

QUESTIONS ABOUT PRIVATE PENSION ANNUITIES IN HUNGARY

Erdos, Mihály
Deputy General Director
HFSA

Prepared by József Banyár



HUNGARIAN FINANCIAL SUPERVISORY AUTHORITY

The present situation

- **It is not compulsory until December 31 of 2012 to annuitize the private pension savings, but after that there will be mandatory following a minimum 15 years of pension fund membership**
- **Now practically nobody buys annuity from the pension savings, but asks for lump sum**
- **There is some regulation, but it is partial and inconsistent**



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The main elements of the present regulation

- The annuity provider can be the fund itself (however it has no solvency capital to this function), but the fund and also the client can buy an annuity from an insurance company
- The life annuity is compulsory, and there are 4 different types („normal”, with guarantee period at the beginning, with guarantee period at the end, joint life – with unlimited lives). The other parameters are not clear.

- The maximum technical interest rate is a high and annually changing value
- The mortality table is compiled by the actuary of the fund
- There is no differentiation according to the gender in the premium, but the law does not mention other factors (it is neither prohibit, nor allow using other differentiating factors)
- The minimum of the annual indexation is the annual indexation of the Social Security Pension (it is theoretically the so called „Swiss index”)
- The law is silent about the use of the mortality result

Questions

Binding

- **What is better, to annuitize on a compulsory or a voluntary basis?**
 - Compulsory annuitization, or
 - Compulsory annuitization only until a certain level of annuity, and above this, is not, or
 - To annuitize compulsory only above a high age (e.g. 80) in the form of deferred life annuity

REGULATION

- **What is better: to leave the providers freely to provide annuities, or to regulate the parameters of the annuities heavily? More detailed questions :**
 - Who can be a provider? Only life insurers, or specialised annuity providers, or only the (maybe reformed) fund itself? Is it a good idea to leave the annuity provisions without solvency capital (or in other words: to put all risks onto the member)?

- **What kind of annuities are possible? Only a short or a long list of possible annuities? In case of the last one, how can we handle the adverse selection because of the free choice?**
- **Should we use an uniform technical interest rate, or it can be free until a certain level? What can be this level? In case of an uniform technical interest rate should we use a low (for example 0%), or a higher one?**
- **Who should make the mortality projection and how? For each provider or a centralised way?**
- **What kind of differentiation can be allowed in the premium of the annuity? (age, gender, profession, graduation, place of living, health status...?)**

- **Differentiation at the reserving based on the factors (for example: graduation), which have considerable effects to the mortality, but are not considered in the premium?**
- **Is it a good idea to give a minimum for indexation, or not? If the law gives such a limit, is there any task of the state to help the providers to reach this?**
- **How should be handled the mortality result? Together with the investment result, or separately? Who should bear the mortality loss: the provider, the client or both? If the mortality result will be split between the provider and the client, what is the principle of this?**

CENTRAL OR COMPETITIVE PROVIDERS?

- **Who should provide the annuity: competitive providers or centrally organized (for example: central provider or centrally organized pool)?**
- **Should have or is it expedient to centralise certain aspects of the annuity providing process (for example paying the annuity together with the social security pension, etc.)?**

FREEDOM OF CHOICE OF THE CLIENTS

Where to put the competition?

- **Is it possible to change provider after the commencement of the annuity, or the client is bound to his/her first choice? In other words: where to put the competition in the system: only for the new entrants, or permanently for all annuitants?**

TYPES OF ANNUITIES

- **Is it expedient if two different sets of annuities are available on the market: an insurance type which is defended by solvency capital, so it cannot decrease nominally, and a fund-type without solvency capital, and where all the risk is on the client?**

INFORMATION, COST, INVESTMENT RETURN

- **How can we help the clients to choose the best provider? (for example with a quotation system)**
- **How can we keep the cost low? (for example with centralised annuity exchange)**
- **Without an effective investment market you may not expect an effective annuity market**

**„Will you still need me, will you still
feed me, when I am 64?”**

(Beatles)