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BACK IN STYLE: VOLUNTARY PENSIONS RETURN IN HUNGARY

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BUDAPEST, Hungary -- Voluntary pension funds are coming back into vogue in Hungary, but with a new twist.

Instead of being sold directly to individual savers, money managers now are targeting Hungarian corporations as their key market.

Multinational firms such as [IBM](#) Corp. and [General Electric Co.](#), as well as large Hungarian companies such as MATAV Rt., the Hungarian phone company, already have set up funds. Experts say the trend eventually will trickle down to midsize and smaller firms as executives recognize the funds serve both as a tax haven for the company and a magnet for employees.

Global strategy

"Big multinationals have set up some funds because they are part of a global (benefits) strategy," said Agnes Matis, retirement practice manager at William M. [Mercer](#) Ltd. in Budapest. "A lot of (Hungarian) companies are still trying to decide on a strategy."

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Voluntary funds -- essentially individual savings plans with special tax incentives -- were given the short shrift in 1998 as banks, insurance companies and investment firms dedicated most of their marketing muscle to promoting their mandatory private funds. Mandatory funds were introduced last year as part of a complete overhaul of Hungary's pension system.

But the window for Hungarian workers to switch some of their retirement savings to the mandatory plans from the state pay-as-you go plan will close Aug. 31.

(New entrants to the work force must participate in the mandatory private system, while an estimated 1.3 million workers opted to join the new system.)

Renewed focus

Most money managers believe most workers who will opt for the new system already have made the switch. Consequently, managers are renewing their focus on the voluntary schemes, which were introduced in 1994.

"The potential for mandatory is going to be over soon. But the voluntary market still has a lot of potential," said Walter Tauchner, managing director of Winterthur National Voluntary Pension Fund in Budapest.

Money managers agreed there are between 1 million and 2 million people who would be potential clients for voluntary funds.

In contrast, the mandatory market will gain only about 200,000 new entrants to the work force annually, pension executives say.

But the tremendous publicity generated by the new private pension system "makes everyone more aware of saving for retirement," said Tibor Parnicsky, vice president of the Budapest-based State Private Funds Supervision, the government organization that supervises both mandatory and voluntary pension funds.

However, there also is much competition. As of Sept. 30, there were 233 voluntary funds operating in Hungary with a

total of 930,000 members and 80 billion forints (\$345 million) in assets.

More are coming. London-based [Schroders](#) Investment Management Europe Ltd. is planning to enter the field this year. Robert Hutchinson, a Schroders' managing director, said the firm is talking to various companies in Hungary about setting up pension funds for their employees, but there were no plans now to enter the retail market.

"It is the difference between the shotgun approach and the sniper's bullet," Mr. Hutchinson said. The corporate funds "are just what we do more of." He declined to give specific details about Schroders' plans or market approach.

Differentiating themselves from each other will be key, because most voluntary funds offer the same fees and very similar investment strategies. Money managers said they are fine-tuning their marketing strategies and most won't start a full-court press until the second half of the year.

But the corporate market will be an obvious target.

It pays for a corporation to start a fund because any contribution it makes for its employees is considered an expense, so it lowers profits before taxes. Also, any contribution up to 22,000 forints a month is free from social security taxes. And because employers in Hungary pay a 36.5% social security tax on salaries, it makes sense for them to find other ways of compensating employees beyond a traditional wage increase. An individual may deduct 50% of his contributions, up to 200,000 forints a year.

MATAV, the Hungarian phone company, has had a voluntary benefit fund since the concept was introduced. However in order to participate, employees must put 1% of their salaries into the fund while MATAV will put in a 5% contribution. Only 4,000 of the company's employees elected to join initially. The employees didn't understand that they were receiving a benefit because, unlike their salaries, their contributions were not taxed, said Anna Pusztai, managing director of Dimenzio Insurance Co., MATAV's insurance company.

Now, 97% of MATAV's 14,000 employees belong to the fund. Ms. Puszta said MATAV opted to require an employee contribution because the company felt it was important that individuals also take some responsibility for their own retirement.

"We wanted to end that (communist) mentality that says that everyone is supposed to take care of you whether it be the government or the company," she said. "Companies are looking for ways to give employees more with paying less. I think this type of insurance has a real future in Hungary."

IBM started a voluntary fund in 1997. It does not require employees to contribute, but places an amount equal to 2% of a worker's salary into the fund. IBM is located in Szekesfehervar, a city in western Hungary that is home to many multinationals. Consequently, the unemployment rate is only 3% so the potential employee pool is limited.

"Right now it is very difficult to get good employees," said IBM spokesman Peter Gaal. "We want people to work for us and not another company."

Money managers hope more human resource directors will adopt the mentality of Hungary's larger companies because the managers can potentially pick up a large number of participants through a single corporate sale. The Nationale Nederlanden National Voluntary Pension Fund in Budapest, with a sales force exceeding 2,000, picked up only 37,000 participants through retail and corporate sales and total assets of 3 billion forints since its 1995 inception. Hungaria Insurance Voluntary Fund is the largest, with 80,000 members.

"The individual market was only a medium success," said Emese Moricz, Nationale Nederlanden's marketing manager.

Now, the firm is developing new marketing materials for the corporate market. It also is establishing special client representatives within the fund so corporations will receive special attention. Corporate clients will be invited to special seminars twice a year, and the company promises detailed reports.

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"We will try to spread the message as best we can," Ms. Moricz said.

Last year, Winterthur spent 150 million forints on advertising its mandatory fund. This year, fund officials will use most of the budget to underwrite fairs, seminars, trade shows and other corporate events to increase networking with company decision makers.

"We are going to specialize on the corporate business," Mr. Tauchner said. However, Winterthur is at a marketing disadvantage: its voluntary fund returned only 10% last year because a significant portion of the assets were invested in Hungarian stocks, which fell dramatically last year. The Budapest Stock Exchange index slid 24.4% to close at 6,308. In contrast, Winterthur's mandatory fund, which primarily invested in government securities, had a 17% return.

Mr. Tauchner knows some voluntary funds had more conservative investment policies and can use the fund's lower return against Winterthur in the marketplace.

Western investors are accustomed to viewing pensions as long-range investments and are better able to understand market fluctuations. The concept of long-term investing is still new in Hungary, and all of Eastern Europe.

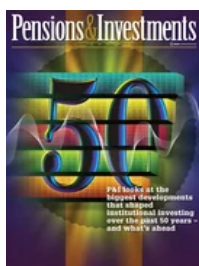
"Our message is that we are a big Swiss company and we will stress our longevity, stability and security," Mr. Tauchner said.

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