the economic conditions which are belonged to the employee. Constitution law entitles social security department rights to fulfill the responsibilities. Social security organization which is in Ministry of labor mainly implements labor law, the relationship between social security department and ministry of labor is parallel. Social security department is unique and independent. However, the budget should be approved by ministry of labor. Meantime, government has a budget department of social security funds. Its main role is to evaluate the sustainable of rural pension. Also this department consists of many experts, they supervise the funds. The labor union plays an important role in Italy. On one hand, the union protects the rights of retired people, also is in charge of negotiating with government for improving the treatment of pension; on the other hand, is to provide the services for these people, for instance, to deal with the registration procedure of social security, etc. There are two buildings in social security institute in Italy, only in Rome; there are more than 3000 staffs. The institute's budget, 20% comes from fiscal support, 80% comes from contribution benefits. In 1927, Hungary established a pension centre. In 1993, it changed into two retirement centre, one pension centre. Hungary has 19 provinces; each three of them has a retirement department. In every local pension department, they are responsible for information input, checking up the accuracy and distribute pension in Italy and Hungary. There are service hall, information center and record offices. Perfecting the social security agency, is to ensure better implementation of policies, and the better services of participants.