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СОЦІАЛЬНІ ПЕРЕДУМОВИ ПЕНСІЙНОЇ РЕФОРМИ В УКРАЇНІ

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Анотація

Вступ. У статті визначено соціальні передумови пенсійної реформи, а також пріоритетні напрямки реформування пенсійної системи України. На підставі чого визначено, що однією із головних причин реалізації пенсійної реформи в наш час є запровадження обов'язкового накопичувального пенсійного забезпечення, де соціальні передумови відіграють ключову роль. Розкрито сутність реформування пенсійної системи та необхідності її запровадження, а також демографічної кризи, яка опанувала Україну.

Мета. Головна мета статті полягає в дослідженні впливу соціальних передумов на стан та розвиток пенсійної реформи в Україні.

Результати. Проведено аналіз динаміки показників пенсійного забезпечення протягом дії пенсійної реформи. А також розглянуто приріст зайнятості населення та валовий внутрішній продукт і підвищення рівня фінансового стану пенсійної системи України після запровадження пенсійної реформи. Розкрито основні проблеми вітчизняної пенсійної системи, а саме: низький рівень пенсій та незадовільний фінансовий стан Пенсійного фонду України. У ході роботи розглянуто систему пенсійного забезпечення як складової частини соціального забезпечення. На сучасному етапі дослідження зазначена тема є надзвичайно актуальною.

Ключові слова: пенсійна реформа; пенсійна система; демографічна криза; соціальне забезпечення; пенсійний вік.

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SOCIAL BACKGROUND OF THE PENSION REFORM IN UKRAINE

Abstract

The article defines social conditions of the pension reform, as well as priority areas for reform of the pension system of Ukraine. On this basis is determined that one of the main reasons of the implementation of the pension reform nowadays is the introduction of mandatory funded pension provision, where social conditions play a key role. In the article the essence of the reform of the pension system and the need for its implementation are determined, as well as the demographic crisis that has engulfed Ukraine.

The aim of this article is to study the influence of the social background on the state and development of the pension reform in Ukraine.

It was examined the analysis the dynamics of pension provision during the term of the pension reform and also the growth of employment and gross domestic product. How was improved the financial condition of the pension system of Ukraine after the introduction of the pension reform. The main problems of the pension system of Ukraine, namely are the low level of pensions and the poor financial condition of the Pension Fund of Ukraine.

During the research the pension system was considered as an integral part of social security. At the present stage of research this topic is extremely relevant and prevalent in our country.

Keywords: pension reform; pension system; demographic crisis; social security; retirement age.

JEL classification: G23

The relevance of the study

In a modern society, the pension system plays a significant social role and needs constant attention from the state. Social welfare and quality of life largely depends on the level of income and pensions. As well as in other countries, we know that the pension program is the largest program of the social insurance in Ukraine. In case of Ukraine, we see that the pension system stays in poor conditions and needs further adjustments of the process of the pension reform that includes the ease of the financial pressure on the Pension Fund of Ukraine through a gradual transition towards strengthening the role of funded components of that reform (II and III level). This will provide the proper level of wages replacement by pensions while mobilizing the long-term investment resources needed to modernize our economy.

An important component of the welfare state is a system of social protection that provides an adequate level of a material well-being of citizens. Drawing attention to the global trends in the social sphere, the government of our country is aiming to achieve the retirement age citizens' leaving standards close to the international standards.

Analysis of the recent researches and publications

The pension reforms features in developed countries examined in the works of P. Ball, D. Latulippe, A. Albert, N. Borisenko, A. Ivanitskaya, N. Kalita, A. Kindratets and some others. The problem of pensions is reflected in the scientific writings of many economists. An important contribution to the development of the subject of pension system reforming's been added by A. Bakhmach, V. Grushko, P. Laptev, E. Libanova, N. Tkachenko, S. George, B. Yurovsky.

The Aim of the research

The article aims to study the social conditions and the state of development of the pension reform in Ukraine.

The main material of the research

The pension system as a part of the social security system has a great importance for Ukraine that is an independent democratic state with a market economy.

The pension reform in Ukraine is an indisputable fact. The relevance and necessity of its implementation brings no doubts. In general, the reform of the pension system is a difficult and complex process that affects all areas of the social and economic life of the country and remains one of the main problems of the national economy for recent decades.

Its main goal is to provide a high enough standard of living for the citizens of retirement age. The social factors in our country have not yet reached the worldwide standards. Therefore, the attention of many scientists in the field of the social protection has been focused on discovering of the new ways to achieve a balance between economic and social components of social development, which would help to avoid conflicts between the economic development priorities and the principles of social justice [6, p. 21-22].

The key factors of pension reforms at present and in the long term perspective are three demographic trends:

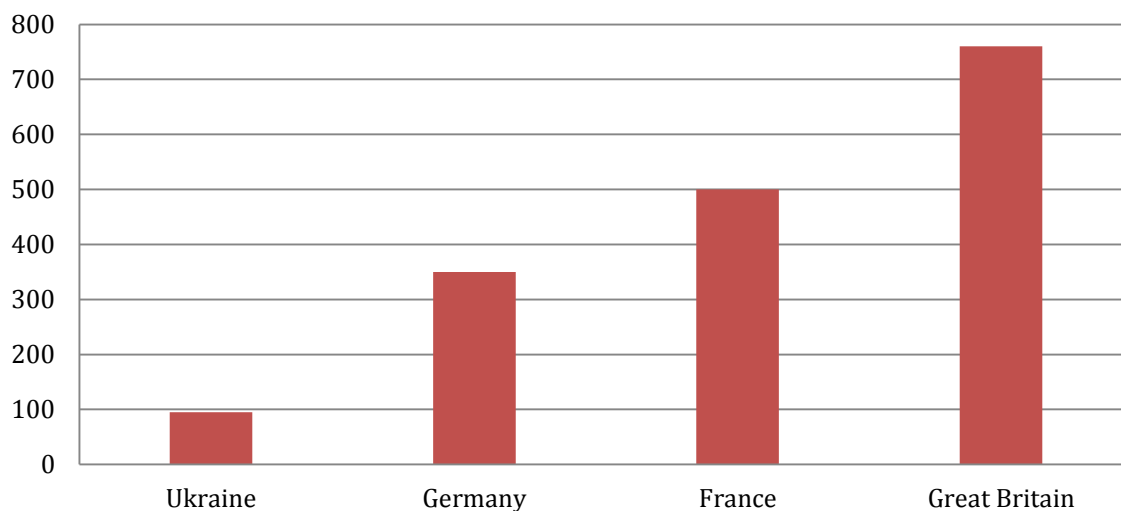
- a low birthrate;
- an increase of the duration of the educational period;
- an increase in life expectancy [3, p. 163].

The first two trends lead to the reduction of actual workers, the latter numbers the population of retirees, and together they become an objective factor that increases the pressure on the pension system.

As for trends in the ratio of the people of retirement age to the people of working age, they are negative throughout the pension reform until 2040 [13, p. 108-109].

One of the benefits of the pension reform in our time is the mandatory funded pension insurance where the social factors rather play a key role. Therefore, one of the basic institutions that provides a social protection of the citizens is a pension insurance system. It provides restrictions for the negative impact of adverse events in everyday life and helps in formation of pensions that would satisfy all the necessary needs of the citizens of retirement age. Analyzing pensions in the European Union in recent years we see that they have been at the level of 250 – 400 euros on average. In Ukraine at the beginning of 2013 the average size of the state pension amounted to 1470,7 Hr. [11]. The statistics show that pension in Ukraine is noticeably less than in Europe.

The analysis shows that dynamics of pension growth is positive, although it hasn't got the European level yet. (Figure 1)



Minimal pension in 2013 (Euros)

The source: made by the author.

Therefore, in the short term social conditions will continue to play a key role in the implementation of the pension reform. After all, in order to participate in the integration of European processes, Ukraine must reach the international standards in the social sphere by many indicators. Late retirement is very rational for both social and economic reasons. Therefore, the retirement age is increasing almost everywhere in Europe. The introduction of a gradually increasing path for the retirement age is particularly important for Ukraine, where the actual retirement age is very low compared to other countries.

The pension system's reform in Ukraine is designed to change the balance of not only economic but also social interests in the country, to strengthen incentives to work and to help in the legalization of earnings, to encourage the insured persons to keep savings for their retirement, to diversify sources of funding pensions through a combination of social insurance contributions as well as mandatory and voluntary savings [4].

Nowadays, the Ukrainian pension system has two the most significant problems, namely, a low level of pensions and the poor financial conditions of the Pension Fund of Ukraine (see, Table 1). And, that's way, Ukraine remains the only country among the former Soviet republics where the pension reform is not fully formed and implemented.

Table 1. The dynamics of the indicators of the pension system during the term of the pension reform (beginning of the year)

Indicator	2010	2011	2012	2013
Average retirement pension	1039,6	1156,0	1252,4	1464,3
Average wages (Hr)	2246,8	2639,2	3031,9	3235,1
Replacement rate	0,46	0,44	0,41	0,45
The cost of living for those who lost their ability to work (Hr)	695	750	822	894
Ratio of average pension to cost of living	1,50	1,54	1,52	1,64

The source: compiled by the author according to the State Statistics Service of Ukraine

Analyzing the Table 1 data, we find out that all the indicators are significantly increasing, which is very positive for both retirees and able-bodied people, but unfortunately, these figures do not improve people's lives.

As noted in the research study „Demographic and Financial Preconditions of the Pension Reform in Ukraine: Forecast – 2050”, the population's level of awareness about the pension reform remains critically low and requires significant efforts from the government to conduct the effective information campaign. In addition, the transition to the funded pension system causes the increase in the population expenses that leads to the reducing of consumption, so the transition period needs to be regulated by the state [7].

The prognosis of the demographic situation and its impact on the pension system in Ukraine is not encouraging: the number of contributors by 2050 will decrease by 25%, and the number of pension recipients will increase by 8%. As statistics confirm, on 01 / 01 / 2013 there are about 13639000 retirees over the current retirement age limit (26%) in Ukraine. By 2021 this number will increase to 29% and by 2050 – up to 38% of the population. So, nowadays 100 citizens who pay pension contributions count for 88 individuals who receive the

pension, by 2025 there will be 100 pensioners per 100 contributors, and by 2050 the number will increase to 125 retired persons per 100 contributors [8].

This demographic pressure will reduce the value of an average pension compared to average wages from 40% to 33% by 2021, and to 28% by 2050 or will increase the subsidies from the state budget to cover the „demographic” deficit. And to cover the demographic burden by increasing the social contribution (which is already too high), it should be increased from 35. 2% in 2010 to 50% by 2050 [9].

In order to prevent this negative trend the Verkhovna Rada of Ukraine on July 8, 2011 adopted a law „On measures to ensure the legislative reform of the pension system,” which raised the retirement age for women from 55 to 60 years with an annual increase of it by 6 months starting from the September 1, also the retirement age has been increased for men who serve as civil servants from 60 to 62 years [1].

Thus, the introduction of pension reform will reduce the cost of the current governmental expenditures and will increase a funded system potential as a source for public investments in the economy. Therefore, a three-tier pension system will improve the social standards and welfare of Ukrainians.

According to the State Statistics Service of Ukraine the cost of the pension system as a percentage of GDP in 2010 amounted to 16,3%, and is one of the highest in the world. In other countries this figure ranges from 5% to 14% (e. g., France – 13,5%, Germany – 10,2%, Russia – 9. 4%, the US – 4,9%) [9]. Looking at these figures, we understand that Ukraine is an unambiguous „leader” among other countries.

One of the manifestations and consequences of the current demographic crisis in Ukraine is usually named the acceleration of the population aging and the corresponding increase in the ratio of the working age people compared to those who are retired.

Among the alarming demographic trends we have to allocate a permanent increase in the proportion of older people (65 years +) that is already prevails over the proportion of children (0-14 years) by 0,8%. The proportion of people of retirement age in 1966 was 15,9%, and on 01 / 01 / 12 the figure has increased more than 1,5 times, reaching 29,3% [5, p 23]. Figure 2 shows the forecast of contractors' flow on the labor market in Ukraine for 2005-2050 years.

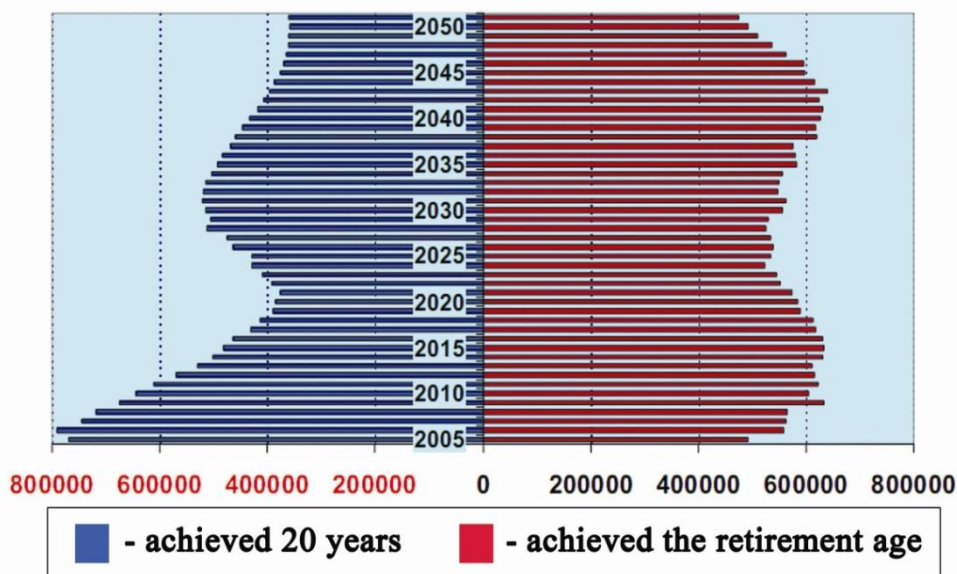


Fig. 2. The forecast of the contractors' flow on 2005-2050 (Input – output) in persons

Source: Status and prospects of the financial system in Ukraine. Data from the official site of the Financial Sector Development Program (USAID / FINREP – II) [electronic resource]. – Access: <http://www.finrep.kiev.ua/>

According to the forecast of USAID, the flow of people who reach 20 years of age will rapidly decrease to 2020, then it will grow until 2029 and then it'll shrink again. At the same time, the forecast tells the flow of people who reach the retirement age is to increase until 2015, from 2015 until 2025 it will decrease, then from 2025 to 2035 they will be small variations, and, finally, by 2044 it will reach its peak, and from that year it begins to fall again. There is a trend of an „aging nation,” and, therefore, the time comes when there are not enough of the working age people to pay for the pensioners. In a nutshell, that won't be the required number of working-age population, which would pay premiums of their salary sufficiently enough to ensure payment to the pensioners. This will lead to further deregulation of the Pension Fund, increasing its burden. The introduction of the pension reform is aiming to gradually reduce the pressure of the pension system on the economy and,

consequently, on working people. Thus, the projected growth in the retirement age for women and men will increase the number of employed persons and help the GDP growth making an impact on the financial state pension system (Tab. 2).

Table 2. The increase of employment and GDP and the financial growth of the pension system in Ukraine after the introduction of the pension reform

2021 p.	2025 p.	2031 p.	2050 p.
The employment growth (mln)			
0,5	0,4	0,5	0,4
The employment growth and GDP (%)			
2,4	2,3	2,5	2,5
Decrease in the number of people receiving pension (mln)			
1,2	1,0	1,0	0,6
Decrease in the number of people receiving pension (%)			
8,3	7,2	6,9	4,1
Increase in-line balance of the pension system (%)			
10,7	9,5	9,4	6,6

Source: Svyenchitski M. *Demographic and Financial Preconditions of the Pension Reform in Ukraine: Forecast-2050* / M Svyenchitski, L. Tkachenko, J. Chapko Kyiv: Analytical and Advisory Centre Blue Ribbon 2010. – 72s

Analyzing the Table 2, we see that all the indicators except employment and GDP growth significantly decrease. And as the experience of all countries shows, a financial independence and a decent standard of living for pensioners can be only provided by a flexible, diversified pension system that combines all possible ways and methods of financing. Given the recent economic and demographic trends, the World Bank recommends a model of a multilevelled pension system built on five elements:

- Zero level – a basic pension, which is guaranteed by the state to all citizens at the retirement age, regardless of whether they worked or made contributions;
- First level – PAYG (pay-as-you-go) requires to contribute of all the workers and their employers; it funds the pensions to the pensioners according to their insurance participation;
- Second level – a mandatory funded system where a part of mandatory pension contributions are paid, the accumulated pension assets are invested to produce the investment returns and to protect the assets from inflation;
- Third level – a private non-state provision, based on the principles of voluntary participation of citizens and employers in the formation of pension savings for the additional pension benefits;
- The informal level includes financial and non-financial support to older people within the family or community.

This'll let to reduce the social impact of the current demographic problem, namely, the problem of Ukraine's aging population; especially, when the increase in the birth rate in Ukraine is not expected. According to the Institute of Demography and Social Studies a birth rate in Ukraine in 2050 will amount to 1.6 child compared to 1,46 in 2008. At the same time, the average Ukrainian's life span will have a positive trend and is expected to be 71,0 years for men and 78,2 years for women by 2050 while life expectancy of men was 63 years, and of women – 74 years in 2008 [2].

The justification of the level of retirement requires additional social studies, and can't be associated only with life expectancy. In general, demographic prospects require a fundamental restructuring of the entire socio-economic system, adaptation for the society and economy to the peculiarities of the „old” population, where the number of users exceeds the number of economically active population. With the rapid onset of the aging population the social protection of elderly people has to become one of the main areas of social investments, and their scope and organization – an integral part of the economic system [12].

Conclusions

During the review of the social conditions of the pension reform in Ukraine, we decided that the pension system as a part of the social security is inefficient and has to be reformed. Currently, it operates in only two of three levels: the first – PAYG and the third – the private pension system, the second level is planned to be implemented in the coming years. The practice shows that there is a close relationship between an economic development and a social support. So, in order to overcome the drawbacks of the pension system, we have at first to create the conditions for a stable market development. It would be better to carry out all reforms gradually and in parallel.

The pension system's reform in its further perspective, firstly, weakens the impact of demographic problems

on the pension system, and secondly, the increasing retirement age reduces the pressure on the pension contributors. Of course, the pension reform will get a positive result only under conditions of creating a proper labour activity environment realization through the job creation, modernization of production, reducing the tax burden on businesses; through the improvement of health system, work safety, and so on. After studying the subject, unfortunately, we can say that at this moment, the pension reform in terms of its diversification has failed.

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