

# IMPLEMENTATION OF MODERN FOREIGN APPROACHES TO UKRAINIAN PENSION SYSTEM REFORMING

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**Abstract.** *Goal.* A study of the experience of Western European countries in implementing structural reforms of the pension insurance system and the implementation of such experience in Ukraine. The main task of the pension system of any country in the world is to ensure the corresponding stable level of incomes of pensioners and at the same time maintain their financial stability. The increase in the proportion of pensioners increases the burden on pension systems, and mainly measures taken by countries are aimed at reducing pension costs and parametric reforms. *Methodology.* This article investigates the prerequisites and consequences of reforming the pension systems of the Member States of the Organization for International Cooperation and Development. Considered measures to ensure the financial stability of pension systems of the countries concerned, increased the social and stimulating role of pension insurance in the society. The methodological basis of the article is methods of scientific cognition, which enable to expose basic conformities to the law of development of the pension systems, priority ways to ensure their financial sustainability. Such methods are in particular used: analysis and synthesis – during research of financial indicators of pension systems; systematization – for revealing methods for reforming pension systems, their detailed analysis and the definition of their features; scientific abstraction – with the purpose of forming theoretical generalizations and conclusions. *Results.* The article investigates the trends of reforming pension insurance systems in some countries. It is established that today the main characteristics of pension reforms in foreign countries are increasing the retirement age, improving the solidary component of the pension system, reducing the role of state pension insurance. Some countries raise their contribution rates; the conditions for early retirement are becoming tougher. Almost nobody decided to reduce the nominal size of pensions, but some countries introduce automatic adjustment of their size depending on the growth of life expectancy, incomes and expenditures of the pension system. In recent years, a number of countries, despite budgetary problems, have introduced tax incentives or co-financing voluntary savings to increase the proportion of citizens taking part in them. Others used non-financial incentives to expand coverage. The article outlines the main directions of reforming the pension system in Ukraine, namely, the expansion of the tax base for the working population, the introduction of the second pillar of the pension system, and the popularization of individual funded programs. *Practical significance.* The necessity of changes in the pension system of Ukraine on the basis of the effects of the reform of pension systems of the leading countries of the world. This made the cardinal changes in the systems in the countries of the world: the transition from financing pensions from current receipts to the system of individual accounts and savings, raising the retirement age, reviewing tariffs and requirements for risk management in pension funds, etc. *Importance/originality:* conducted a sample of reforms in pension insurance of foreign countries and offered the possibility of implementing only the part that can be adapted and applied in the light of the individual characteristics of the Ukrainian state.

**Key words:** pension system, pension reform, pension insurance, pension schemes, Organization for International Cooperation and Development (OECD).

**JEL Classification:** G18, G21, G22, J14, E24

## 1. Introduction

The pension systems of most countries in the world have undergone significant changes during the last decade. The main factors of the reform are deterioration in demographic trends – a significant change in the ratio

between employees and those who receive pensions as well as the change in the structure of production and consumption of the national product. Aging directly influenced the financing of the solidarity system, since a smaller number of people of working age should

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maintain a sufficient level of pensions for an increasing number of older people in the world as a whole.

The economic crisis and, as a result, the slow pace of economic growth, as well as the increase in the level of public debt in many OECD countries, created additional obstacles to ensuring the financial stability of pension systems. This caused the cardinal changes in the systems in the countries of the world: the transition from financing pensions from current receipts to the system of individual accounts and savings, raising the retirement age, reviewing tariffs and requirements for risk management in pension funds, etc.

## 2. Literature review

Issues of reforming the pension system of Ukraine are in the field of vision of many scientists and practitioners. Domestic scientists, specialists on employment issues of the Ministry of Labour and Social Policy of Ukraine made a significant contribution to the study of these processes and the search for mechanisms of improving the pension insurance system in Ukraine. Among them are Libanova E.M., Malevanyi M.I. (2014), Oleksandrova G.M. (2016), Zhuk D.S. (2011), Kasich A.A. (2011), etc. The foreign experience of reforming pension systems is considered by such domestic scientists as Rudyk V.K. (2011), Yakimova L.P. (2013), Petrushka A.V. (2015), Bondaruk I.S. (2009) and others.

Without detracting from the role and importance of ongoing research, it should be noted that today the issues of foreign experience in the field of pension insurance are insufficiently studied. There is a need for scientific developments that would summarize the accumulated experience of the leading countries of the world taking into account the latest trends in social protection and on their basis would form a strategy for the development of Ukraine's pension system.

## 3. Goals and tasks of the article

Based on the analysis of foreign experience in the development of pension insurance systems, the purpose is to identify the main trends in the implementation of pension reforms by the example of OECD countries. To achieve the stated goal, the following tasks are set: to define the concept and types of pension systems, to analyse the differences in the pension systems of the OECD countries; to analyse the experience of pension reforms in the countries studied, to identify the main directions for implementing pension reforms in the conditions of the pension crisis.

## 4. The main material of the research

Pension provision of the population in various forms for many centuries played an important role in various countries but began to acquire the systemic

nature only in the late XIX – early XX century. Since then, in most countries of the world, the continuous process of the evolution of pension systems goes on. During this period, generally accepted classification was formed with the separation of the two main types of pension systems: the distribution (pension contributions go to current pension payments) and cumulative (pension contributions are formed on individual accounts and invested in various assets in the financial market, and investment income increases the final pension).

Modern international practice is such that in most countries there are combined pension systems that combine state distribution, as well as mandatory and voluntary accumulative elements (Figure 1). The mixed type of the pension system is the most effective in terms of financial stability and the level of pensions paid (Stalebrink, 2014).

In its pure form, cumulative and distribution models are seldom present in the world practice, as well as the model in which both compulsory and voluntary accumulative parts were simultaneously present.

The main task of the pension system of any country in the world is to ensure the corresponding stable level of incomes of pensioners and at the same time maintain their financial stability.

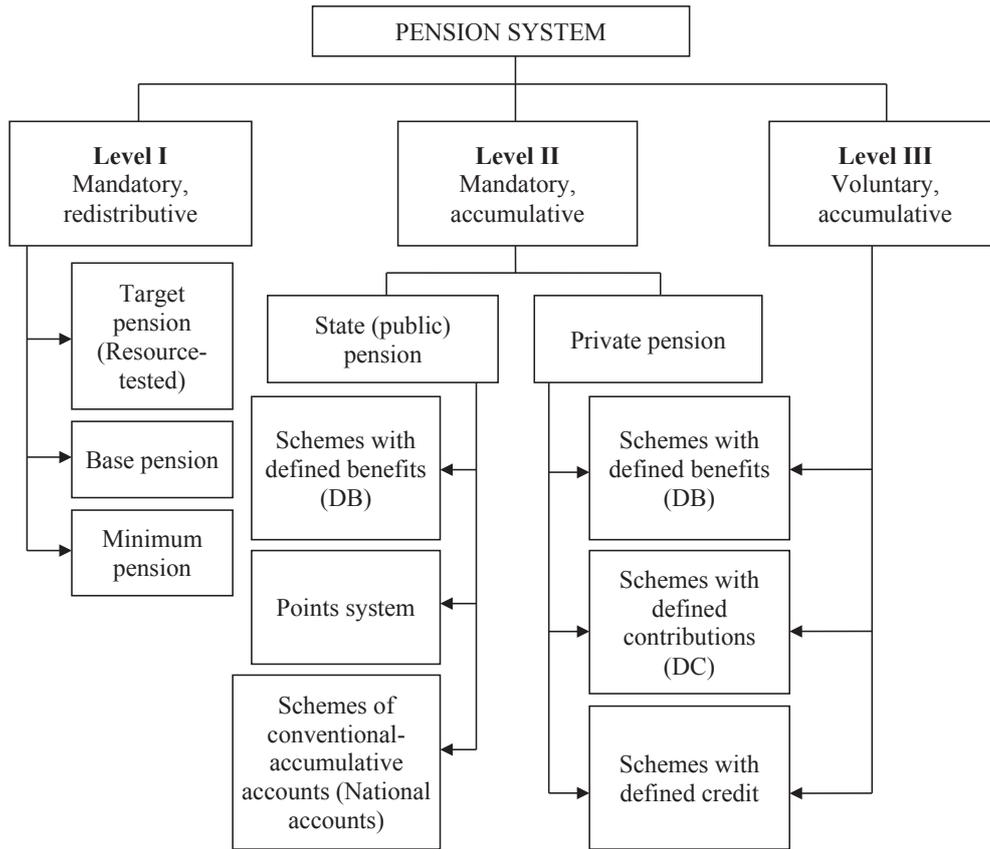
According to the Organization for Economic Cooperation and Development (OECD), from 2013 to the end of 2015, 26 countries out of 34 ones have made changes to their pension systems (OECD, 2015). In nine countries, these were reforms affecting the majority of the population. In other, the changes affected certain groups of employees (for example, private or public sector) or pensioners themselves.

The process of aging of the world population, caused by the increase in life expectancy and low birth rates, forms new challenges in the world.

According to the OICD forecast, the proportion of people aged 65 and over should increase from 8% of the total population in the world by the end of 2015, to almost 18% in 2050 (figure 2), and from 16% to 27% among countries Members of the OICD. Among the OICD countries, the share of the population, whose age will be more than 75 years in 2050, will equal the proportion of the population over 65 years of age today.

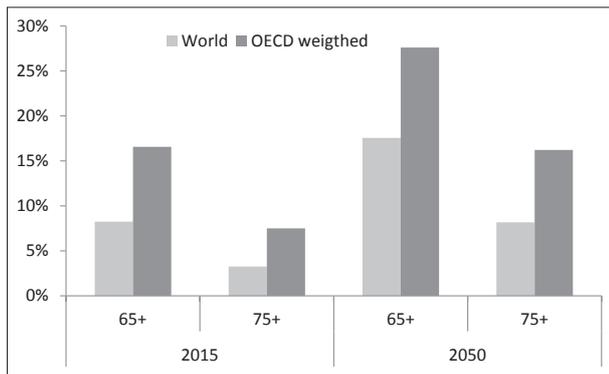
The increase in the proportion of pensioners increases the burden on pension systems, and mainly measures taken by countries are aimed at reducing pension costs and parametric reforms.

Thus, the Czech Republic and Finland reduced the indexation of pension payments, France changed the order of indexation, and Greece and Belgium temporarily froze it. Since 2017, Slovakia has been linking indexation to inflation (previously – both to inflation rates and wage growth), the same rules are applied in Sweden, Finland, Portugal and Germany. In Turkey, the indexation depends on the rate of GDP.



**Fig. 1. The overall structure of pension systems abroad**  
 Source: (Yakimova, 2013)

Luxembourg will index pensions only if pension incomes exceed expenditures (OECD, 2015).



**Fig. 2. The share of elderly older than 65 and 75 in the total population**  
 Source: (European Commission, 2015)

The retirement age is rising steadily. This was done by 30 of the 34 OECD countries (by 2015, Latvia became the 35th participant of the OECD): 20-year-olds who started working in 2014 will retire not earlier than 64 years, and in the Czech Republic, Ireland and Great Britain – in 68 years. In the countries with economies in transition, where in the mid-1990s the retirement age

was 60 for men and 55 for women, now it is on average 65 and 63, respectively.

Over the past two years, Canada, Belgium, Spain announced a gradual increase in the retirement age to 67 years, in Germany it is raised from 65 to 67 per month per year, in the Netherlands it will reach 67 years already in 2021 and in Australia in 2023. Hungary raises the age from 62 to 65, in Portugal its increase from 65 to 66 will be associated with the increase in life expectancy. In Slovenia, where the retirement age is one of the lowest – 58 years – it will rise to 60 for those who paid contributions for 40 years, if the payment time is shorter – up to 65 years. In France, the minimum necessary period for the payment of contributions will be gradually raised from the current 41.5 years to 43 years (OECD, 2015).

Some countries raise their contribution rates (for example, Canada and France). The conditions for early retirement are becoming tougher: in Finland, this opportunity was lost to private sector employees, in Portugal – for everybody, in Poland, during the 2009 reform, the number of citizens eligible for early retirement was halved. In Spain, the pension is reduced by 7% for each "premature" year of retirement. Along with this, countries introduce incentives for later retirement, expand opportunities to combine receiving a pension with the continuation of employment.

Almost nobody decided to reduce the nominal size of pensions, but some countries introduce automatic adjustment of their size (depending on the growth of life expectancy, incomes and expenditures of the pension system).

The solidarity component remains the basis of pension systems. At the same time, in almost all countries they are mixed, including a cumulative component. Participation in funded schemes can be mandatory for the employer – such conditions are typical for Korea, the Netherlands, Hong Kong, China, Singapore, Sweden, Turkey, the United Kingdom, New Zealand. In Germany, Japan, Poland, France, Slovakia, corporate pension schemes for employers are voluntary. Individual funded plans are mandatory in Chile and Mexico, voluntary in the Czech Republic; In Australia – mandatory for the employers, but voluntary for the employees.

In recent years, a number of countries, despite budgetary problems, have introduced tax incentives or co-financing voluntary savings to increase the proportion of citizens taking part in them. Others used non-financial incentives to expand coverage: for example, the UK and Canada introduced auto-subscriptions – automatically including employees with the option to opt-out; the same mechanism operates in Italy, New Zealand, the USA. Mexico expands its coverage by connecting to the mandatory savings of self-employed and civil servants.

Some countries are moving in the opposite direction: for example, Peru and Uruguay granted employees the right to return to the distribution system. In Slovakia, where in 2060, according to the forecasts of the European Commission, pension costs will be highest and pensions the lowest in the EU, in 2015 they cancelled the minimum period of savings of 10 years and allowed their inheritance, and temporarily opened the entrance to the funded part for everybody – previously it was possible to be chosen only up to 35 years. The Czech Republic, having offered the employee to co-finance a cumulative contribution at the expense of deduction from a solidarity contribution (thus the distributive part of the pension of such workers was reduced), faced an almost complete refusal of people to participate in this system. At the same time, state co-financing of voluntary savings made it possible to make them wide-scale: 4.9 million employees participate in them, compared to 0.08 million, who have chosen a cumulative contribution to state systems.

In New Zealand, by the moment of launch in 2007 the program “KiwiSaver” based on an automatic connection of employees and state subsidies, less than 10% of able-bodied citizens participated in voluntary savings, by 2010 this share increased to 55% (OECD, 2015). The German Rister program, thanks to state subsidies for 10 years from the start in 2001, increased coverage from 2.5 to 27% of working-age citizens. In Spain, despite the tax benefits, up to 2012, they managed to attract

to voluntary corporate programs no more than 3% of employees, and 15% – to individual ones.

However, even in quasi-obligatory funded systems, the percentage of employees' participation is much lower than in compulsory ones, where it reaches 70%, and in Iceland it exceeds 85%. At the same time, real payers can be significantly less than those covered by the funded system – both quasi-obligatory and mandatory – due to poor citizens' awareness and significant informal employment. For example, in Chile, where individual pension contributions are mandatory for employees, under the coverage of 70% of the able-bodied population, in reality contributions are paid by 40%, in Mexico with 60% of the attracted – 38%.

So, it can be determined that the need for pension reforms was due to a significant need for fiscal consolidation, and most countries actually implemented reforms to improve the financial sustainability of their pension systems. Some countries did this while maintaining or improving the quality of pension income, at least for some population groups.

## 5. Conclusions and recommendations for the further research

Ukraine is currently at the stage of development of the national pension system. In this context, the study of the experience of the pension systems functioning in developed countries, including the experience of their reforming and prompt response to the challenges, is of particular importance, which significantly affects the financial provision of citizens upon retirement and is also an important source of investment resources.

Analysing the experience of foreign countries, we can identify the main ways of reforming the pension system:

1. Expansion of the base of taxation of the working population by increasing the minimum age of retirement and / or the basic age of retirement, thereby increasing the contribution while maintaining the quality of payments for those who are able to work longer. However, this measure remains controversial in Ukraine due to the low life expectancy of the population – 71.38 years (for those born in 2015) (State Statistics Service of Ukraine, 2017) in comparison with the countries of Europe. An alternative to expanding the base can be an increase in the length of employed service for both men and women.

As an alternative to the retirement age increase, some countries have introduced an automatic link between the level of pension and life expectancy, that is, the amount of assistance, other things being equal, will decrease as people begin to live longer.

2. Introduction of the second pillar of the pension system – mandatory funded pension insurance.

Reforms of solidarity systems are usually aimed at reducing pension payments. This raises the need to develop private pension provision and its role in the

income of future pensioners. All OECD countries have accumulative pension systems, on average in 34 countries, the distributing part provides a pension of 41% of the average earnings, taking into account the funded part, it increases to 58%, i.e. about a third of the pension is provided by savings.

However, the efficiency of the accumulation schemes in the world, not only in Ukraine, largely depends on subjective and general economic factors. Its profitability can fluctuate in significant limits, depending on changes in the economic environment and the quality of management. There is always a risk of losing savings or reducing the level of investment income in comparison with their size, laid down in pension schemes. Already in the concept of the accumulative system, there are numerous risks. The participants of the system are fully responsible for its failures; the state guarantees the affected ones at the very best only a minimal pension. The system is ideal for well-paid employees, who can accumulate a sufficient amount of money on pension accounts.

To date, one of the most difficult issues for the budget of Ukraine is the cost of transition to cumulative insurance. There is a need to compensate for the current generation of pensioners the means that are diverted to the funded system. Taking all risks into account, the introduction of cumulative is constantly postponed.

3. Promotion of individual funded programs. With the transition to reform in developed countries, the common response to new challenges was the desire to reduce public pension payments during the modernization of pension schemes, and to encourage (sometimes forcedly) employees, especially those with medium and high earnings, to accumulate on their security in old age. A number of countries have taken measures to increase the coverage of voluntary private pension schemes.

4. According to the analysis, many countries raised pension income by increasing taxes or contribution rates to defined benefit systems. For Ukraine, this tool is not acceptable, since only in 2016 there was a reduction in the rates of a single social contribution for employers and the abolition of that for employees. An increase in taxation is possible with a compensatory approach for employees. For example, the payment of interest in the accumulation fund by reducing the tax on personal income.

Further effective reform of Ukraine's pension system will depend on two key aspects: first, on the degree of citizens' trust in accumulative pension programs; second, on the ability to ensure financial stability and the expected level of funds return invested in financial institutions related to the provision of pension services.

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**Анна ХЕМИЙ**

## РЕАЛИЗАЦИЯ СОВРЕМЕННЫХ ИНОСТРАННЫХ ПОДХОДОВ К РЕФОРМИРОВАНИЮ СИСТЕМЫ УКРАИНСКОЙ ПЕНСИОННОЙ СИСТЕМЫ

**Аннотация.** *Целью работы* является изучение опыта стран Западной Европы в проведении структурных реформ системы пенсионного страхования и имплементация такого опыта в Украине. Основной задачей пенсионной системы любой страны мира является обеспечение соответствующего стабильного уровня доходов пенсионеров и сохранения при этом своей финансовой устойчивости. Рост доли пенсионеров повышает нагрузку на пенсионные системы, и в основном меры, принятые странами, направленные на сокращение расходов на пенсии и на параметрические реформы. *Методика.* В статье проанализированы причины и последствия реформирования пенсионных систем стран-членов организации международного сотрудничества и развития. Рассмотрены меры обеспечения финансовой стабилизации пенсионных систем соответствующих стран, повышение социальной и стимулирующей роли пенсионного страхования в обществе. Методологической основой статьи являются методы научного познания, позволяющие выявить основные закономерности развития пенсионных систем стран мира, приоритетные пути обеспечения их финансовой устойчивости. В частности используются следующие методы: анализ и синтез – в ходе исследования финансовых показателей пенсионных систем; Систематизация – для выявления методов реформирования пенсионных систем, их детального анализа и определение их особенностей; Метод научной абстракции – с целью формирования теоретических обобщений и выводов. *Результаты.* В статье рассмотрены тенденции реформирования пенсионного страхования в отдельных странах мира. Определено, что на современном этапе характерными признаками пенсионных реформ в зарубежных странах является повышение пенсионного возраста, улучшение солидарной составляющей части пенсионной системы, снижение роли обязательного страхования. Некоторые страны повышают ставки взносов, ужесточаются условия для раннего выхода на пенсию. На сокращение номинального размера пенсий почти никто не решился, но некоторые страны вводят автоматическая корректировка их размера в зависимости от роста продолжительности жизни, доходов и расходов пенсионной системы. В последние годы ряд стран, несмотря на бюджетные проблемы, ввели налоговые льготы или софинансирования добровольных накоплений, чтобы увеличить долю граждан, принимающих в них участие. Другие использовали нефинансовые стимулы для расширения охвата. В статье выделены основные направления реформирования пенсионной системы Украины, а именно расширение базы налогообложения работающих слоев населения, введение второго уровня пенсионной системы, а также популяризация индивидуальных накопительных программ. *Практическое значение.* Обоснована целесообразность внесения изменений в пенсионную систему Украины, исходя из последствий реформирования пенсионных систем ведущих стран мира, так как в последних произошли кардинальные изменения в пенсионных системах стран мира: переход от финансирования пенсий за счет текущих поступлений в систему индивидуальных счетов и накоплений, повышение пенсионного возраста, пересмотр тарифов и требований по управлению рисками в пенсионных фондах и тому подобное. *Значение/оригинальность* статьи заключается в проведении выборки необходимых реформ в пенсионном страховании зарубежных стран и предложена возможность имплементации только той части, которая может быть адаптирована и применима в учетом индивидуальных особенностей украинского государства.