

# Pension Policy Challenges and Communication Solutions

*Nikolett Mihály*

*Szent István University, Hungary*

*Nándor Komáromi*

*Szent István University, Hungary*

## Abstract

A The most important question of our study is to find out what pension policy procedures are necessary to effectively respond to the challenges of an aging population as well as changes in the composition of employees. The main issue of our paper is how pension policy can effectively respond to changes of demographical transition. It is very important to examine whether changes to pension policy are adapted to groups in society and if so, what means of communication should be used. Our research is the pilot study of research of a greater scope. We examine the characteristics and communication practices of pension reforms in international literature (secondary research), and we also use primary methods (interviews, surveys).

**Keywords:** management, pension policy, innovation, society

**JEL classification:** E02, H55, H75

## Introduction

The basic question of the economic, social, political (and other) stability of a country is how it works and how the generally introduced and accepted pension system (if any) is regulated. The fact what the breakdown of state-owned, employment-based (corporate) and individual savings looks like is primarily a macroeconomic, business mathematical issue. However, it is also evident that the traditions of regulations and the impacts of the previous successful/unsuccessful reforms will certainly affect social acceptance and the reaction of different social groups. Before shaping pension systems and pension reforms it is essential that some insights should be gained about the possible acceptance of the system. The attitudes and competencies of the different social strata and groups related to pension must be revealed.

As the general feature is the changing demographic structure of societies, i.e. typically ageing, that is why the issue of altering the pension system is undoubtedly important and timely. First, we examine how socially accepted the possible pension policy regulations are and what communication tools we can use for these changes. Our research serves as a pilot to a greater scale future project.

## Material and method

The topic and the objectives of the research have already been drafted in the Introduction. The methodology of the research follows the traditional structure.

Secondary research is carried out as the first step. The international and national literature on the topic is reviewed, synthesised, compared and evaluated.

As the second step, preliminary qualitative research is carried out on a selected target group, who are, in this case, the students of the Faculty of Economics and

Social Sciences at Szent István University. The method was personal interview. As the third step quantitative research (questionnaire) was planned. The target audience here was also the students of SZIU Faculty of Economics and Social Sciences but on a greater sample and also the results were statistically evaluated.

## Results

### *Results of the secondary research*

Literature review right at the beginning resulted in two surprising facts.

- The literature on the topic is extremely rich regarding both international and Hungarian sources. The World Bank, OECD, IMF, the European Union, the statistical offices and other organisations of the countries and, of course, universities and research institutes among others, deal with the operation and reforms of pension systems. On a national level the Central Statistical Office (KSH), the National Bank of Hungary (MNB), business and other research institutes, universities and products of the business press could be mentioned but here the list could also be longer. (Of course, we think of scientific and reliable sources and not the short and sometimes 'sensational' articles of everyday papers.)
- The literature on the topic has an almost exclusively economic, business mathematical and statistical nature with some exceptions like the paper of Atkinson et al. (2012) which is an OECD publication summarising principles and case studies about the communication of the pension system reforms.

In our research thorough international studies were read and analysed and also the analysis of the pension system of several countries was carried out. This paper presents the pension system of Germany, Sweden and Japan in addition to Hungary.

### *Pension system in Germany*

In Germany the compulsory state pension system has one pillar and is pay-as-you-go based on salaries. If it is not sufficient for supporting the old, further allowances based on entitlement are distributed from the social support system.

Table 1

The key indicators of the pension system in Germany

<b>indicator</b>	<b>value</b>
<b>average salary</b>	45 952 EUR
<b>pension expenditures as of % of GDP</b>	10.6 %
<b>life expectancy at birth</b>	80.7 years
<b>life expectancy above 65</b>	19.4 years
<b>percentage of the above-65</b>	21.4 %

Source: OECD (2015)

There is voluntary private pension, as well which can be collected with the help of banks, insurance companies or investment funds.

### *Pension system in Sweden*

The Swedish pension system consists of a pay-as-you-go (PAYG) system, a defined benefit (DB) system and a defined contribution plan (DC). The operation of the pension system considers both contribution and allowances (HUTVÁGER, 2013).

Table 2

The key indicators of the pension system in Sweden

<b>indicator</b>	<b>value</b>
<b>average salary</b>	407 974 SEK
<b>pension expenditures as of % of GDP</b>	7.4 %
<b>life expectancy at birth</b>	81.7 years
<b>life expectancy above 65</b>	19.9 years
<b>percentage of the above-65</b>	20.0 %

Source: OECD (2015)

The Swedish model also contains a minimum pension rule for those who do not have or just have low pensions. They can receive a maximised amount not from the state budget, but from the taxes.

### *The pension system in Japan*

In Japan the pension system is similar to the Hungarian one (employer based pension system – kosei nenkin). Due to the rapid demographic changes in the forthcoming decades government expenditures are expected to rise significantly. If the Consumption Tax covered the increased expenditure, without reforms tax would have to be raised to as high as 48% by 2080 (it was 5% in 2010). According to macroeconomic models increasing the income tax is not viable, either, as it would distort the economy and lead to the decrease in the labour supply in the end. Budget deficit can become unmanageable rapidly if covered by loans (KITAO, 2015a, KITAO, 2015b).

Table 3

The key indicators of the pension system in Japan

<b>indicator</b>	<b>value</b>
<b>average salary</b>	4.88 mJPY
<b>pension expenditures as of % of GDP</b>	10.2 %
<b>life expectancy at birth</b>	83.5 years
<b>life expectancy above 65</b>	21.9 years
<b>percentage of the above-65</b>	26.4 %

Source: OECD (2015)

In the case of Japan the results of the extremely important and unavoidable economic analyses are also presented. The model results show that in Japan such a budgetary policy is inevitable that reduces expenditure.

### *The pension system in Hungary*

At present most part of the government budget is taken up by pension expenses in the OECD countries. In Hungary it accounted for 10% of the GDP in 2015 and it is expected to grow in the forthcoming years. In an international comparison, it is strikingly high as the OECD average is 7.9%. (OECD, 2015). The deviation is primarily due to the fact that our pension system is laid on one pillar exclusively, i.e. it is a system supervised by the state and financed by a defined pension system from one source for all the citizens. In contrast where pension reforms took place, the system was transformed into a three- or more-pillar pension system, i.e. not only state funds

exist (the first pillar) but also employment-based pension (second pillar) and voluntary, private pension (third pillar), as well. GÁL-SIMONOVITS (2012) evaluates the annual interests of the Hungarian pension system. It is obvious that the increasing pensions mean heavier burden for the government so reforms are also inevitable in Hungary.

Table 4  
The key indicators of the pension system in Hungary

indicator	value
average salary	3.01 m HUF
pension expenditures as of % of GDP	10.0 %
life expectancy at birth	74.5 years
life expectancy above 65	16.4 years
percentage of the above-65	17.6 %

Source: OECD (2015)

In Hungary all payments into the private pension funds were suspended in Hungary between 1 November 2010 and 31 December 2011 and all the contributions were directed to the state pension fund. The members had to decide till 31 January 2011 whether to stay in the private pension fund or transfer to pay-as-you-go state pension fund. The private pension fund member has the opportunity to pay the individual account membership fee (but not contribution) to the private pension fund. So, the second pillar has already been demolished.

Given the complexity of the topic the tools of 'relationship marketing' are worth employing in the campaign as it integrates acquiring and maintaining clients. The relationship with the client is due to last for long and it is not only about the transaction (LITTLE-MARANDI, 2005).

The international literature presents several effective models and examples of communication that can assist pension reform campaigns (ATKINSON et al, 2012).

### Results of the qualitative research

As mentioned in the methodological part, the sample is from the students of Szent István University, Faculty of Economic and Social Sciences (SZIU FESS). Interviews took place in Gödöllő and Budapest (at the Gödöllő and Budapest centre of education) typically in May 2016. Altogether 30 full-time and part-time students were interviewed (16 females and 14 males aged between 21 and 32). In general, the content of the interviews was very similar. With few exceptions most students are not adequately informed; the source of information is usually friend and relatives. Some typical examples of the notes (what changes they expect, how they can live on, etc.):

*Hopefully, from my savings in pension funds and other investments.*

*I wish to cover the expenses of my old age retirement from my savings.*

*No more state pension fund existing.*

*Private pension funds + hopefully the state will find out something.*

*Letting private enterprise and invest part of the income coming from there, and support my family from the other part.*

*No how or from savings.*

*Private pension funds. The state owned is not likely. And you would need a nice gross. But there is not.*

We have to find out now how and from what sources we will live in the future but most of all we guess we will not ever live to be a pensioner.  
 I guess we will not have much pension. The age limit will be pushed higher.  
 I would do casual work such as babysitting in addition to my pension.  
 We will not have pensions or savings, either as we do not have a decent salary.  
 I do not have any ideas.  
 I just can hope it is not that bad as it is said.  
 As I work in finance, I am informed very rapidly. It was not a surprise for me.  
 I hope there will be pension....  
 I have no idea. I hope when I get there I have savings to cover my expenses even if in a very modest way. Anyway, I trust in a positive change but I also hope the age limit will not be raised to eighty-five.  
 I will start saving when young.  
 Our children will support us.  
 We have to work as a pensioner, as well till we can, at least for four hours. Or probably as a sole proprietor.

### Results of the quantitative research

Questionnaires were distributed among the students of Szent István University (Gödöllő). Requests and links (internet-based survey) were sent about how to fill in the questionnaire through the Neptun system to reach nearly 600 active students. In the introductory part of the questionnaire we informed the participants that it is part of a scientific project, anonymous and the responses are only used after summarisation. There were two calls to invite the students to fill in the questionnaire and they were finally closed on 30 June 2016.

The most important questions/issues of the questionnaire are the following:

Are you worried about the amount of your would-be pension? (1-5 scale)  
 What is the current pension age limit for men and women?  
 How long do you think a man/woman lives in Hungary?  
 What percentage of GDP is spent on pensions in Hungary?  
 Do you have savings? If so, for what purpose?  
 In addition to deductions at work, do you have any other savings/assets? If so, what type? Do you have (and if so, to what extent) does a loan bother you?  
 What radio stations do you listen to and what TV channels do you typically watch?  
 At what time of the day?  
 What newspapers and internet portals do you usually read?  
 Please, express your level of agreement with the statements above on a 7-grade scale. (There are 28 statements on financial awareness)  
 Demographic questions (gender, age, qualification, residence, marital status, source of income).

Of the questionnaires returned 267 could reliably be assessed.

The demographical breakdown of the sample is the following.

Gender 168 female, 99 male;

Highest qualification: secondary school = 147(BA), college/BA/BSC = 90, university/MA/MSC = 30 (with two degrees);

Age groups (age in years, after several rounds of analysis, finally the following groups were made): 19-25 = 174, 26-30 = 60, above 30 = 33.

This paper also resents statistically proven results.

The methods of examination include variance analysis and in the case of categorical replies Chi-square test.

Questions:

Are you worried about the amount of your would-be pension? (not at all=1, a bit=2, so-so=3, very=4, to a great extent=5).

Table 5

Would-be pensioner age group

age group	average
19-25	3.28
26-30	3.05
above 30	4.18
total	3.34

Source: author's own experiment

It can be seen (and understood) that the third, oldest age group regards this question as the most important, (Sig=0,026). We must note, however, that when analysing the two younger age groups the average difference (between 3.28 and 3.05 ) is not significant (Sig=0,451).

Table 6

Would-be salary: Gender

gender	average
female	3.54
male	3.00
entire sample	3.34

Source: authors' own compilation

Women significantly appreciate the issue. (Sig=0,026). There is no statistical difference of demographical variables in the following questions.

Do you have savings? yes/no entire sample= 55.1 %

Do you have pension savings? yes/no entire sample= 9 %

Have you ever been burdened by credits and loans? yes/ no entire sample= 15.7 %

Question: Evaluating statements on financial awareness on a 7-degree scale (1=I can hardly agree, 7=I entirely agree.)

Statistically proven significant differences per demographic group

Table 7

Financial awareness-gender

statement	female	male	total	Sig =
People say I am too money-minded.	2.41	3.27	2.73	0.019
I use money to influence the others.	1.38	2.24	1.70	0.004
Sometimes I boast how much I earned.	1.73	2.39	1.98	0.033
People say I am too money-minded.	3.09	4.36	3.56	0.010
After having bought something I am still worried how expensive it was.	3.89	2.79	3.48	0.012
I am a bargain hunter.	3.93	2.61	3.44	0.002

Source: authors' own editing

Table 8  
Financial awareness-gender (2)

statement	19-25	26-30	30 +	total	Sig =
I am concerned if it comes to money.	3.09	4.20	4.36	3.49	0.018
I am typically worried if I do not have enough money.	4.03	4.00	6.09	4.28	0.030

Source: authors' own editing

The differences between gender and age are as expected. The young do not worry about the financial parts but the youngest one do to a great extent. Men consider themselves as planners and careful while women save money and use special offers.

## Conclusions and recommendations

A great number of OECD and EU studies show that for most countries it is indispensable to transform the pension scheme in the long term. For this, the entire population but especially the young must be prepared. Lack of pension is a challenge for all the strata of society but if savings are started on time, it does not mean an unbearable burden

Our research clearly shows that in addition to the inevitable economic-like macroeconomic analyses there is a need for thorough (representative) researches that point out the attitudes and competencies to pension by the different layers of society and explore the communication tools of persuasion.

## References

1. Atkinson, A., et. al. (2012), "Lessons from National Pension Communication Campaigns", OECD Working Papers on Finance, Insurance and Private Pensions, No. 18, OECD Publishing.
2. Gál R. I., Simonovits A. (2012), A magyar nyugdíjrendszer éves hozamrátái.
3. Kitao, S. (2015a), "Pension reform and individual retirement accounts in Japan", Journal of The Japanese and International Economies, Vol. 38, pp. 111-126.
4. Kitao, S. (2015b), "Fiscal cost of demographic transition in Japan", Journal of Economic Dynamics and Control, Vol. 54, pp. 37-58.
5. Little, E., Marandi, E. (2005), "Kapcsolati marketing" (Original: „Relationship Marketing Management”, 2003), Akadémia Kiadó, Budapest.
6. OECD (2015), Pensions at a Glance 2015: OECD and G20 indicators, OECD Publishing, Paris, available at: [http://dx.doi.org/10.1787/pension\\_glance-2015-en](http://dx.doi.org/10.1787/pension_glance-2015-en) (17 March 2017)

## About the authors

Nikolett Mihaly, Ph.D. is an Assistant Professor of Economic Psychology at the Department of Marketing, Faculty of Economics and Business, at Szent István University of Gödöllő. Her current research areas are financial consciousness and higher education institution management. She is the (co)author of number of articles in international and national journals. She is actively engaged in number of scientific projects and collaborates in several applied projects in the field of financial education, marketing and management. Author can be contacted at [mihaly.nikolett@gtk.szie.hu](mailto:mihaly.nikolett@gtk.szie.hu).

Nándor Komáromi, Ph.D. in Economics is Associate Professor at the Szent István University in Hungary, Since 1993 he teaches marketing and management subjects several universities in Hungary. He attended by about 120 research projects (scientific and applied topics; national and international). His research interests are application of statistical methods and quantitative methods; model development; the practical application of marketing research. Author can be contacted at [komaromi.nandor@gtk.szie.hu](mailto:komaromi.nandor@gtk.szie.hu).