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DO FLEXIBLE RETIREMENT POLICIES CONTRIBUTE TO EXTENDING WORKING LIVES IN HUNGARY?

Abstract

The increase in the old-age dependency ratio is putting pressure on public finances in ageing societies. Among the possible policy reform approaches postponing retirement can be particularly beneficial from the perspective of financial sustainability of pensions systems. In this article the aim is to present how opportunities for flexible retirement have changed in the past decade in Hungary and whether these policies have contributed to extending working lives. Our analysis shows that retirement flexibility is limited in the Hungarian pension system. Most possibilities for early retirement have been eliminated from the system during the reforms that followed the Great Financial Crisis. Opportunities for early retirement with full pension benefits are limited to women with at least 40 service years. On the other hand, retirement is flexible upwards, that is people can defer retirement and might also choose to work while receiving pensions. Flexible retirement policies promoting later withdrawal from the labour force, such as deferred retirement and the possibilities to combine work with pensions contributed to extending working lives in Hungary. It is also certain that the possibility for women to retire before the pensionable age (Women-40 scheme) lowered the overall effective retirement age, as women retiring under this option retired earlier than other women. Allowing more flexibility in retirement decision might improve well-being, on the other hand the costs of transitioning to a system allowing more flexibility for early retirement can be substantial.

Introduction

Demographic ageing is one of the most important challenges European welfare states have to face, Hungary being no exception to this general tendency. The share of those above 65 years of age in the Hungarian population has increased by 3.2 p.p. during the 2014-2024 period (Eurostat 2025b). This was roughly similar to the increase recorded in the EU as a whole (+2.9 p.p.). In terms of the median age of the population Hungary ranks just below the EU average (44.5 years), thus overall the ageing of the Hungarian society is similar to other countries of the EU (Eurostat 2025a). The main reason for the change in population age structure was below

replacement level fertility, which characterised the country for decades, and also increased life expectancy had an important contribution (Boros & Gál 2023).

The increase in old-age dependency ratio is putting pressure on public finances, forcing political elites to change the mechanisms of welfare redistribution between age groups that had previously been adopted. Among welfare reforms, pension reforms are particularly significant as pension redistribution is by far the largest area of welfare policy in EU countries. Among the possible policy reform approaches postponing retirement can be particularly beneficial from the perspective of financial sustainability (Kuitto & Lee 2025). Policies extending the working life increase fiscal revenues by keeping older workers in the labour force and in the same time decrease pension expenditures by reducing the number of beneficiaries. Therefore, recent pension reforms in many countries have adopted measures to promote postponing retirement (Kuitto & Lee 2025). These include increasing the retirement age, closing possibilities for early retirement or flexible retirement policies that encourage a later withdrawal from the labour force.

In this article our focus is on flexible retirement policies (eg. differentiated pensionable age, flexible pensionable age, deferred retirement or combining pension with work), which allow individuals to choose when and how to retire or claim a pension benefit. Some of these policies allow and support later retirement thus have the potential to help mitigating the adverse effect of population ageing on the financial sustainability of the pension system.

Policies for extending working lives fit well with the general social policy agenda of the right-wing government of prime minister Viktor Orbán. This agenda has been described as one promoting transition from a welfare state to a workfare state (Scharle & Szikra 2015, Lakner & Tausz 2016), with the main aim to increase the employment rate. As a part of this transition the government adopted various policies which reduced benefits for those who have fallen out from the labour market (eg. unemployed, disabled). The unemployment benefit has been reduced from 9 to a maximum of 3 months, which is currently the shortest period within the European Union. The amount of minimum income benefits was reduced (in real terms) and the government applied strict conditionality of the benefit through requirement of participation in public works programs. The government also made access to disability benefits more difficult. Similar policies have been adopted in the field of pensions as possibilities for early retirement have been discontinued.

In this article the aim is to present how opportunities for flexible retirement have changed in the past decade in Hungary and what are the impacts of these policies on the retirement age and labour market dynamics. Flexible retirement pathways do not always have the effect of extending working lives, as they might also lead to early withdrawal from the labour market or reduction of hours worked. Therefore, it is crucial to look at results of the policies on labour market participation to evalu-

ate the likely effects on fiscal sustainability of the pensions system. In addition, we also evaluate likely impacts of such policies on inequality¹ among pensioners and well-being in Hungary.

The first section provides some broad contextual information about the pension system in Hungary and describes the actual situation of pension adequacy. The second section presents flexible retirement pathways available. In the subsequent section impacts of flexible retirement policies are described in the various domains and the last section concludes.

General aspects of the Hungarian pension system and recent reforms

General description of the pension system and recent reforms

Hungary's pension system operates primarily as a national pay-as-you-go scheme, supplemented by a modest funded voluntary pension pillar and several long-term savings plans offered by financial institutions. The statutory retirement age is 65 for both men and women, with a minimum of 20 years of service required to qualify for a full old-age pension. Service years are calculated mainly on the basis of contribution periods, but also include intervals during which the state contributed on behalf of the insured (such as maternity leave, childcare allowance periods, and time spent in lower vocational schools). In addition, certain non-contributory periods—such as university studies completed before 1998 and compulsory military service—are also recognized in the service record.

Pension benefits are determined through a formula that takes into account both the length of service and the average indexed net monthly wage earned from 1988 onwards. The replacement rate—the proportion of the calculated average lifetime net wage provided by the initial pension—follows a non-linear relationship with recognized years of service. After 40 years of service, the entry pension amounts to 80% of the average lifetime net monthly wage, while the maximum rate of 100% is achieved with 50 years of service. Although pensions are exempt from income tax, they are implicitly taxed because their calculation is based on net rather than gross wages.

The minimum old-age pension in Hungary is set at HUF 28,500 (approximately EUR 74), with no maximum limit, as the cap on the pension contribution base was abolished in 2012. As of January 2025, the average monthly pension amounted to HUF 214,215 (about EUR 530). Pensioners also receive a full 13th-month payment. Benefits in payment are indexed to consumer prices, and in years when GDP growth exceeds 3.5% and the government budget remains within the limits established by parliament, an additional premium is granted to pensioners.

¹ For an overview on the issue of inequality in the European context see Carmo et al. (2018).

Employees contribute 18.5% of their gross wages in social security contributions (SSC), with 10 percentage points allocated to the Pension Insurance Fund (PIF). Employers pay a social security tax of 13% of gross wages, of which 9.3 percentage points were directed to the PIF in 2023. This resulted in a combined pension contribution rate of 19.3% of gross wages in that year. While the employee contribution rate has remained virtually unchanged over time, the employer's rate has been subject to annual, non-automatic adjustments during the past decade, both through modifications in the overall rate and through changes in the yearly allocation across different funds.

The 2008–2009 Great Recession created short-term sustainability challenges for the Hungarian pension system, prompting a series of reforms between 2008 and 2011. Key measures included the abolition of the statutory funded pension scheme introduced in 1998, a gradual increase in the retirement age from 62 to 65 between 2014 and 2022, and the shift to inflation-based pension indexation. The reforms also significantly curtailed opportunities for early retirement. From 2014 onward, early retirement for individuals with long service in arduous or hazardous occupations was discontinued, with the exception of miners and ballet dancers, who may still retire with at least 25 years of service while receiving full benefits. Another early retirement route—whereby companies could finance missing pension contributions to enable employees to retire before reaching the statutory age—was likewise abolished.

Since 2014 only smaller changes have been made to the Hungarian pension system, in some cases implementing previously decided reform measures. The most important changes in this period concerned the pension contribution rate and the re-introduction of the 13th month pension. The pension contribution rate was gradually reduced. More precisely, the part of employers' social contribution tax going to the PIF was decreased from 20.8% in 2016 to 9.3% in 2023. The 13th month pension has been reintroduced in 2021, after that the government abolished this after the financial crisis of 2009.

Adequacy of pensions in Hungary

Adequacy of pensions has been declining over that past decade in Hungary. Pension adequacy can be measured by the capacity of benefits to replace the income that was earned before retirement. The aggregate replacement ratio for pensions, which measures the gross median individual pension income of the 65-74 age group as a percentage of the gross median individual earnings of the 55-64 age group (excluding other social benefits) was 59% in 2010 and increased to 69% in 2016, then dropped to 51% by 2023 (Eurostat 2025c).

Although there have been concerns raised regarding the quality of Hungarian data on relative poverty calculated from EU Study on Income and Living Conditions (EU-SILC) for the recent years (see Tátrai et al. 2025), the trends show consistently that the age profile of income poverty has changed. Between 2005 and 2019, relative income poverty among older persons was (sometimes well) below that of the entire population, but the continuous increase in the at-risk-of-poverty rate of older persons (and of a considerable decrease in the child poverty rate) since 2015 has changed the age profile of poverty risks in the past few years (Medgyesi et al. 2021). Older persons in Hungary have above average at-risk-of-poverty rates in recent years. Despite an increasing trend, the at-risk-of poverty rate among older persons in Hungary remained below the EU average in 2022.

To capture trends in absolute rather than relative poverty, the severe material and social deprivation rate can be used, which shows that 8.2% of older persons were affected in 2022 among older persons, compared to 9.2% in 2019. This rate still exceeds the EU average (5.5%), but is much closer to it compared to 2015, due to falling deprivation rates between 2015 and 2019. The decline of deprivation rates among those above 65 years – which was more modest compared to the total population – was due to general economic upswing and to policy measures such as the price subsidy on utility costs.

Flexible retirement policies in the Hungarian pension system

Three main types of policies have been adopted by countries related to the flexibility about the timing of retirement. One approach is to allow and encourage people to postpone retirement and claim pensions later than the pensionable age (deferred retirement). Another approach is to define an age range within which people may choose when to retire without benefit reductions instead of specifying a single pensionable age (flexible pensionable age). A third possibility is to differentiate pensionable ages depending on criteria such as career length (differentiated pensionable age). These approaches allow flexibility of retirement with full pensions, possibilities for early retirement with reduced pensions are not available in Hungary anymore. In addition to these policies we also consider possibilities for combining pension with paid work on the labour market.

In Hungary deferred employment is allowed, thus people may remain in employment beyond the pensionable age and postpone taking out their pension, without an age limit. Flexible pensionable age is not applied, there is a single pensionable age which is 65 for both women and men. The differentiation of the pensionable age is applied in only one instance: the Women-40 scheme introduced in 2011 offers full old-age benefits regardless of age for women with 40 years of service (contributory years in paid work and periods receiving parental leave benefits, nursing fees or child homecare fees). At least 32 years of paid work is needed in addition to periods

of child-raising. The number of years in paid work required is reduced after every child over four children (but a minimum of 25 years in paid work is still required). The number of years in paid work required is 30 years in the case of recipients of nursing or child homecare fees.

Other possibilities for claiming full pension before the pensionable age were largely eliminated by regulations introduced in 2012. The only two groups who may be entitled to early pension- like benefits are miners and dance artists with at least 25 service years.

Combining a pension with income from work

In the private sector people are allowed to combine work with full pension benefits without restrictions. However, this is not allowed in the public sector, so workers taking up a job in the public sector after retirement must suspend their benefits. As an exception to this rule, suspension of benefits is not required for public employees and civil servants in social services, child protection and child welfare services, public education institutions or vocational training institutions. Claiming an early pension and continuing to work is only possible for women under the Women-40 scheme and employees in specific sectors/occupations (miners and dance artists). Pensioners in these categories working in the private sector are also allowed to work full time while receiving pensions.

Recent reforms have introduced minor modifications in flexible retirement pathways. In case of the Women-40 scheme the number of years in paid work required was reduced in 2015 to 30 years (from 32) for recipients of nursing fees or child homecare fees. Since 2020 those pensioners who work while receiving a pension have not been subject to social insurance contributions and have had to pay only personal income tax. However, they do not earn pension rights and no pension bonus is earned (unlike those who defer retirement, who earn a pension bonus for working beyond the pensionable age).

Incentives to defer retirement

People with at least 20 service years who defer retirement after pensionable age (without taking a pension) are entitled to a pension bonus of 0.5% per month: delaying retirement by one year after the pensionable age thus increases pensions by 6%. People deferring retirement continue to pay social insurance contributions and so their eligibility for other social insurance benefits is maintained.

No additional pension rights are earned by people who combine pensions with work. Working pensioners are not required to pay social insurance contributions. Working pensioners do not pay social insurance contributions; only personal income tax is deducted from their gross wages. Employers of pensioners are also exempt from paying employer social insurance contributions. As pensioners com-

bining benefits with work do not pay social insurance contributions, they are not entitled to social insurance benefits.

Impact of flexible retirement pathways

Regarding the impact of flexible retirement pathways the main issue of interest is how these will affect older workers' labour market participation. Offering greater flexibility through the pension system might lead some workers to continue in employment (thus postponing full retirement) while receiving retirement benefits. Others might retire earlier, although possibilities for early retirement are limited in Hungary as we have seen. In addition, the likely redistributive impacts of flexible retirement pathways and the impacts on fiscal sustainability and well-being will also be summarized.

Take-up of flexible retirement pathways

Under the Women-40 scheme 28,960 women entered the pension system in 2022 before the pensionable age (Szabó-Morvai & Pető, 2023)². This was 53% of all women who claimed pension benefits that year. The annual number of those retiring under the Women-40 option had varied between 27,000 and 29,000 in every year since 2012 (except in 2013, when it was slightly lower at 24,285). This meant that in most years during 2012-2022 50-60% of women retired under this scheme. The share of those retiring under the Women-40 scheme was even higher in 2014 and 2015, when it was 68-70%. In only one year was the percentage of women retiring under the scheme below 50% – 2019, when 45% of women used this option.

Data on take-up show that a high percentage of women retired under the Women-40 scheme even in years of rapid real wage growth, when retiring before the standard pensionable age may reduce lifetime pension benefits (see: Simonovits, 2019). Retiring early might be motivated in such cases by a willingness to reduce work hours for health reasons or caring responsibilities. The high popularity of the Women-40 scheme might also be related to low awareness of the potential losses.

In the case of the other two flexible retirement pathways (deferring retirement and combining a pension with work) it is difficult to find precise figures on take-up. What is certain is that the employment rate of those beyond pensionable age has increased significantly in the past decade (see later in more detail). The employment rate among those aged 65-74 increased from 3% to 10.5% during 2014-2023³. Within this age group the increase was slightly stronger for those aged 65-69 (from

² Data were taken from Table 11.5 of the Statistical Annex of Szabó-Morvai & Pető (2023). Downloadable from: https://www.bpdata.eu/mpt/2022hut11_05.

³ Source: Eurostat, Labour Force Survey (LFS), Code = lfsa_ergaed, downloaded on 28 May 2024.

4.3% to 13.5%): for the 70-74 age group it increased from 1.8% to 6.7%⁴. Of course it is not possible to know from these figures the share of those who worked beyond retirement age by deferring retirement or by combining pensions with work.

The main motivation for working past the standard pensionable age is presumably financial. In a period of rapidly rising income poverty rates among older people, high inflation rates and an increasing gap between wages and pensions (due to pensions being indexed to inflation), it is not surprising to see more willingness to work among older workers and retired people.

Impact on retirement age

During 2012-2022 the average effective labour market exit age rose in Hungary by three years for both women and men – from 59.3 to 62.4 for women and from 62.2 to 65 for men⁵. The number of years people aged 15 were expected to be active in the labour market rose from 31.8 years in 2014 to 37 in 2024⁶. It is of course difficult to establish the role of different policy changes in this increase. It is certain that the rise in the retirement age and the discontinuation of early-retirement options in 2012 greatly contributed to the trend (see: Gál and Radó, 2020). It is also certain that the possibility for women to retire before the pensionable age (Women-40) lowered the overall effective retirement age, as women retiring with this option retired earlier than other women: the average retirement age among all women who retired in 2022 was 62.4, whereas it was 2.5 years lower among women retiring under the Women-40 scheme (Szabó-Morvai and Pető 2023: see footnote 2).

Gál and Radó (2020) demonstrated that, whereas the exit age rose rapidly during 1992-2017, life expectancy at labour market exit remained broadly unchanged at around 20.5 years. Rising exit ages offset rising life expectancies (during 1992-2017 life expectancy at 60 increased by 2.9 years and at age 65 by 2.7 years). Overall the improvement in mortality therefore did not increase the number of years spent in retirement, due to the rise in the exit age, and the additional years spent in the labour market were not accompanied by a significantly higher risk of unemployment.

Labour market dynamics and the impact of flexible retirement

As a result of the increasing retirement age and of eliminating most early retirement options, the employment rate in the 50-64 age group showed a remarkable increase during the period between 2014 and 2023. From a value of 52.4% for this age group in 2014, by 2023 the employment rate had increased by 24 p.p. This

⁴ Ibid.

⁵ See Table 11.5 of the Statistical Annex of Szabó-Morvai & Pető (2023). Downloadable from: https://www.bpdata.eu/mpt/2022hut11_05.

⁶ Source: Eurostat, LFS, code = lfsi_dwl_a, downloaded on 28 May 2024.

means that the 50-64 age group recorded a rise in the employment rate that was significantly greater than the increase in the 25-49 age group (8.4 p.p.)⁷. The rate of increase was similar among women and men. Within the 50-64 age group the largest increase was seen among those aged 60-64, for whom the employment rate increased from 19% in 2014 to 55% in 2023. In this age group a higher increase was observed for men (45 p.p.) than women (27 p.p.)⁸. The Women-40 scheme also probably contributed to the difference in the employment rate between women and men among those aged 60-64.

Another key issue is whether the employment rate increased for part-time or full-time workers. In Hungary the share of part-time workers is generally low. It is slightly higher in the 50-64 age group than in the 25-49 age group, but in 2023 only 4.7% of those aged 50-64 worked part time. The share of part-time workers was much higher among those aged 65 or over (37.6%). However, the share of part-time workers has been on a downward trend, both among those aged 50-64 (it was 8.5% in 2014) and among those aged 65 or over (down from 53.7% to 37.6%). This fall was observed for both women and men during 2014-2023. The moderate role of part-time work was also shown by the fact that the average length of time worked in the main job was 39.7 hours for those aged 25-54 and slightly lower (39.2 hours) for those aged 55-64⁹.

The share of self-employment was slightly higher for the 50-64 age group (13.7%) than for the 25-49 age group (10.8%). Self-employment was more important for the 65-74 age group, among whom 35% were self-employed in 2023; but this was a significant fall from 51% in 2014. The share of self-employment was typically higher for men than for women¹⁰. The declining share of part-time work and self-employment among the 65-74 age group meant that the share of full-time employment increased among the older people remaining in the labour market.

Expected impact on fiscal policies and sustainability

Müller, Berki and Reiff (2016) examined the impact of the pensions reforms around 2010 on the long-term sustainability of the pension system. They quantified the impact of four elements of the reforms: raising the retirement age; dismantling mandatory private pension funds; making early retirement more difficult; and allowing women to retire before the pensionable age after 40 years of service. The results of this study are summarised below.

⁷ Source: Eurostat, LFS, Code = lfsa_ergaed, downloaded on 28 May 2024.

⁸ Ibid.

⁹ Source: Eurostat, LFS, Code = lfsa_ftpt, downloaded on 28 May 2024.

¹⁰ Source: Eurostat, LFS, Code = lfsa_egaps, downloaded on 28 May 2024.

Their model was used to calculate the impact of these reforms on the long-term sustainability of the pension system, measured by the implicit pension system debt. Raising the retirement age significantly reduced the debt, from 203% to 135% of the 2010 GDP level. Part of this improvement was due to people contributing for longer period, thus increasing pension fund revenues (by 36 p.p.), and part of it was due to people receiving pensions for a shorter period, thus reducing pension expenditure (by 33 p.p.).

Abolishing the second pillar of the pension system had a two-fold effect on the long-term sustainability of the system. On the one hand contribution receipts increased by 74 p.p., as all contributions paid were now channelled into the pay-as-you-go system. On the other hand, pension rights acquired in the pay-as-you-go system increased, which increased future pension expenditure by 88 p.p. Overall the increase in assets could not keep pace with the increase in liabilities, so the implicit debt in the system increased by 13 p.p. as a result of the abolition of the second pillar.

Abolishing early-retirement options improved the long-term sustainability of the pension system, reducing implicit pension debt by 24 p.p. This is because the early-retirement scheme did not sufficiently penalize early retirement. The possibility for women with 40 years of service to retire before the pensionable age significantly affected the long-term sustainability of the system, increasing the implicit debt by 29 p.p. This is because the measure increased the future liabilities of the pension scheme by 16 p.p. and reduced future contribution receipts by 13 p.p.

Among the flexible retirement pathways deferring retirement is expected to improve the sustainability of the pension system in the short term as people continue to pay contributions to the system, while their benefits are delayed. But in the long run the effect is ambiguous as deferring retirement increases later pension benefits. Combining work with pensions does not influence the balance of the pension system in Hungary, as working pensioners do not pay social insurance contributions.

Expected redistributive impact

In addition to the effects on fiscal sustainability, flexible retirement pathways might also have redistributive effects both between and within cohorts. Simonovits (2019) and Simonovits & Tir (2019) argued forcefully that allowing women to retire with full benefits after 40 years of service might have a negative effect on those retiring under this scheme in a period of rapid real wage growth. In their example a women aged 60 with 40 years of service and a pension of 100 units per year, which she was expected to receive for another 20 years, could decide whether to retire under the Women-40 scheme or stay in the labour market for three additional years (to reach pensionable age). If this decision had been made in 2012 (in a period of moderate wage growth) it would have been advantageous to retire under the Women-40

scheme. If on the other hand the decision had been made in 2016 this would not have been the case anymore. During 2016-2019 net average real wages increased by 7-10% annually. In such a period it is advantageous to postpone retirement: if the woman in the example had postponed retirement until 2019 her lifetime pension would have been 16% higher (Simonovits & Tir, 2019).

Other flexible retirement pathways, such as deferred retirement and combining a pension with work, may also have redistributive effects. It is difficult to separate the contribution of the two pathways, but it is clear that the level and trend of the employment rate in the 65-74 age group shows a very strong gradient by education level. Among the low-educated the employment rate in this group was only 4% in 2022, whereas for those with higher education it was 20.9%. For those with low education the employment rate increased by 3 p.p. (from 1% to 4%) whereas for those with high education it increased by 12.5 p.p. (from 8.4% to 20.9%)¹¹. It seems that those with higher education were more able to profit from the opportunities in the labour market, perhaps because of their better health situation.

Expected impact on quality of life and society

Radó & Boissonneault (2020) studied the effect of retirement on subjective well-being in Hungary, comparing the effect of voluntary and involuntary retirement¹² and considering both the short-term effect (0-3 years after retirement) and the long-term effect (8-11 years after). The study found that voluntary retirement (compared to involuntary retirement) increased the level of subjective well-being by 0.66 units in the short run. This result was in line with the hypothesis of the authors as involuntary retirement, being unexpected and not prepared for, was expected to induce frustration and reduce well-being. On the other hand, the results showed that the advantage of those retiring voluntarily persisted even after eight years or more of retirement. This result was more surprising as the authors expected that 8-11 years were sufficient for people to adapt to the retirement event, and that voluntary and involuntary retirees would have similar levels of well-being.

These results suggested that involuntary retirement may have long-lasting negative consequences for subjective well-being in old age. Policies aimed at improving subjective well-being among older people should therefore address the determinants of involuntary retirement. One possible policy in this case would be to provide more flexibility in terms of when people choose to retire, which could diminish

¹¹ Source: Eurostat, LFS, Code = lfsa_ergaed, downloaded on 28 May 2024.

¹² The authors defined voluntary retirees as those who made the decision over their own retirement, who did not want to retire later and who did not make this decision due to fear of unemployment. All the other respondents were considered as involuntary retirees (Radó & Boissonneault, 2020).

the proportion of involuntary retirements (Radó & Boissonneault, 2020). Such policy proposals have indeed been made in recent policy debate. Simonovits (2021), for example, argued that flexibility over early retirement should be reintroduced with a reduction in pension benefits.

Conclusion

Retirement flexibility is limited in the Hungarian pension system. Most possibilities for early retirement have been eliminated from the system during the reforms that followed the Great Financial Crisis. Opportunities for early retirement with full pension benefits are limited to women with at least 40 service years. In addition, options for early retirement with reduced benefits have also been removed from the system. On the other hand, retirement is flexible upwards, that is people can defer retirement and might also choose to work while receiving pensions.

Policies for postponing retirement adopted after the great financial crisis, such as the rise in the retirement age and the discontinuation of early-retirement options resulted in an increase of the effective labour market exit age in Hungary. Later withdrawal from the labour force is also manifested in the increased employment rate of those between 50 and 64 years of age. Flexible retirement policies promoting later withdrawal from the labour force, such as deferred retirement and the possibilities to combine work with pensions also contributed to extending working lives in Hungary. This is clear from the increased employment rate among those between 65 and 74 years of age. On the other hand, it is also certain that the possibility for women to retire before the pensionable age (Women-40 scheme) lowered the overall effective retirement age, as women retiring under this option retired earlier than other women.

As we have seen impacts of flexible retirement policies on financial sustainability of the pension system can be ambiguous. Too generous early retirement options (which do not penalize early retirement sufficiently) have a negative effect on long-term sustainability of the system, while deferring retirement (with a moderate bonus) can improve sustainability.

Allowing more flexibility in retirement decision might improve well-being as if people can choose when to retire this could diminish the proportion of involuntary retirements. On the other hand, as demonstrated by Simonovits (2021) the costs of transitioning to a system allowing more flexibility for early retirement can be substantial, as more intensive early retirement reduces receipts of the pension system immediately, while the payment of reduced life-time pensions is recorded only later. Such policies that require planning on long-term time horizon are only viable in a context of high level of institutional trust, which is not necessarily given in Hungary (see Medgyesi and Boda 2019).

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