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Opportunity cost

This is one of my favourite terms. Opportunity cost actually means something very human: If you invest in something, you will have to give up part of something you have in hope of future profit. Opportunity cost expresses the price of this decision.

I personally like to use this term in all areas of life because we make several decisions each day with regard to the future, whether in relation to recreation or the optimal use of company funds.

These days everyone is analysing the announcement of the former/new government (let us avoid calling it austerity measures), particularly if you are negatively (or possibly positively) affected.

When I heard about the plans concerning the tax benefit of the employer's contribution payable to the voluntary funds, the first thing to come to my mind was the cat effect (based on reports, the plans of the government include the limitation of the amount of employer's contribution payable to voluntary funds at 20 per cent of the minimum wage over the existing 130 per cent). I had studied the cat effect method during my employment by the Ministry of Finance. There is a cat. We step on its tail, so it will meow. If we lift our foot from its tail, nothing will have changed from the original outset, yet the cat is satisfied.

So obviously they are testing the sector. I am not inclined, however, to accept such a simple explanation, so I am resorting to my little opportunity cost method to help out. The question arising for political and economic decision-makers is this: "By limiting employer's contribution payable to voluntary funds to 15.38 per cent of the current amount, would the presumed tax savings allow the support of a health care system with a higher standard of care, based on self-reliance and with significantly more funds in the current election cycle?"

The answer to the question lies with the decision-makers, but the association can also put forth its view. In the opinion of the body – representing 68 per cent of the 0.5 million member strong health fund sector – the elimination of the benefits would lead to the loss of employers' payments in excess of the limit, i.e. the budget will not generate surplus tax revenue. We are then left with the question of the benefits/damage caused by the zero-benefit plan to the Hungarian health care system. It is clear that by reducing the limit to 15.38 per cent, employers will become completely unconcerned with the sector, and no one will be able to restore trust in the future. The health funds will definitely overshadow the pension funds, as all families buy medication, and the prevailing government will undoubtedly pay the pensions due. Initially the approximately HUF 35 billion in savings accumulated by the health funds will be exhausted (note: we mainly invest our money in government securities), but pension funds savings will also decline at a dramatic rate (solution: additional foreign loans?).

We do not share the tone of the Banking Association, whose complaints of a poor banking environment amount to a threat, but we make no secret of the fact that we also draw a balance of our opportunity costs; with seven years of hard work, we need to navigate an uncertain future in regulation.

On top of all this, from June 2007 the government plans to tax certain services provided by health funds.