

HOUSEHOLDS' STRATEGY IN OLD-AGE: FINANCING RETIREMENT AND CARE IN HUNGARY

Abstract. Although discussions about aging and the consequences of demographic change have crept into the realm of public debate in Hungary recently, the real impact of the coming change is still not felt on a policy level. Nevertheless, this is due to change soon, as the aging of society puts fiscal burdens on the country's budget. Until now, the restructuring of the welfare state has been more closely connected to the economic and political changes of the 1990s. In the following we will focus on the analysis of these two processes influencing the strategy of households about retirement and aging. First, we will analyze their process of adaptation to the circumstances of market economy from the perspective of retirement and the level of income during retirement. Secondly, we will focus on how the perspective of a longer life-span and the changing role of the welfare state have further influenced these strategies.

Key words: pensions, old age, housing, security, Hungary

Introduction

Although discussions about aging and the consequences of demographic change have crept into the realm of public debate in Hungary recently, the real impact of the coming change is still not felt on a policy level. Nevertheless, this is due to change as the current fertility rate is as low as 1.3 and with regard to the ever growing elderly (above 60 years) population projections say that approximately 10 years from now, in 2021 their percentage will likely grow over a quarter of the Hungarian population (Habicsek, 2007). This growth will likely be accompanied by a steady decline in the population number as well.

The aging of society puts numerous fiscal burdens on the country's budget. One of them is the growing pressure on the pension budget.

* Dr. József Hegedüs, Economist, Managing director of the Metropolitan Research Institute; Hanna Szemző, Sociologist, Researcher at the Metropolitan Research Institute, Budapest, Hungary.

Nevertheless, the introduction of a multi-pillar pension system carried out with the assistance of the World Bank in 1997 was just as much a tool relieving the state of its prospective financial burdens, as the result of the economic upheaval following the regime change and the economic difficulties ensuing from it.

These economic and political changes brought about high inflation, the appearance of unemployment, mass impoverishment, as well as the widening differences of income and consumption possibilities. The welfare system could barely keep up with the changes, reacting always to the most acute needs and developing step-by-step. Economic and housing regimes after 1990 were characterized by a high level of insecurity and risk, and a loss of trust in the state.¹ It is safe to say that these political and economic changes were also profoundly instrumental in determining the financial decisions households made.

Families/households reacted very differently to the rapidly changing circumstances, depending on a number of variables, such as age, former status, connections, education and financial possibilities: some have fared really well, while others in order to escape the economic and financial pressure either went into early retirement or entered the large informal economy.

In the following, based on 30 interviews carried out in the summer of 2009 in the framework of the DEMHOW research project, we will focus on the analysis of two intertwined processes influencing the strategy of households about retirement and aging. First, we will analyze households' adaptation processes to the circumstances of the market economy from the perspective of retirement and the expected level of income during retirement. Secondly, we will focus on how the perspective of a longer life-span and the changing role of the welfare state – for example, the fact that pensions will probably not cover the costs of living and that of the necessary care – have further influenced these strategies.

In the course of the analysis special emphasis will be paid to the role of housing equity, as one of the most important assets a household can have, and as a possible source of income in retirement. The role of housing equity holds a special significance in Hungary, as a result of the hasty give-away privatization of the early 1990s, which produced the almost exclusive domination of owner occupation in the housing market.² Although the purchase of housing units had been possible since 1969, given the many restrictions,

¹ *On the social policy implications of the changes and the growing insecurities see Ferge and Tausz, 2002.*

² *Prices were really low: they ranged from 15–40% of the estimated market price, depending on the time when the building in question was renewed. A further 40% reduction of the price was available, if the whole sum was paid. A loan was available for 20–30 years, with a subsidized interest rate of 3%. (At that time bank loans had an interest rate around 25–30%) (Hegedűs et al., 1996).*

it was not until the legislation was changed substantially that many were able and willing to buy their apartment. Privatization speeded up after 1990 when the state owned housing stock was transferred to the local governments. And it was the Housing Law in 1993 that introduced the right to buy legislation (Hegedüs et al., 1996). As a consequence, in Budapest, which was the focus of the research, the rental sector, which used to be around 53% in 1990, has rapidly shrunk to the current level of 6%, with an additional other 8–10% of private rentals (Központi Statisztikai Hivatal, 2009). (The exact share of private rental sector units is unknown, as, due to tax evasion, there is no reliable information about the correct size of the sector.)

Given the difference age makes in the attitudes and possibilities a household has both in the process of adaptation to the requirements of the market economy, as well as in the prospect of changing pension provisions, we will differentiate among three cohorts. There is an elderly cohort consisting of people aged between 65 and 75 years, who are already retired. They had the least possibilities of adaptation both to the requirements of a market economy as well as to the perspective of a not-so-encompassing pension scheme as they were usually relatively close to retirement in the early nineties. Members of the middle cohort (aged between 45 and 55) are still on the job market, but many have faced difficulties after the regime change: e.g. their professions became obsolete or were unable to fare well under market circumstances. Many of them entered the informal economy and they will be the first generation, in which many will practically not have a pension as a result. Finally, those currently between 25 and 35 years – members of the youngest cohort – entered the labor market after the regime change, and they have lived all their professional lives under the new circumstances and chose their profession accordingly. They do not think about pension yet, their priorities are mostly focused on housing and getting their family life started. Many of them live from the informal economy and tax evasion is a common practice among them.

Retirement strategy

Strategies to cover the expenses during retirement are manifold, and are all thoroughly connected both to economic and demographic changes, which over time have been creating a new situation with regard to what can be expected from households or from the state during retirement.

The conditions of retirement have changed significantly over the last two decades. The two most striking changes in the retirement system concern age and the involvement of the state. Whereas in 1990 women could retire at the age of 55 and men at the age of 60, currently the age limit is 62 for both sexes, with a plan to increase it gradually to 65 from 2012 on. Parallel to

this, there have been attempts in the legislation to try to curb possible forms of early retirement due to disability, or the high number of service years in certain occupations, with the aim to keep the population in the labour market.

It was especially in the economically turbulent years of the 1990s when early retirement was viewed as a feasible solution to escape unemployment, clearly encouraged by the state. Although it could be regarded as a successful way of escaping mass unemployment at that time, it has placed an enormous burden on the social security and pension system of the country. The opportunity to remain in the labour market and work almost without restrictions while receiving pension resulted that almost 30% of the pensioner body currently is being made up of early retirees (Országos Nyugdíjbiztosítási Főigazgatóság, 2009).

The pension reform of 1997 introduced compulsory private pension funds as an additional pillar to the pay-as-you-go state system, thus opening the way for the changing role of the state in pension provision. Questions of sustainability of the pension system are being raised regularly today, not only due to changing demographics, but also because of tax evasion on the part of the currently active population. The forms of tax evasion are manifold, most importantly tax evasion involves reporting less money than people earn, but some – usually the most vulnerable with a non-secure employment – evade reporting their income at all. Benedek and Lelkes (2009) estimated the tax evasion through personal income tax to be as high as 19% of the total tax revenue. The equity effect of tax evasion is very regressive, which means that higher earners tend to evade proportionately more. A distinguishing feature of tax evasion in Hungary is its deep penetration into all levels of society: many well-earning groups with a stable income also resort to this practice every now and then, for instance, in case of bonuses.

As a result of this wide-spread practice of tax evasion, the system of transfers, whereby the currently active population supports the currently retired one in hope of receiving a good pension once it reaches the retirement age, is clearly not working. Given the current trends, an important part of the presently active population will retire without paying enough social security for an adequate pension. Their number is hard to estimate. Some put it as high as roughly half of all Hungarian tax payers (Barabás et al., 2006), whereas others think that this approximation is somewhat exaggerated (Simonovits, 2008).³

Not surprisingly, the length of period lying ahead of people strongly

³ *Members both from the youngest and the middle cohort of our interviewees follow similar strategies of evading pension and tax payments. Their strategies and their anticipation of the retired years will be analyzed later in this paper.*

influences their retirement strategy. All our interviewees have spoken about their retirement strategy, but its level of articulation largely depended on the length of the active period still ahead of them. A further factor setting the cohorts apart is the role of the state in their pension plans. While the oldest cohort often did not feel the need – or had the pressure – to accumulate savings, and could count on a decent, even if not high state pension, the two younger cohorts already reckon with a changing role of the state. By the time they retire – especially the youngest ones – the responsibility of pension provision will likely be split between the state, private pension funds and the family/household/self.

For the oldest cohort the most important feature has been their strong reliance on state pension: by the time many of them retired during the 1990s they were aware that the value of pension diminishes quite rapidly and it often does not even cover basic costs, especially with the surging utility and maintenance costs of housing. However there was not enough time for them to accumulate sufficient savings. This means that despite the difficulties many of them are facing now, they do not consider themselves ill-prepared for the pension. It was in accordance with this notion that a retired journalist expressed his astonishment over the idea of prior preparation:

I would not do anything differently, even if I had the same opportunities again. I could not prepare myself for retirement, it was not possible at the time, we did not have that kind of savings that is possible to accumulate nowadays...I could not prepare and had no reason to prepare.
(male, oldest cohort)

The most important solution available for members of this cohort has been working next to retirement. For the majority of them retirement seemed as an assurance of safe income, next to which working was still possible and very much desirable. So their strategies were mostly focused on retiring as early as possible. In our research we found that six out of our ten interviewees in this cohort worked for a number of years in their former professions after retirement both full and part time. A seventh interviewee ventured into internet-based art-dealing, turning a former hobby into a source of income. Working next to retirement offered a chance to accumulate savings for many households, as well as to do things they have long wanted to do.

Given that I have been poor all my life I have to say a strange thing: I have never been financially so secure like nowadays as a pensioner... But we had three years when one of us could still work next to retirement. And these years were enough to fulfill some of our formerly postponed wishes. (male, oldest cohort)

However, it is important to note that working opportunities usually narrow with age, either due to illnesses or because the market conditions change, giving more fore to members of the younger generation. This gradual retreat from the labour market is often accompanied by a gradual impoverishment of the retired household and the growth of its dependence on state or family help.

This central role work plays among pensioners has been further highlighted by a vignette. The vignette asked the interviewees to give advice to a retired couple living in the countryside, who in their fifties find themselves unable to keep up their former standard of living. Answers were rather uniform, which most likely has to do with the set up of the hypothetical situation: despite the many early retirements in Hungary, interviewees felt that people in their fifties are fit to work. So the majority of the answers focused on encouraging them to find work:

It is only with work that one can increase income. I regard these 57–58 years old pensioners very problematic, it is very unlikely in my opinion. I think that they could work easily, if there is opportunity, I don't know. If they were from Budapest I would have more ideas. (female, middle cohort)

1067

Working next to retirement might be more important for members of the middle than for members of the oldest cohort. Unlike the older ones, they cannot fully count on a state pension. Not only because many have entered the multi-pillar system, but largely because members of this cohort often try to evade paying taxes, which results in having less pension savings. Although some have other savings, many merely think they will work as long as they can, or simply have blind faith in the future, hoping that it will work out somehow. Most importantly, retirement looms as a threat for them.

No, I try to think little about it [the pension]. If I think about my retirement years, well, I have a compulsory private pension savings plan, I don't even know whether there will be a pension then, or if the retirement age will be raised. (female, middle cohort)

It is important to note that members usually have a financial strategy of which pension forms an important part, but the question of tax evasion significantly alters their take on the pension system and their retirement strategy. Those who have paid their social security fees dutifully all their life have higher expectations of receiving a normal state pension than those who have evaded tax payments. It is actually the evasion of tax and social

security payments that strengthens the connection between housing equity and retirement strategy, making the former an important source of income during the years of retirement. However, households with children often still have to think about helping them to their own first apartment as well, which diminishes the chances of using real estates as pension reserves.

In our interviews all members of this cohort calculated rationally what they have, and had a fairly good picture of how their approaching retired life will be. They either want to work, a few think that they will have a relatively good pension, and some know they have real estate to rely on. Few have amassed savings, but we have also encountered the willingness to change their lifestyle, even downsizing their apartment. Most importantly, the majority of them had a seemingly feasible strategy, which centred on “surviving” retirement. We have encountered only one person with a fatalistic approach, which is opposite to the usually very practically oriented views of the others. He is a divorced carpenter, who has been working in the informal economy for the last twenty years and has been struggling to make ends meet since the regime change transformed the market. Furthermore, his divorce left him in a financially vulnerable situation.

I cannot say anything else, I will live as long as I can work and support myself. Without being melodramatic I hope that I will have enough self control to finish it, when it becomes a disgrace, because you are afraid of a disgraceful life...I think that I can work even at 70 or 80, I have known carpenters who have done so. (male, middle cohort)

With regard to the youngest cohort it can be said that the defining feature about their attitude to retirement is distance: retirement is something very far away. This manifests itself in the vagueness of their plans, and the fact that clearly retirement is not a priority in their case. Instead, they have other financial concerns, most importantly buying an apartment, raising a child, starting or building up their businesses. So their choice of financial strategy – first of all choosing between tax evasion or tax payment – is aimed not at the preparation for retirement but for shorter term goals. Nevertheless, they clearly think of themselves and their household as primarily responsible for the provision of pension. They often do not trust the state or the private pension funds, most importantly because these have lost a considerable amount of money during the credit crunch but had often failed to yield substantial gains formerly while the stock market was still in good shape. In line with this, they count on receiving a low amount of pension from the state and the private funds, so for supplementing their pension they either hope to save enough money or run a successful business to support themselves or invest into real estate. Some plan to work as long as possible.

...when I reach the actual retirement age, I will definitely retire. But hopefully, by then I will have worked for the preceding one or two decades not because I have to but only in order to oversee my various investments and enterprises. So I won't retire because of the pension, as I plan to work as a pensioner as well. I don't count on receiving a state pension. (male, youngest cohort)

Care strategy

Parallel to the growing insecurities surrounding the pension system, another type of insecurity in old age has emerged: the necessity of care. The importance of care has grown significantly as the semi-independent time of life has become considerably longer. Even in Hungary, where the main demographic indicators (such as life expectancy or healthy life expectancy) are the lowest among the DEMHOW countries, people reaching 65 years can expect to live another ten years generally, with five years of healthy life on average. This leaves another five years of semi or full dependence on a social institution or their family.

During the interviews we had the impression that with regard to care – its importance and people's readiness to talk about it – there is an important dividing line between households with or without children. Whereas the latter ones seem to be open and more prepared to answer questions about their future in old age, the former ones have often shied away, giving very insecure and vague answers.

We could even say that for many households with children care has remained a touchy subject, of which they are often reluctant to speak – or even think about. Some people have not yet grasped the consequences of a prolonged life. Rather they think of care as necessary for a very short period of time. Despite the numerous cases in our sample where long-term care solutions had to be found within the family, people often think that if the necessity of care arises, it will last for a very short time. A quite extreme case of refuting even the consideration of care, and hiding from the problem it poses can be exemplified by a middle-aged, somewhat bitter state employee, who basically said she does not prepare for it in any way.

No. Because I hope God will be merciful and I will die soon, so I won't be a liability to my family. (female, middle cohort)

This reluctance is mostly paired with the thought that families can become a last resort by providing some kind of solution, should this become necessary. If pressed, families can act quickly and often join forces and either look after or arrange the care of the person in need. Furthermore,

care is sometimes implicitly viewed as a form of intergenerational contract, where the younger generation performs the duties in return for inheriting. In case there is no direct descendant, this model is often carried out within the framework of the extended family.

The importance of family was also highlighted by the results of the vignette. The vignette presented a hypothetical situation, where an old lady became unable to look after herself, and the regular weekly visits from her two children (one living 30, the other 100 km away) were not sufficient any more. Answers to it reflect the profound conviction among respondents that primarily it is the duty of the family, and most likely the children, to look after an ailing relative. This could be considered consistent with the bequest strategy of the older generation that often prefers leaving the apartment to the children to satisfying its own financial needs.

I think in Hungary the situation is quite clear. One child takes the responsibility and the other child will have to assent that the caretaker will inherit the real estate. Most likely the one living closer will move the old lady into his/her home. And furthermore it is also very probable that not the old lady but the children will make the decision. In Hungary most old ladies do what their children say. Taking care is the responsibility of children. (male, youngest cohort)

While giving advice to the old lady, overall 17 respondents offered a “family solution”, which includes everything from moving in with her children to moving close to them and to asking the grandchildren to move in with her. Interestingly, even those who do not have children (in the oldest and the middle cohort) mentioned the responsibility children have towards the parents. And more importantly, only very few respondents warned the old lady about the traps of moving in with an already adult child’s household. The common theme in the comments about the vignette was the love between parents and children, and the obligation it carries with itself. As a middle-aged single lady said: *There is no responsibility if there is no love. But if they love their mother, they will find a way.*

When talking about the possibilities of care it was surprising to see that the households often confounded the idea of care with cure. Their money set aside and saved is also primarily destined to serve cure. It was in line with this that a retired architect alluded to the proximity of a hospital as the most important resource for care. Similarly, a retired politician and a father of three was open about his dilemmas on how to spend his savings, voicing his concern about major illnesses that would require money, as in Hungary it is customary to give money to the doctors and the health care staff in hospitals. Also, a retired computer programmer nonchalantly explained that his

savings (6000 EUR) with his wife were mostly aimed for cure (and for the costs of their funeral.)

These savings have a double purpose. If one of us enters the “free” Hungarian health care system we need something that covers it, at least for some time. The second purpose is for one of life’s most expensive episodes, the funeral. The money might only suffice for one purpose, but we hope that it will be enough for both. (male, oldest cohort)

Their concentration on cure might be in line with their underlying assumption that the duties of care will be performed by their children. It is important to note however, that with relative wealth the role of family also changes. If they think of themselves as being financially capable, there seems to be a preference of buying the care services to making the family perform the duties. In these cases the role of the family remains important as well, however, it is more restricted to visiting and entertaining.

Hopefully I will not be a liability in anyone life, especially if I will be as fit as my grandparents used to be. I wish to be looked after at home. But if it does not work out like this then hopefully there will be enough money within the family to pay for a nurse ...as I don’t want my children to have to put diapers on me. (female, youngest cohort)

The interviewee’s disposition is in line with the common knowledge that high quality care solutions cost a lot of money. There are different types of care facilities available in Hungary that offer a wide range of services at very different prices. Old-age (or nursery) homes are maintained by municipalities, churches, investors and the non-profit sphere alike. Regardless of the service provider, these homes receive an earmarked grant based on the number of beneficiaries (number of clients). From January 1st, 2008 in order to gain admission into such a home the applicant has to prove that s/he needs professional care for more than 4 hours a day (Szociális és Munkaügyi Minisztérium, 2008). The change is aimed at trying to keep people out of this institutional sphere as long as possible.

In 2007 altogether 911 institutions worked in elderly care, with a staggering 96.3% of the available places being occupied. The quality of service in these institutions varies, just as their price and the length of waiting lists. Some have entrance fees varying between one and ten million HUF (3,500 – 35,000 EUR), some only have registration fees, but all have a monthly fee. Home-care is provided by municipalities, churches and the private sphere as well. Municipal home-care is only available for people needing maximum four hours of professional care a day. Although home-care facilities are

really underdeveloped in many parts of the country, especially in smaller settlements, some growth of these can be detected, and encouragement is also tangible through increasing state subsidies. Private home-care companies offer their services without time limit, but their prices high. Another often used option is leaving out all institutions and companies and arranging someone (often a former nurse) for home-care and if necessary providing an accommodation for her besides the payments.

Households without a direct descendant often carefully consider all the care possibilities, and try to find a solution that suits their interest the most. Although their financial status varied in the sample, in almost all cases an important source of security was provided by their apartment, which, given their lack of children, could serve as a source of income for paying costs related to old age. Asked about their options, they were more rational and candid about their insecurities as well. A middle-aged single doctor, who runs a thriving private practice and has been very considerate about her future as a pensioner, said the following about the process of preparation:

By now I have reached the point of where I know how I imagine the financial background of my retirement, but I cannot imagine my daily life in retirement yet. (female, middle cohort)

Showing the importance of care for single/childless households is the story of the 75-year old retired teacher, who decided against a pensioners' home or taking a reverse mortgage on her apartment, and chose instead to leave her apartment as a bequest in return for care to a member of her extended family. She felt that only this way could she secure adequate care for herself. She further felt that the services offered either in the framework of a reverse mortgage program or that of a pensioners' home would not suit her personality or would not be sufficient. But most importantly, she could trust her family members, being secure that *"they would not kill me for the apartment."*

The role of housing equity

In light of the need for more money during old age, both as a consequence of the changing pension schemes and the necessity of payment for care, the role of housing equity can become very important. Especially in Hungary, which could be called a country of super-homeownership, where the choice between renting and owning is not a question for the majority of home-owners. To own a flat/home is simply the only conceivable long-term solution for the majority of households. Renting was considered temporary and a very unfavorable solution by the vast majority of respondents, regardless of age, in our sample.

Despite this, people are often not very rational about the value of their home, which is clearly both a “consumer good” and a “capital good” for the majority of the families. Each of the respondents was aware of the significance of the value of their home but they are far from handling it with “mere rationality.” The meaning of housing is much more than an economic investment; it reflects family memories, represents a way of life and expresses a social status as well. We had one interviewee, a retired Member of Parliament, who owns a large downtown apartment that is way too costly for his current income – and far too big for himself and his girlfriend – nevertheless, he is very much conflicted about what to do. Although he clearly sees the economical irrationality of still living there, and he is absolutely aware of the market value of the flat, he is still very hesitant about using it as a source of income. He cannot really think about leaving and giving up the home as he has been living there from his birth. At the same time, he does not trust reverse mortgages either, especially since he wants to leave his apartment to his children.

His concerns highlight what has already been said in this article, that the possible use of housing equity during old age is strongly influenced by the existence of children. Intergenerational transfers, most importantly that of housing equity, play a crucial role in the financial strategies followed by many Hungarian households. It is often through the transfer of dwellings that members of the younger generation are enabled to start their own household. The question of bequest, given the life expectancy, usually concerns the grandchildren, but it is nevertheless part of an elaborate extended family strategy

An integral part of the common family strategy is to preserve wealth, and to pass it on to the next generation. As it was summarized by a young psychologist interviewee, coming from a very wealthy family:

Dwellings have always grown a little, if they inherited or moved to a bigger one, or just added something to the wealth, but everyone always handed over the possessions to the next generation. (female, young cohort)

It is a norm that older generations have obligations with regard to the younger generations. The flip side of this process is that, depending on their needs, the older generation often gets the financial help and help in kind from the younger generations, and grandchildren often perform the task of care as long as they are physically capable of, or provide the financial assistance if necessary.

Among our interviews, there was only one real exception when another solution was favoured over leaving the housing equity to the family. There

was a single old lady, who explicitly stated that she intended to make a will in order to disinherit her family, particularly her niece. The reason behind her dumping the relative was that she was being neglected. So she plans to leave her apartments to the actual people who care about her: her neighbours and tenants. However, even her case demonstrates the contract like obligation inheritance entails: looking after the older family member. It has to be stressed though that given the fact that this particular person does not have direct descendants, makes her “freer” in using her housing equity.

Households without children in the sample were often thinking about their housing equity as a way to finance the costs related to old age. Reverse mortgage is frequently considered as an option, however, in our sample nobody used it. Some households turned it down because it did not fit their particular interest, as it was explained in the section about care, whereas others felt that banks offering it were not trustworthy enough, and felt uneasy about selling an apartment to a bank and still living there.

– Have you heard about reverse mortgage?

– Yes, I have, but it is weird form me. I cannot tell you why. Sure it is good to have an additional income and stay in the apartment. But I don't like it. (female, oldest cohort)

Reverse mortgage is actually generally viewed suspiciously as something that rips off the family members of their own expected inheritance. Because of their aggressive (and successful) marketing strategy, most of the interviewees knew about reverse mortgage products. In 2005 and 2006 three financial institutions started to offer reverse mortgage products in Hungary. They have altogether 5–6,000 contracts. But after the world economic crisis two companies ceased to make new contracts. Although the third company continued, the number of new contracts has decreased. Basically the three companies have offered two products: life annuity products and a version of equity withdrawal.

Besides using reverse mortgage products another often used option for using housing equity is downsizing. And this does not interfere with the obligation of leaving an inheritance, so more households with children having trouble maintaining their home have been thinking about moving into a smaller apartment and leaving that as a bequest. For childless households the option remains to sign an annuity contract with a person (often with an extended family member) who in turn for inheritance will either pay a monthly annuity, or pay the cost of care, etc.

Finally, an important aspect to consider is the role of wealth in the possible use of housing equity. It was our experience that wealthier households with children, who have managed to give their children the necessary start

(education, dwelling, and so on) have expressed their openness about leaving less to the children and consume more. So it could be said that with more wealth the role of inheritance and housing equity changes: while it remains important, nevertheless it is not so crucial to the well-being of the next generation. These households have also expressed their wish not to rely on their children for physical care, rather only for emotional support. Thus the “contractual obligations” of both sides are loosened.

Conclusions

As a norm, family relations are strong in the Hungarian society, and solidarity among family members is a general expectation. The form and the intensity of the relations vary a lot, but family help is necessary in various stages of life. These close family relations are partly a response to the macro economic and macro social trends: they fill the gap the state sector leaves between the need for services and help and the actual possibilities provided by the state.

Intergenerational transfers are at the centre of family strategies. Although these transfers include various goods, such as real estate, money, help in kind, or even the mix of these, real estate alone plays a special role. It is often through the transfer of dwellings that members of the younger generation are enabled to start their own households. The transfer has obligations with regard to the younger generations: they often take care of the older generation as long as they are physically capable of. The other reason behind the prominence of the family solutions in case of care is the fact that private care solutions are very expensive, whereas state care solutions are regarded very low quality. While households with children are likely to rely on their families, households without children are strikingly more conscious about the need to look after themselves in old age. And they agilely use their greatest asset – their homes – in order to pay for the care services they need.

Real estate has a special significance also with regard to supplementing pensions. Nevertheless, its use is limited. Those who have children are likely to pass it on to the next generation. Children and the need to provide for them generally alter the role accumulated wealth can play in retirement. Those without children seem very open to use their apartments in case of financial necessity. Pensioners without a descendant use additional apartments to supplement their income, and carefully weigh their options and trade their apartments (including the dwelling they live in) for care and other help.

A common strategy among the retired population has been to supplement their income by working. Many retired as early as possible knowing that the pension will provide them with a fix income, which can be

supplemented by work. Nevertheless, state pension is the most important source of income for the majority of the members of the oldest cohort. Early retirement, so typical of the current pensioners, will most likely not be an option for members of the middle or the youngest cohort. Not only because the official retirement age will be raised, but because the possibilities of early retirement are being reduced. Members of the youngest cohort say they plan to work as long as they can (even those who pay taxes and social security) and people belonging to the middle cohort also expressed their concern about their retirement, thinking about it mostly with fear. What seems to connect these two younger cohorts is the belief in the inability of the state or the private pension funds to provide for them. Besides work they plan to rely on former savings or investments. Exceptions to this are those members of the middle cohort, who have earned well and have paid taxes and social security all their life. If they also have a voluntary pension fund or other savings, they most likely will fare well as pensioners.

The question of tax evasion significantly alters households' take on the pension system and their retirement strategy. It is actually this evasion of tax and social security payment that strengthens the connection between housing equity and retirement strategy, making the former an important source of income during the years of retirement. Members of the youngest cohort have expressed their hope to acquire extra apartments in the future in order to supplement their income as pensioners. Tax evasion is a crucial element in the financial strategy of many who try to raise their income. A major risk presented by tax evasion is a lack of sick benefits, and possibly a very low pension. One risk minimizing financial strategy practiced by many households is to mix the income sources: a self-employed household member is often supplemented by a wage earning partner. Wage earners usually earn less, but can count on the benefits that result from dutifully paying their social security. Furthermore, especially in the state sector, their employment is often more stable.

Whereas pension and savings are not very much on the agenda of the youngest cohort – they are occupied with starting their family, acquiring a suitable apartment and investing into their business – this attitude changes with age. Members of the middle cohort are more preoccupied, and those who are financially capable tend to create savings and investments for shorter and longer run, and all think about their pension, especially in light of the changing role of the state in pension provision. The cohort with the most savings and the least risky financial strategy in our sample is the oldest. Their savings are usually not enough to supplement their pension regularly, but are meant to be there in case of financial trouble.

REFERENCES

- Barabás, Gyula, András Bodor, Mihály Erdős and Csaba Fehér (2006): A nyugalom ára. *Élet és Irodalom* 15 October. Available at <http://www.es.hu/index.php>, 26. 4. 2010.
- Benedek, Dora and Orsolya Lelkes (2009): The distributional implications of income underreporting in Hungary. MPRA Paper No. 17308. Available at <http://ideas.repec.org/p/pramprapa/17308.html>, 16. 3. 2010.
- Ferge, Zsuzsa and Katalin Tausz (2002): Social security in Hungary. *Social Policy and Administration* 36 (2): 176–199.
- Hablicsek, László (2007): Népeességünk következő évtizedei, különös tekintettel a területi különbségekre. *Demográfia* 50 (4): 392–429.
- Hegedüs, József, Katie Mark K. and Iván Tosics (1996): Hungarian Housing in Transition. In Raymond Struyk (ed.), *Economic Restructuring in the Former Soviet Block: The Case of Housing*, 71–138. Washington D.C.: The Urban Institute Press.
- Központi Statisztikai Hivatal (2009): *Budapest Statisztikai Évkönyve*. Budapest: KSH.
- Országos Nyugdíjbiztosítási Főigazgatóság (2009): Nyugdíjban, nyugdíjszerű ellátásban részesülők állománystatisztikai adatai. Available at http://www.onyf.hu/?module=news&fname=onyf_left_menu_kiadvany&root=ONYF, 3. 5. 2010.
- Simonovits, András (2008): Keresetbevallás és nyugdíj: egy elemi tanulmány. *Közgazdasági Szemle* 55 (5): 427–440.
- Szociális és Munkügyi Minisztérium (2008): Tájékoztató az idősek otthona vezetőinek az ellátás igénybevételére vonatkozó új szabályokról, a gondozási szükséglet megállapításáról. Available at <http://szmm.gov.hu/main.php?folderID=16492&articleID=32950&ctag=articlelist&iid=1>, 15. 4. 2010.