IMPROVEMENT OF THE EFFICIENCY OF THE NON-GOVERNMENTAL PENSION INSURANCE IN UKRAINE

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Abstract. Private pension funds are a crucial tool for accumulating old age provision; through trust management, they collect insured persons' cash deposits in the country's economy to enhance them further. It is worth noting that the necessity to enhance the pension system in Ukraine is significant in today's world. The *purpose of the study* is to identify areas for improvement of the non-state pension insurance system in Ukraine based on foreign experience and to consider a model for the effectiveness of pension saving. *Research methods* are based on a system of general and specific scientific methods that allow an objective and comprehensive analysis of the subject under study. To define key concepts, categories and techniques of formal logic are used (concept, definition, proof and refutation, judgement, synthesis, analogy, comparison, generalisation), observation, graphic methods. *Results*. An analysis of world experience has shown that private pension funds play an important role in the smooth functioning of financial markets (debt market, partial financing market). Increasing the wealth of institutional investors helps to replace short-term financing sources with long-term ones and to reduce market investment risks. Non-state pension funds as agents are less susceptible to changes in market behaviour and can increase the stability of the pension system and the Ukrainian financial market. *Practical value.* The use of non-state pension funds to develop an effective innovation, marketing and risk management strategy aimed at increasing the competitiveness of integrated financial services and their interaction in general. *Value/originality*. It is revealed due to the need for an integrated approach to the analysis of similar non-state pension insurance systems in other countries with the identification of positive and negative results in this area, the development of a new model of non-state pension insurance.

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1. Introduction

Ukraine has a traditional three-tier pension system. The third tier is created in the form of voluntary non-state pension schemes with defined contributions. It is based on key entities such as non-state pension funds (NPFs), whose activity in the country cannot yet be defined as active [15].

The Law of Ukraine "On Compulsory State Pension Insurance", which came into force on 1 January 2004, defines three tiers of the pension system [1]:

– solidarity system of compulsory pension insurance;

– compulsory insurance funded system;

– non-state pension system.

Important tasks of the third tier of the pension system are the reduction of poverty in the country, the decrease of economic inequality due to income differentiation between the active and inactive population, and the mitigation and compensation of the consequences of economic and demographic risks inherent in any society. At the same time, non-state pension insurance for the elderly, as a form of material support from the state or other subjects of the pension system, is part of the implementation of specific models of social protection in general, and its reform places restrictions on the institutional foundations of the political and economic system. Aggravation of social problems and mechanisms of their solution [10, p. 6].

Private pension insurance in Ukraine is represented by the following entities:

1) non-state pension funds (through the conclusion of pension contracts between fund administrators and depositors);

2) insurance organisations (by concluding contracts for insurance of life pension payments, insurance of the risk of disability or death of a fund participant);

3) banking institutions (by concluding agreements on opening pension deposit accounts).

The main purpose of such insurance as pensions is social protection against such types of risks as total or partial disability, loss of livelihood in old age due to disability, loss of livelihood due to the loss of a breadwinner, and so forth. Therefore, it can be concluded that the main function of the pension insurance system is to provide the financial resources necessary to meet the material and social needs of the population in the event of the occurrence of these social risks.

2. Global Experience in the Development of Non-State Pension Insurance

In world practice, there are two hypothetical models for building pension systems: distribution (solidarity) and funding (savings).

The distribution model (solidarity model) determines the dependency of the amount of the pension on the length of service, the amount of remuneration and the amount of insurance premiums. The pension is formed according to the principle that the next generation finances the previous one, and the insurance premiums paid by employers and citizens are fully used to pay pensions in the current period. Pensions in distribution systems are social and the state guarantees their payment.

On the one hand, intergenerational solidarity makes it relatively easy to manage the financial reserves of the pension system; on the other hand, it increases the dependence of this model on other socio-economic factors and, above all, on the size of the population. According to this model, the well-being of pensioners will depend entirely on the economic well-being of this generation, which they can no longer influence [4, p. 67].

In general, each member of the general pension scheme is guaranteed a fixed pension at retirement age, based on salary and total years of service. In some countries, such as France, Germany, Italy and Spain, distribution systems are still in place.

The accumulation (savings) model is the opposite of the distribution model. In this case, retirement is a long-term investment process in which contributions are first paid. The pension capital is increased through the profitability of pension investments in the economy, and only then are the accumulated funds paid out in the form of pensions. Thus, the amount of one's pension directly depends on how much a person has contributed to the respective funds during his/her working life and the return on his/her investments. The funded system differs from the distributive system because it is less sensitive to the problems of population ageing. Everyone builds up their pension independently. Their contributions are not used to pay someone else's pension, but rather to an individual account in a specialised insurance company.

The experience of the modern world shows that a system combining public pension schemes with private savings accounts works successfully abroad. At the same time, more and more attention is being paid to private

savings plans and their gradual introduction into the comprehensive pension system.

For example, in countries such as Sweden, the United Kingdom and Japan, the distribution base remained the minimum basic pension. In contrast, basic funded pensions are built up in the aggregate component based on contributions [8, p. 52].

As part of the reforms, non-governmental pension funds have been given a crucial role in improving the financial situation of disabled members of society. This social institution can help alleviate a burden that would be unbearable for the state budget in the current demographic situation. NPFs act as accumulators of savings for long-term investment and thus serve as an effective stabiliser of the economy [6, p. 64].

When concluding an agreement, the following model can be proposed for the formation of non-governmental pension reserves. According to the conditions for carrying out forecast calculations, the pension schemes used by NPFs are divided into two schemes (Figure 1).

The question is how this relates to existing experience in the world. There are several models of pension systems. The Chilean model, for

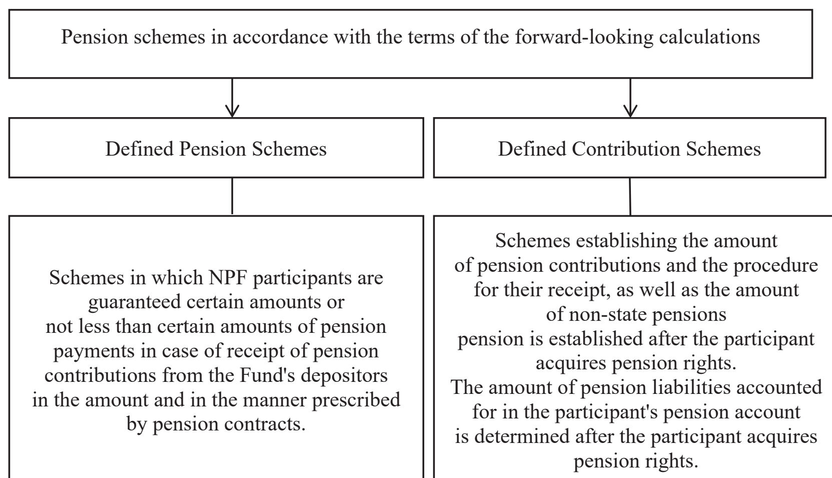

Figure 1. Model of efficiency of pension savings formation

Source: compiled by the author according to the data [5, p. 90]

example, has no public pension system. A pension contribution of 10% of each employee's salary is paid into an individual account in one of the private pension funds. This model has no social security elements; there is only self-insurance. And pensions depend on the activities of the NPFs. Their average volume sometimes reaches 80% of wages [15].

The American model is based on private pensions. The country has both public and private funds. The total pension is 10.7% and is paid equally by employees and employers. Public pensions are only offered to government employees. On average, these pensions amount to more than 40% of wages. This is why the Americans are forming the next supplementary pension of the NPF on their own initiative.

The German pension model is the most common in Europe. It combines several tiers of pension provision, which differ according to the category of insured person (the general pension rate is 18%). The first tier includes compulsory pensions for certain groups of the population (workers, employees, civil servants). They depend on the volume of wages and the length of time a person has been insured in this system. Savings are constantly indexed. The second tier consists of additional pension payments made at the initiative of the employer. The third tier consists of voluntary contributions made by employees to specialised pension institutions. On average, the volume of pensions reaches more than 55-60% of wages.

The pension system in Germany consists of three main tiers: statutory pension insurance, occupational pension insurance and private pension insurance. Compulsory pension insurance covers groups such as workers, labourers, civil servants, domestic workers and farmers. This tier of pension insurance applies not only to workers and employees, but also to groups of people who, for one reason or another, do not have a full employment relationship in society (disabled people, widows, students, jobseekers, etc.). They cannot pay insurance premiums, but are members of the pension insurance system due to the principle of solidarity redistribution applied in Germany within the pension system.

Unlike the compulsory pension insurance for employees, the pension insurance for freelancers (doctors, vets, lawyers, notaries, architects, etc.) in Germany has its own peculiarities. Freelancers who work on their own pay higher insurance premiums. The size of their pension is correspondingly higher.

Company old-age insurance is the second pillar of the German pension system. This type of old-age protection is entirely corporate and not mandatory. The company decides whether to grant a pension and in what amount, which is often referred to as "corporate benefits".

The third tier of social protection in old age is non-state pension insurance. It provides citizens with an opportunity to receive social security that goes beyond the compulsory insurance system and is an alternative form of insurance for individuals who are not subject to compulsory pension insurance.

In contrast to compulsory pension insurance, contributions to private insurance companies are much higher, but pensions are also higher. The three-tier pension insurance system in Germany is mainly based on the principle of old-age distribution with certain funded elements [10, p. 5].

The obligation to pay pension insurance does not depend on the amount of income (except for people with low incomes), but on belonging to a certain social group.

Employers pay their share of social security contributions to employees on a monthly basis. In the case of military or alternative service, the state pays contributions to the pension system. As life expectancy in Germany increases and the birth rate declines, mandatory contributions to the State Pension Fund are regularly increased and currently amount to 20% of an employee's salary. The retirement age in Germany is 67 years for both men and women. The German government is seriously considering raising the retirement age to 70 years.

Thanks to numerous reforms over the years, the Italian pension system is a three-tiered system.

The first tier of the Italian pension system consists of mandatory state insurance based on the distributive principle. During his or her working life, an employee contributes a portion of his or her salary to secure his or her pension.

Regardless of the type of activity, each employee must pay mandatory contributions in accordance with their earnings.

The contributions paid during the working life determine the monthly pension amount, which depends on the number and amount of payments made by the employee.

There are several types of pensions: old-age pension, which is paid when the employee reaches retirement age, provided that the employee has

paid the minimum number of contributions; long-service pension, which is granted without taking into account the fact that the employee has reached a certain age. The employee must have worked for a certain number of years, i.e., have the required period of special experience; disability pension, which is paid to the category of persons who retire from work prematurely for health reasons; survivor's pension, which is paid to family members in the event of the death of the breadwinner.

The main reason for the introduction of the second and third tiers (supplementary pension schemes) is the emerging decline in the earnings replacement rate when receiving a pension from the state pension scheme, which forms the first tier.

The second tier of the Italian pension system is represented by a supplementary pension, which comes exclusively from non-state pension funds. A supplementary pension is an instrument that allows the integration of the mandatory and supplementary pensions at the time of retirement. The supplementary pension does not replace the mandatory pension.

It creates an individual account for each employee, to which contributions are made and which is then invested in financial instruments (shares, bonds, debentures, units in investment funds) on the financial market. The performance of the financial market determines the profitability of these instruments and the choice of management method.

Following the reform, non-state pension funds can be divided into three categories: contractual pension funds, open pension funds and individual pension plans, which are in effect insurance policies.

Contractual pension funds are closed, created for the benefit of certain categories of employees, such as private employees belonging to the same contractual category, the same company or group of companies, the same territory; family members of the employee, if provided for in the fund's charter; public servants belonging to certain industries; members of worker cooperatives; private entrepreneurs and freelancers engaged in certain types of activities.

Open pension funds are a source of supplementary pensions that can be subscribed to by anyone who wishes to receive a supplementary pension, regardless of their employment status. A characteristic of open funds, as opposed to professional funds, is the possibility to directly manage the resources received by the fund. The entities that can set up open pension

funds are banks, asset management companies, brokerage firms and insurance companies. The assets of the fund are independent of the assets of the companies. In the event of bankruptcy of the company that set up the fund, the assets of the open pension fund cannot be used to satisfy creditors' claims. Unemployed persons can also join an open pension fund [12, p. 182].

There are open pension funds that implement personal pension plans for individuals. The advantage of this form is the ability to suspend and then resume contributions.

The third tier of the Italian pension system is represented by various forms of asset preservation, which is achieved through instruments such as life insurance policies, mutual funds, postal savings certificates and bonds.

Currently, an Italian citizen can become a full pensioner at the age of 66. This is the retirement age for both men and women. A few years ago, these limits were a few months lower. The increase in the retirement age is due to the rapid acceleration of the population ageing process.

The Anglo-Saxon pension system (except in the UK, which is used in the Netherlands and Ireland) is characterised by a large number of occupational pension plans set up by private pension funds. Pension systems can also be set up for two or three people. By choosing pension products, new participants join existing pyramid-based systems [21, p. 200].

Based on the cross-country comparison, it can be concluded that the dominant place in the structure of the pension systems of the countries under study is occupied by pension funds, which are the instrument for the implementation of pension provision.

A large company usually establishes a non-state pension fund to provide supplementary pensions to its employees in order to attract and retain qualified employees. Contributions to the supplementary pension are usually made by both the company and the employee. Since 1978, England has been "privatising" state pension liabilities – "outsourcing". A company can assume the state's obligations to pay an additional pension at its own discretion. The incentive for this is a significant reduction in mandatory pension contributions to the Ministry of Social Protection.

To receive the maximum pension of 2/3 of the salary for the last period before retirement, a person must work for the company for 20 years. This period can be shortened by paying increased contributions to a non-state pension fund – up to 15% of the salary. Notably, these amounts are not taxed.

The pension fund develops pension plans, keeps records of contributions and benefits, calculates its future obligations and sets the terms of the management company's return. The pension fund does not invest, but rather operates under a contract with the fund of the management company.

The strategy of asset management companies is determined by the client, the pension fund. Mature companies and funds that have been operating for a long time have many pensioners whose pension benefits are equal to or exceed their income; the most important thing is a guaranteed income. They have laid down a strategy of investing in government bonds and, to a lesser extent, in bonds. If a fund is "young", its liabilities will come due in several decades, and it can invest in shares of promising companies that promise long-term returns [18, p. 6].

The history of private pension funds in the UK goes back about three hundred years. According to many economists, the rapid development of capitalism in this country would not have been possible without private pension funds: market participants invest money over a long period of time, it is not withdrawn, and therefore, this money can be invested again and again.

Public confidence in a pension system is the best indicator of its reliability and efficiency. In England, there is a special official, the Ombudsman, responsible for overseeing the implementation of pension fund legislation, and his decisions are binding. Every citizen has the right to complain about violations of their rights in this area. Naturally, there are abuses in this area, too.

The Finnish pension system consists of two complementary tiers: an occupational pension and a state (guaranteed) pension. The first pillar is financed by pension contributions from employers and employees. The amount of this pension depends on the length of service and salary of the employee, but cannot exceed 60% of the salary of the employee receiving the occupational pension [13, p. 34].

In Finland, the Centre for Pensions acts as a coordinator between private insurance companies and public pension funds. It also informs employees about the amount of money they have accumulated, which helps to raise awareness of pension issues. However, issues related to the payment of pensions and insurance contributions are regulated by Finnish law.

The state is responsible for providing the national (guaranteed) pension. The amount of the national pension depends on the citizen's income, length of service, marital status and length of residence in Finland. The right to

a national pension is granted to citizens who have not been able to accumulate a certain amount of labour income necessary for a decent standard of living and who have not yet reached retirement age (in Finland, the retirement age for men and women is the same, i.e., 65 years).

As in many countries, the US pension system is divided into two components: mandatory public insurance and voluntary private insurance. Under public insurance, the employee pays social security contributions of 7.65% of wages to the pension fund, and the employer pays the same amount. Thus, the total contribution is 15.3%. For employed persons, both the employee and the employer pay a total of 15.3%. Income not related to employment, including interest on bank deposits and bonds, dividends, income from securities transactions and pension tax, is not taxed [19, p. 80].

However, the public pension system cannot provide an American with a decent standard of living in retirement because the replacement rate of pensions is only 30%. By comparison, 70-80% is sufficient to maintain a normal lifestyle. To reduce the gap between the income of a worker and that of a retiree, the United States has several voluntary retirement plans that can be used to accumulate funds for future pensions.

The U.S. pension system consists of three tiers: public pensions, private (corporate) pensions and personal pensions. The first tier is financed by a pension tax that is mandatory for all employees and employers. The tax rate is 6.2% of the employee's income and 6.2% of the employer's payroll.

Second tier. Corporate pensions are one of the types of bonus compensation (deferred compensation) common in the United States. Corporate pension plans are usually negotiated directly between the employee and the employer. The third tier of the US pension system is represented by personal pension savings, which depend on the individual's participation in the formation of their future pension.

It is evident that the state pension system performs primarily a social function, while corporate and personal pension systems are not only one of the main sources of attracting long-term investments into the country, but also provide pensioners with a decent standard of living after retirement [3, p. 188].

In the US, the market for voluntary retirement savings consists of pension and mutual funds, annuities and investment products (accounts and plans). Individuals are offered retirement accounts and corporate employees are offered pension plans. Individual pension products differ in terms of

administrative costs, tax incentives and simplicity of schemes. People can choose the appropriate programme depending on their income, age and marital status.

Employers' economic plans consist of two main alternatives – defined contribution and defined benefit pension systems. However, performance-based systems are problematic in a falling stock market environment, as investment returns are steadily declining. Many of them face the problem of insufficient funding, which US law requires corporations to address at their own expense. The US private pension system is on the verge of a crisis.

The Japanese pension system consists of basic and state (occupational) pensions. Basic pensions represent the first tier, which is funded by pension contributions from insured individuals, employers and government subsidies, which generally do not exceed 1/3 of the total pension fund. All Japanese citizens who have reached the retirement age (the retirement age in Japan for men is the same as for women and is 65 years) and have completed a certain period of service are eligible to receive the basic pension.

It is important to note that Japanese citizens can retire much earlier than the retirement age, but in this case, the amount of the pension will be significantly reduced, namely by 25% of its amount. However, for those who prefer to remain in the labour market after reaching retirement age, an annual increase of 5% is expected. The amount of the basic part of the pension is set by the state and is indexed annually to the consumer price index.

The second tier is comprised of state and occupational pensions. The source of funding for this tier is pension contributions from employers and employees. The amount of such contributions, as well as the amount of the accrued pension, depends on the employee's salary within the maximum permissible value set by the state. All Japanese citizens who are insured in the compulsory pension system are entitled to receive such a pension [13, p. 44].

The Chilean pension system is one of the most modern pension systems in the world. Some features of the Chilean pension system are partially used in Ukraine. The innovations of this system are that the responsibility for pension formation is fully transferred to working citizens. This is made possible by the fact that every citizen has a personal pension account, to which insurance contributions of 10% of his or her salary are paid monthly. The accumulated funds are then invested by non-state pension funds or management companies chosen by citizens.

The peculiarity of the Chilean pension system is that the employer does not make any pension contributions on behalf of its employees. This allows the employer to minimise its pension costs and use the freed-up resources to create new jobs. The retirement age in Chile is differentiated: for men it is 65 years, and for women it is 60 years. Earlier retirement is possible provided that the required amount of pension savings is formed [9, p. 20].

However, if a citizen is unable to build up the required amount of pension savings over 20 years of work, he or she is entitled to a minimum pension. This, in turn, creates preconditions for a secret agreement between the employee and the employer to conceal part of the salary, which will increase the state's financial obligations.

A general trend across all industrialised countries should be that more and more attention is being paid to private savings schemes, which are gradually being introduced into the compulsory pension insurance system. In the past, the process of saving under these schemes was random and unsystematic. Companies took on the role of managers in designing pension schemes, with the government playing a regulatory role. Today, state-regulated pension plans funded by employers and individuals play an increasingly important role [14, p. 112].

NPFs invest all or most of their assets in risky instruments through management companies that are professional financial market participants. They usually have higher returns. In addition, each management company ensures the safety of the funds transferred to it for trust management and is responsible for them with all its property. Information on transactions is transmitted by the management companies to specialised custodians who keep records of the securities held by the funds and ensure compliance with the rules for the placement of pension reserves by the management companies and funds. Non-state management companies have much greater investment opportunities than state-owned ones – they can invest in various asset classes, including equities, corporate bonds, regional government securities, deposits with credit institutions, etc.

Under pension agreements, depositors are required to make pension contributions to NPFs, which the fund invests and earns additional income, thereby increasing the amount of funds accumulated in the accounts of fund participants (pension recipients).

Pensions under pension contracts may be paid for life or for a certain period of time upon the occurrence of the grounds for retirement. Upon the death of a participant (before the payment of a non-state pension begins), all funds accumulated in the account become the property of the heirs.

An NPF investor can terminate the pension contract during the accumulated period, receive the redemption amount or transfer it to another fund. The redemption amount cannot be less than the contributions paid and the accumulated guaranteed investment income. Therefore, contract termination will not result in significant losses for consumers. In order to make early termination of pension agreements economically unviable for depositors, funds usually assume that they will lose additional investment income in this case. However, some restricted funds increase sanctions, for example, by imposing various fines.

If a participant receives a pension for a certain period of time, the funds accumulated in his or her pension account are also included in the inheritance. In the case of a lifelong private pension, once pension payments begin, the pension funds accumulated in the participant's account cannot be withdrawn from the fund and are not included in the inheritance, but remain in a special reserve in the fund.

Currently, in the private pension system, the majority of payers (in terms of pension contributions) are legal entities, which solves three problems at once: accumulation of long-term investment resources in the accounts of funds and pension funds – the longest known type of resources, creation of a relatively inexpensive system of staffing, and at the same time solves the problem of social support for employees in old age.

Voluntary pension insurance is the most common way of securing life after retirement in industrialised countries. At the same time, the range of services in the pension sector is very wide. In the foreign market, there are three main tiers of pension systems: the US, continental Europe and the UK. Pension products in these countries are offered by private funds and insurance companies, pension funds, banks and investment companies. However, private pensions are based on two principles – collective and individual investment. These programmes are tailored to the needs of consumers and differ in tax and legal aspects. In addition, the programmes differ in investment plans. These are mixed portfolio forms, including the so-called tracking systems, if the investment process is linked to a market

index or a fixed portfolio of investment instruments. There are also socially responsible investment funds (SRIF), in which the portfolio is formed on the basis of a special calculation methodology [17, p. 88].

Non-state pension systems allow to: form an additional pension independently of the state pension system to receive a total (state and additional) pension in the future; form a future pension depending on one's financial capabilities.

The most desirable equity instruments for pension investments should have the following characteristics: reliability, profitability and, ultimately, liquidity.

3. Ways to Improve Non-State Pension Insurance in Ukraine

The goal of developing non-state pension insurance is to improve living standards, ensure the sustainability of the pension system based on the principles of insurance and accumulation, and strengthen the role of NPFs in the development of voluntary pension insurance.

To achieve these goals, the following steps should be taken:

1. Obtain additional funds to finance pension payments to reduce the income gap between working and retired people.

For this purpose, conditions should be created that would encourage individuals and employers to build pension savings through NPFs and insurance companies.

2. Strengthening public and company confidence in the private pension system and improving pension literacy should be done in the following way:

First of all, this is the use of all information policy mechanisms with state support. In order to obtain reliable information on the status of non-state pensions, it is necessary to create a unified system of monitoring non-state pensions and mandatory cumulative pension insurance, including a unified system of independent actuarial assessment of capital market funds. It is also necessary to provide information support on the basis of the State Programme for the Development of Private Pensions in order to improve pension literacy: increasing social advertising in the media, providing information through thematic television and radio programmes, newspapers and magazines, educational programmes, etc.

To this end, it is necessary to develop a legislative framework for an information and awareness campaign that would bring each employee

and his or her employer closer to understanding the importance of private pension provision as a mechanism for ensuring personal well-being and implementing the social responsibility of each employer.

3. Creation of a favourable tax climate. In this case, it is proposed to bring the principles of taxation of NPFs in line with international practice – no taxation of contributions and capital gains, and pensions will be subject to income tax.

4. Improvement of the permitted instruments for the placement of pension reserves, investment of pension savings, and improvement of requirements for the placement of insurance reserves.

The current practice of state regulation of the distribution of pension reserves is based on the imposition of strict quantitative and qualitative restrictions that create unreasonable barriers to the operation of NPFs.

5. Expansion of the list of instruments for placing pension reserves and investing pension savings should be achieved through the development and implementation of reliable long-term instruments in the financial markets and the introduction of additional asset quality indicators.

6. Strengthening requirements for the reliability and sustainability of non-state pension funds.

For the successful development of private pension provision and long-term life insurance, a system of guarantees independent of markets is needed. For example, deposit insurance is common abroad [11, p. 73].

The requirements for the minimum amount of resources for foundations that are supposed to participate in state programmes of co-financing voluntary contributions from citizens should be tightened.

The purpose of the non-state pension system is to supplement the solidarity system of the compulsory state pension insurance (tier 1) and thus to guarantee an adequate standard of living after retirement.

An individual pension system can only be introduced under certain conditions. First, society must have a good understanding of and trust in non-state financial institutions and instruments. Second, reliable financial instruments and markets should stimulate domestic investment and job creation. Third, due to the high administrative requirements of the funded system, the private sector must have significant administrative capacity [7, p. 136].

Currently, the private pension system (tier 3) does not encourage people to save effectively for retirement. It is too expensive and does not provide

sufficient investment income. Participation in the system is low, and the perception of the system is negative.

Given the time needed for capital markets to develop and provide financial instruments for investing pension assets, consideration should be given to introducing tax-free, voluntary, automatic individual savings accounts in banks in the short term. Such accounts could be modelled on the simple system of individual retirement accounts in the United States. To create adequate and limited financial incentives (tax breaks) for the placement of savings, such as individual pension accounts, bank savings accounts or government bonds, the necessary legislative changes should be made. Banks could offer these financial products to retail investors/individuals with low service fees. Withdrawals from voluntary pension accounts could be allowed upon reaching a certain age or upon the occurrence of a certain life event.

International experience shows that the development of pension systems should be based on five elements:

1. Soft coercion in the form of automatic enrolment and automatic contribution increases can increase the number of participants in defined contribution pension schemes and help them earn acceptable contributions. To get people to save for retirement, inertia needs to be exploited.

2. Well-designed automatic "standard" options (for passive investors) help people who cannot or do not want to choose a contribution rate, pension fund, investment strategy or pension product.

3. Simplifying information and choices encourages people to make the best possible choices. This can be achieved through web-based applications by reducing the number of investment options, improving disclosure or making it easier to compare existing options.

4. Financial incentives should be strengthened to promote participation in private pensions, as their power is based on human nature, which responds to immediate benefits. Automatic registration in the system should be linked to specific incentives, such as additional contributions by the employer and/or the state (experience of the UK, New Zealand, Georgia, Poland and other countries).

5. Consider the fees charged by financial intermediaries that reduce the real capital gains from pension investments. As John Bogle said: "When it comes to capital expenditure, time is no longer your friend." Voluntary and

quasi-compulsory pension plans should focus on controlling service costs and creating the lowest-cost savings mechanisms – for example, investing in international mutual funds or in exchange-traded funds that track stock indices, such as the 8&R 500 or Dow Jones and other industrialised country stock indices (hence the name "index funds").

In Ukraine, there is a need to increase the number of participants in supplementary funded pension schemes. However, proposals to create a mandatory savings system (tier 2), including contributions from NPFs, are imperfect. Domestic NPFs are too expensive for participants, do not inspire confidence among the population and are not well known to ordinary Ukrainians to be a reliable basis for the second tier. A more urgent need is to reform and revitalise the capital market as a whole and create new financial instruments that meet the needs of long-term pension fund investments.

More and more countries are encouraging their citizens to ensure a decent standard of living after retirement. This is done through automatic enrolment in a voluntary or quasi-compulsory contributory pension scheme. In this case, pension contributions are made by the employer, the employee or both. Such pension schemes typically offer equal conditions for participants (e.g., 2% paid by the employer and 2% by the employee) and/or a direct contribution from the state (or through tax benefits). Contribution rates vary widely, and in most countries, mandatory contributions are regularly increased to ensure that the pension fund is sufficiently funded. It should be noted that most plans usually allow employees to leave the company. In addition to automatic enrolment, automatic contribution increases are often used (employee contribution rates are automatically increased each year until each employee reaches the target savings level) to help employees reach their planned retirement income [5, p. 91].

The main goal of the pension reform should be to solve the following main tasks: creation of conditions for sustainable development of the state pension system and improvement of the pension management system.

The main steps of the reform are as follows:

1. Optimisation of the level of labour and social pensions for pensioners who have sufficient savings for their old age.

2. Development of mandatory pension schemes for the working-age population, which are accumulated in existing pension accounts in non-state pension funds.

3. Voluntary pension contributions from non-state pension funds.

The second step involves the development of non-state supplementary pensions to the state pension, which takes the form of additional pension schemes for individual enterprises, economic sectors, regions, and pension insurance.

At the third step, the introduction of voluntary pension assets into non-state pension funds depends on the financial stability of the economy. Thus, the domestic pension system needs to be further reformed in line with international standards.

4. Conclusions

1. Non-state pension insurance is a set of legal, economic, social, moral and psychological guarantees for the elderly, creating equal conditions for all members of society and ensuring a socially acceptable quality of life. On the one hand, old-age provision is a functional system (a system of activities). On the other hand, it is an institutional system (a system of institutions). The NPF collects pension savings and organises their investment, accounting, allocation and payment of the funded part of the insurance pension. In this respect, it is possible to emphasise the purpose of the creation of the NPF – to improve the quality of services for pensioners and the efficiency of the pension system.

2. Non-state pension funds are a fairly new segment in the Ukrainian financial market. In Ukraine, non-state pension funds provide non-state pension insurance services. They may conclude contracts with individuals and legal entities under existing pension schemes on the basis of individual or joint pension accounts. The main source of pension payments under non-state pension insurance is pension reserves, which are formed from deposits and investment income.

3. Thus, the non-state pension insurance system in Ukraine plays a very important role for citizens and the entire financial system of the country. Thanks to its introduction, in addition to state pension payments, each participant will be able to accumulate funds in the accounts of non-state pension funds. This will improve the quality of life of retired citizens, help them avoid poverty, and accelerate the development of the financial market by accumulating funds in the long term.

4. An important element of pension reform in foreign countries is the growing importance of the funded part of the pension. It is the funded part

that is seen as a tool to reduce the dependence of the pension system on demographic trends and increase the overall level of pension payments. Undoubtedly, when developing a new pension model, Ukraine needs to be guided by new foreign pension systems, while not forgetting its own specifics, determined by factors such as the level of pensioners' income and the level of development.

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