Abstract of the articles

VOLUNTARY SAVINGS – A STRATEGIC APPROACH
PÉTER HOLTZER

The Pension and Old Age Round Table, which was set up in 2007 by the Prime Minister of Hungary, has recently published the Report on its activities. The Round Table has analysed the options for the structure of the pension system for the next decades, and undertaken an economic and social impact study to see the consequences of selecting each. It can be seen that the role of voluntary savings will inevitably increase. However, the institutional framework and the incentives for long term savings have had many ad hoc changes in the last twenty years, the system is not coherent, the level of long term saving is low, and typically those receive tax benefits who need it less, while those with low future state pensions do not take part in supplementary savings schemes. This will not help overall pension adequacy or coverage.

The article summarises the analysis the Round Table has undertaken from the perspective of what it means regarding voluntary savings. Then it investigates a few reasons why savings are low, and provides suggestions what the state should do to change this situation. After briefly touching upon the role of the employer, the ingredients of a possible coherent saving and incentives system are listed. The importance of well-designed default portfolios is detailed. Finally, the tasks and responsibilities, as well as the interest, of the financial intermediaries are discussed, and the way the state and the private providers should and could co-operate.

DEMOGRAPHY RESTRICTS PENSION REFORMS
ERZSÉBET KOVÁCS

Increasing life expectancy and falling birth rates have contributed to the greying of the population over the past decades, and this process will continue. In spite of ageing pension ages had been falling for decades. Most of the OECD countries are old in demographic terms, therefore they have continued reforming their pension systems to make their pay-as-you-go provision fit for the long term. Among some other member countries Hungary has recently announced increase in the normal pension age to 65. Denmark decided to link pension age to life expectancy. Encouraging people to work longer can be a long-standing solution.

ON THE PERFORMANCE OF THE HUNGARIAN MANDATORY PENSION FUNDS
ÁGNES MATITS

The paper tests the quality of performance the Hungarian obligatory private pension funds on the basis of the recently published data of short term and long term returns. According to the five qualification categories only 8 from the investigated 81 portfolios turned out to
be week, and there are two excellent ones. The performance of decisive mass of portfolios is appropriate. But there are significant differences among performances which could result in significant differences in pension prospects of members in different funds. The papers stated that the overall performances is able to provide the sufficient substitution for the members of private funds, who lose the 25 percent of their pension right in the social security system. But this statement is probably not valid according to the proposed new pension formula from 2013.

ABOUT THE MANDATORY ANNUITIES
GÁBOR BORZA

The article is about the issues on the payout phase of the mandatory pension (fund) systems. The authors first explain why the international diversification is a critical option in the pension systems, then describes how the byproduct of certain regulatory intentions may lead to unintentional changes at other fields. Finally, we go through on the list of the issues based on a Worldbank paper. All issues are analysed in the light of the required international diversification as well as the minimisation of the intergenerational financing.

INNOVATION IN THE LONG TERM SAVING MARKET
THE TARGET-DATE FUNDS
SÁNDOR VÍZKELETI

Target-Date Funds (TDF) – also known as lifecycle funds – are mutual funds that dynamically adjusts asset allocations to reduce risk as their investors’ age. The first (TDF) were launched in the early 1990s in the US however their volumes were increased dramatically in the mid 2000s particularly after the Pension Protection Act of 2006 permitted TDF to be the default solution of defined contribution (DC) pension schemes. The net yearly inflow of TDF funds increased tenfold in size between 2003-2008 and reached $311 billion of volumes in 2008. Industrial experts forecast target-date and target-risk retirements vehicles will attract 80% of new flows into defined contribution schemes of the US for the next decade and these funds will swell $2.6 trillion of assets in 2018. After 2008 the bad performance of the TDF funds created lots of criticism about the asset allocation glide path of the fund managers (particularly the funds closed their target dates). The concepts of the funds were developed further to meet investors expectations and the regulators requested more accurate information about the fund managers’ investment strategies. Target date funds can offer a simple decision making by selecting the fund that most closely matched the investor’s expected retirement date; they are simple “set-it-and-forget-it” investments. The Portfolio Selection Rules of the Hungarian Mandatory Pension funds provide similar but less sophisticated and personalized target-risk investments for its members. The TDF vehicles can be the longer term solutions for the Hungarian DC retirements schemes like the Pillar III pension funds and the individual retirements accounts (IRA) also.