

УДК 369.542

K. Demchenko

SIGNIFICANCE OF FOREIGN COUNTRIES' EXPERIENCE IN THE PENSION PROVISION SECTOR FOR DEVELOPING THE PENSION SYSTEM IN UKRAINE

This article analysed the foreign pension provision experience and aim to examine key indicators of the pension system. An analysis of the strengths of foreign models of pension systems was provided. Particular attention was drawn to the current condition of the pension system in Ukraine, and relevant conclusions were made based on recent research.

Key words: *pension system, the inflation rate, life expectancy, pension provision, minimum cost of living.*

Problem statement. Current Ukrainian pension system does not provide enough pension provision for retired people to live. The situation is getting worse due to several reasons. That is why there is strong need to analyse foreign experience in pension provision and implement the most successful one in Ukraine in order to improve current condition of pension system in Ukraine.

Study, results and discussion. The works of Ukrainian economists such as Iashnyk G.L., Filipchuk P.V. and Ovcharenko I. I. considered the foreign experience of pension system reformation, but there is still a gap in analysing the mandatory accumulation pension provision.

The aim of this paper is to analyse successful experiences of pension system around the world and examine conditions needed for efficient pension system reform.

Methods. The work on this paper utilizes the following methods: comparison, analysis, synthesis, generalization and measurement.

Facing the deteriorating demographic situation connected with an aging population, maintaining the well-being of people who have lost ability to work is a difficult problem. One of the most important components of social protection system of any state is a pension provision of its citizens. Nowadays almost all countries around the world face with the problem of aging population. Every year the number of people over 65 years steadily increase. Fig. 1 shows the demographic situation around the world [1].

As seen from the graph, every year there are more and more people over 65 around the world. This implies a smaller amount of active working people who can contribute to Pension Funds. There are three basic pension institutions, the combination of which allows the government to get different models of pension systems:

1. Social assistance. This is the state redistribution program, which exists in most countries. Its purpose is to reduce poverty among the old generation.

2. Mandatory pension insurance of employed and self-employed people.

3. Personal pension insurance, which is an extension or in some cases, replacement of the second institute, based on citizens' financial capabilities and the real impact on their life quality after their professional career. In some countries, this insurance plays the role of the main self-defence mechanism for the retirement period. The use of all three components allows the government to organize the most reliable pension system.

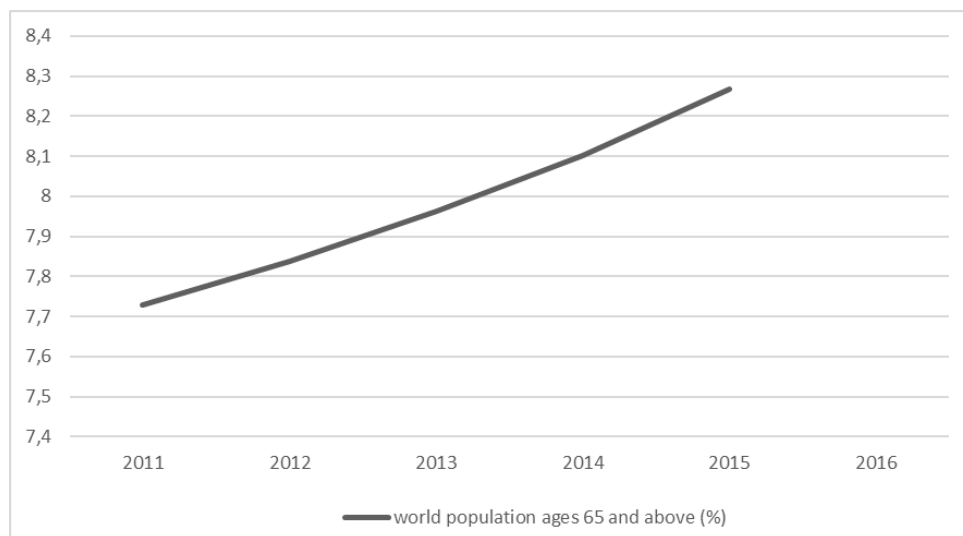


Fig. 1. World population ages 65 and above (% of total) during the period 2011–2016

As there is tendency of aging population around world, Ukraine also has a big increase in the number of people over 65. Nowadays Ukraine faces the pension provision problem. One of the main reasons is the rapid aging of the population. Significant increase in the number of pensioners and a reduction in the economically active population force the country to look for the most acceptable model of pension system construction, supported by reliable resources. Fig. 2 shows the quantity of people over 65 years [2].

According to this graph, it is seen that during six years period the number of people over 65 increased by 73.9 thousands of people.

For a complete analysis of the pension system, the level of economic development, inflation rate, the minimum cost of living, birth rate, the quality of life of the population, the period of retirement, and the size of pensions should be considered.

The table 1 shows the rating of pensions systems of Switzerland, Norway, Germany, USA, UK, Australia, Belarus, Russian Federation and Ukraine. Several indicators such as Capability, Health status, Income security and enabling environments constitute the Global Age Watch Index, which evaluates pensions systems. In order to see dynamic change in Global Age Watch Index during the period 2013-2015 there is strong need to consider the table 1 and Fig. 3 [3].

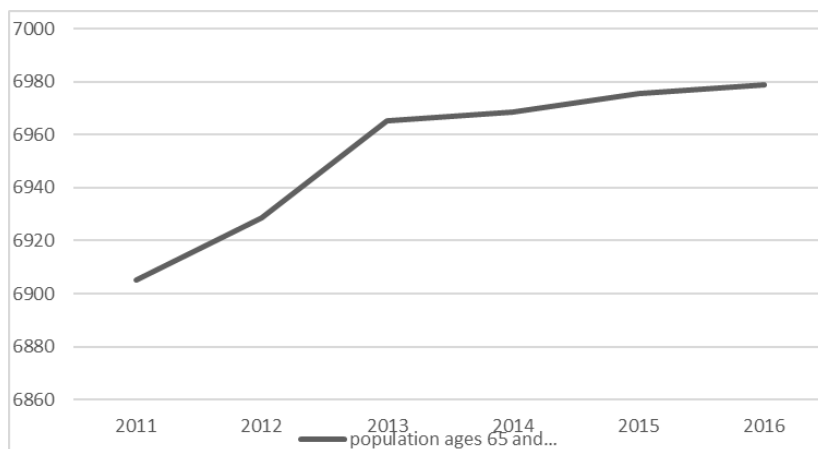


Fig. 2. Population ages 65 and above (thousands of people) during the period 2011–2016 in Ukraine

Table 1

Global Age Watch Index during the period 2013–2015

World Rank 2015	Country (97 countries)	World Rank 2014	Country (96 countries)	World Rank 2013	Country (91 countries)
1	Switzerland	1	Norway	2	Norway
2	Norway	3	Switzerland	3	Germany
4	Germany	5	Germany	6	Switzerland
9	USA	8	USA	8	USA
10	UK	11	UK	13	UK
17	Australia	13	Australia	14	Australia
64	Belarus	64	Belarus	60	Belarus
65	Russian Federation	65	Russian Federation	78	Russian Federation
73	Ukraine	82	Ukraine	66	Ukraine

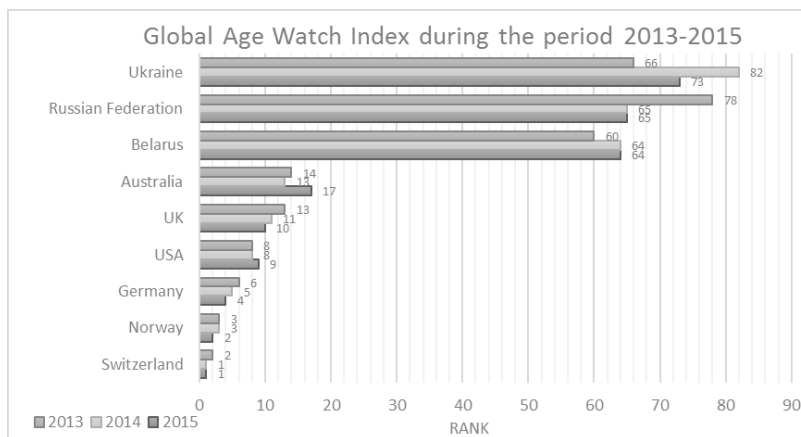


Fig. 3. Global Age Watch Index during the period 2013–2015

The graph illustrates how countries from post-Soviet area have lower ranking on Global Age Watch Index, but Ukraine takes the worst position among these countries. One reason for this situation is that the majority of these countries have only solidarity system and nowadays suffer from an unstable economic condition, which also has influences on the pension system of the country.

Life expectancy will be considered at the age of 60 in the Table 2 in order to understand the longevity of people life in different countries [3].

Table 2

Life expectancy at the age of 60

Country	Number of years
Switzerland	25
Norway	24
Germany	24
USA	23
UK	24
Australia	25
Belarus	19
Russian Federation	17
Ukraine	11

This table shows that Ukraine has the lowest longevity of life after 60 years old. This has several reasons such as poor quality of medication, low amount of income especially pension provision and bad environmental condition. That means that it does not make sense for Ukrainian people especially for men to pay taxes during their employment period because after retirement there is in average short period that person can live. Table 3 shows the retirement age in 2016. Almost in all countries, we can see that the government will increase more the retirement age in a certain period [3].

Table 3

Retirement age 2016

Country	Men	Women	Notes
Switzerland	65	64	Retirement age is to be increased gradually to 67 years in 2020
Norway	67	67	
Germany	65 years 4 month	65 years 3 month	Retirement age is to be increased gradually to 67 years in 2029
USA	66	66	
UK	65	63	Retirement age is to be increased gradually to 67 years between 2016 and 2028
Australia	65	65	Retirement age is to be increased gradually to 67 years by July 2023
Belarus	60	55	
Russian Federation	60	55	
Ukraine	60	57	Retirement age is to be increased gradually for men to 62 and for women 60

Here we can see that among Post-Soviet countries only Ukraine is going to increase the retirement age despite having shorter life expectancy. Ukraine tries to have similar retirement age with more developed countries but the government does not take into consideration the poor quality of life, low income and high rate of inflation.

Analysis of the data shows that in all the countries around the world there is a trend of an aging population. The trend of aging population, including the increase in the number and older people proportion significantly affect the pension system. Solidarity system, in which the economically active population contributes to the pension fund by making regular monthly payment from their salaries, is inefficient for this population demography. Cumulative principles should be mandatory in this situation. Unfortunately, the pension system in Ukraine is planned to go in a completely different direction, offering to encourage only the principles of distribution without the cumulative part of pension system, which plays an integral role in the sufficient operation of the pension system [4].

The increasing trend of the older population deepens the financial burden on the working people. The number of employed people per one retiree is steadily decreasing. There are 13.5 million pensioners and only 13 million active, legally employed people.

In order to understand the current condition of country's economy there is strong need to consider macroeconomic indexes such as the amount of Nominal GDP and rate of inflation that directly influence pension system. Table 4 and table 5 provide some insights into the economic situation in Ukraine [2].

Table 4

The amount of Nominal GDP during the period 2014–2016

Country	World Rank 2016 (190 countries)	GDP 2014 (billion USD)	GDP 2015 (billion USD)	GDP 2016 (billion USD)
Switzerland	19	712.050	717.880	662.483
Norway	30	500.244	386.578	376.268
Germany	4	3859.547	3363.447	3494.898
USA	1	17418.925	18036.648	18561.934
UK	5	2945.146	2858.003	2649.893
Australia	13	144.189	1339.141	1256.640
Belarus	82	76.1	54.609	48.126
Russian Federation	12		1331.208	1267.754
Ukraine	66	133.503	90.615	87.198

In 2014, Ukraine had quite high nominal GDP but due to unstable politic situation, real GDP faces a steep fall.

From the Fig.4, we can say that Russian Federation and Belarus also have sharp decrease in the GDP amount. The reasons are unexpected oil price drop in Russia and insufficient volume of crude oil processed in Belarus.

One more important index is the rate of inflation that has direct influence on pensioners' life and country economy. Table 5 shows the yearly rate of inflation during the period 2014–2016 [1].

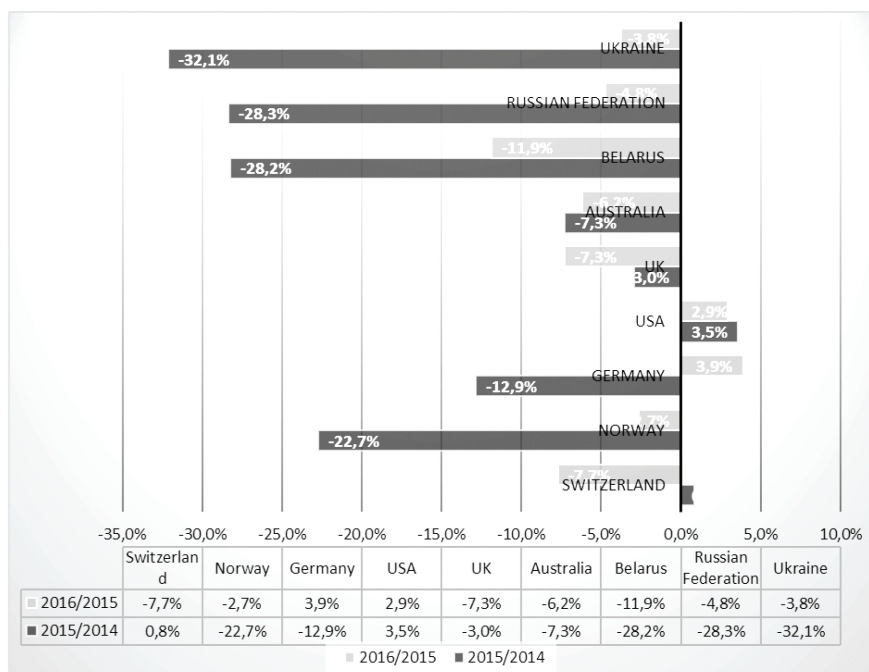


Fig. 4. The change in Nominal GDP during the period 2014–2016, (%)

Table 5

Yearly Level of inflation during the period 2014–2016, (%)

Country	2016	2015	2014
Switzerland	0.349	0.3	0.22
Norway	2.759	2.07	2.24
Germany	1.885	0.23	1.34
USA	2.500	2.1	1.7
UK	1.909	1.2	0.9
Country	2016	2015	2014
Australia	1.5	1.3	2.9
Belarus	10.58	13.5	18.1
Russian Federation	5.391	16.71	14.98
Ukraine	15.06	48.5	24.9

In 2015, Ukraine was in the country with the highest rate of inflation. That happened because there was significant decrease of goods quantity due to steep fall in production caused by the unstable situation in the country, which forced many entrepreneurs to shut down their businesses. In 2016, Ukraine took the 10th place of the highest inflation in the world. The prices increased substantially but wages and pension provision were on the same level as before (Fig. 5) [5].

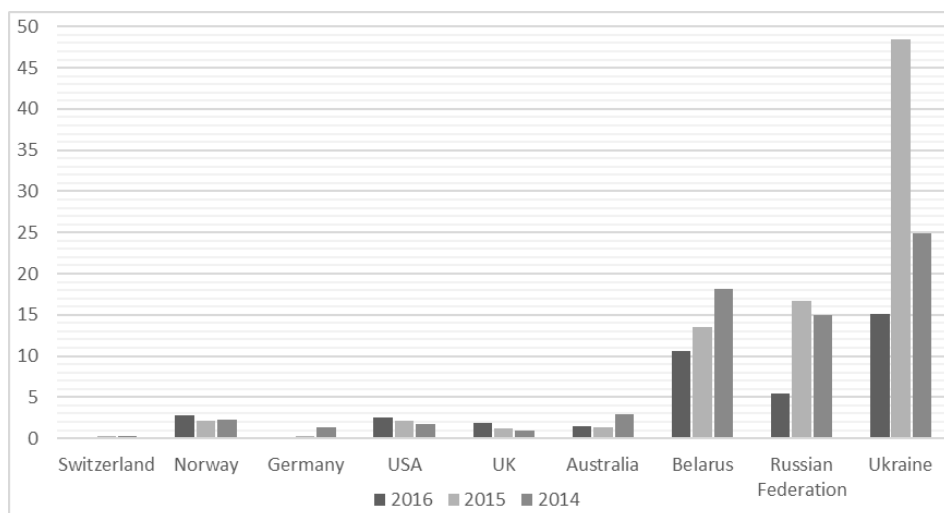


Fig. 5. Yearly Level of inflation during the period 2014–2016, (%)

Due to high level of inflation the exchange rate between UAH/USD and UAH/EUR rose by three times.

In order to evaluate the quality of life of retired people such indexes as monthly minimum cost of living and minimum pension provision will be considered in Table 6 and Table 7 [2].

Table 6

Monthly Minimum Cost of living in 2016

Country	Monthly Minimum cost of living (USD)
Switzerland	1200
Norway	1800
Germany	835
USA	2371
UK	1050
Australia	1095
Belarus	90
Russian Federation	173
Ukraine	50

As can be seen from this table, Ukraine has extremely low monthly minimum cost of living. Having quite high GDP and so low monthly minimum cost of living implies a large inequality in income distribution in Ukraine (Fig. 6). Many people in Ukraine belong to the upper class as well many people belong to the lower class, but there are fewer middle class people [6].

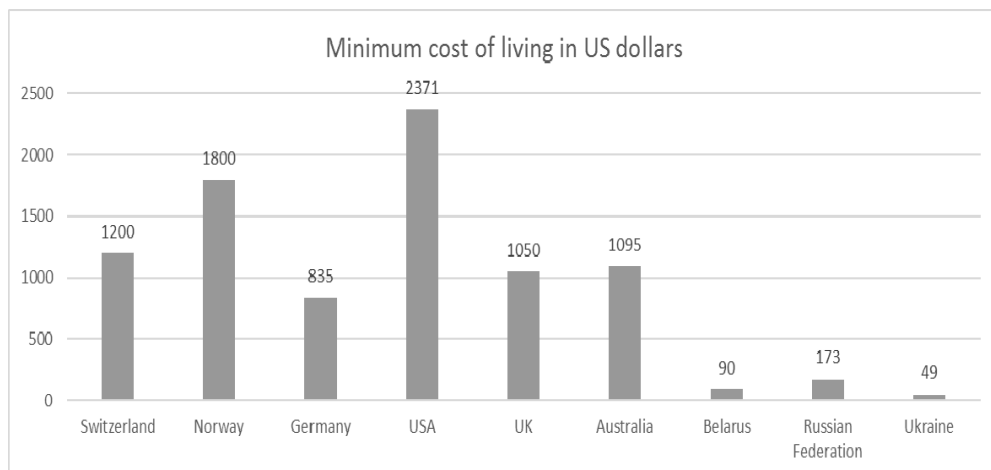


Fig. 6. Monthly Minimum cost of living in 2016

Due to high rate of inflation, high prices on food, clothes, medication and housing, many people barely make ends meet.

As all countries considered in this article except Ukraine, Russian Federation and Belarus have well-developed three level pension systems, it is difficult to find their minimum pension provision. Ukraine, Russian Federation and Belarus's old fashioned, poor-functioned pension system allows for calculation of the minimum pension provision [2].

Table 7

Minimum pension provision in 2016

Country	Minimum pension provision (USD)
Ukraine	45
Russian Federation	137
Belarus	90

In order to make clear what kind of situation these post-soviet countries have in pension sector, the difference between monthly minimum cost of living and minimum pension provision should be calculated.

Table 8 provides Difference between Monthly Minimum Cost of living and Minimum pension provision.

Table 8

Difference between Monthly Minimum Cost of living and Minimum pension provision

Country	Difference between Monthly Minimum Cost of living and Minimum pension provision (USD)
Ukraine	5
Russian Federation	36
Belarus	0

Compare to the minimum cost of living we can conclude that pensioner could not survive only on the pension provision without any extra deposits that they could save during their employment [7].

Analysing all data mentioned above we can make a conclusion that Ukraine is suffering from the great economic recession not only in the pension system but also in the general economic condition. The pension reform should only be implemented after all three levels of pension systems have worked. The government is planning to implement this reform during 2017, but the reform will be inefficient due to the significant economic decline. In order to implement this reform effectively the country should have at least two years of growing GDP, low rate of inflation, and equality between minimum cost of living and minimum pension provision. Only after stabilizing these indicators will the government be able to do pension reform [8, 9].

Conclusion. A Ukrainian citizen relies completely on the government concerning the pension provision, whereas the citizen of a developed country (in Europe or the United States) views the topic differently. For him, the state also plays a big role, but it is equally important to accumulate money for retirement by himself.

All countries that we considered in this article have achieved some success in the development of effective pension system. The analysis of the different pension models gives us an ability to suggest that in the current circumstances, the most effective type of pension system is a mixed one. Only way to improve current condition of pension system in Ukraine is to implement accumulative system and non-governmental funds that will give a possibility for citizens not only rely on the government but also accumulate their money by themselves.

Bibliography

1. Worldbank.org [Electronic resource]: The World Bank Data, 2016. – Available at: <http://www.data.worldbank.org/>
2. Ukrstat.gov.ua [Electronic resource]: Державна служба статистики, 2016. – Available at: <http://www.ukrstat.gov.ua>
3. Globalagewatch [Electronic resource]: Global Age Watch Index, 2015. – Available at: <http://www.helpage.org/globalagewatch/>
4. Міхалькіна Е.В. Накопичувальні механізми пенсійного забезпечення / Е.В. Міхалькіна, С.А. Пісанка. – К.: Наук. Думка, 2004. – 310 с.
5. Шестакова Е. Досвід запровадження багаторівневих пенсійних систем у держав Східної Європи та США: загальні підходи і особливості / Е. Шестакова // Трудове право. – 2004. – № 2. – С. 79–85.
6. Tradingeconomics [Electronic resource]: Trading Economics, 2016. – Available at: <http://www.tradingeconomics.com/>
7. Зирянова Т. Зарубіжний і вітчизняний досвід регулювання пенсійної системи / Т. Зирянова, Е. Кот // Бухгалтерський облік в бюджетних і некомерційних організаціях. – 2007. – № 2. – С. 45–50.
8. Поік В.Д. Пенсійна реформа: результати та перспектива / В.Д. Поік. – К.: Наук. Думка, 2004. – 236 с.

9. Малютіна М. Макроекономічні аспекти реформи системи пенсійного забезпечення: аналіз моделі пересічних поколінь / М. Малютіна // *Економіка і математичні методи*. – 2013. – № 1. – С. 63–75.

References

1. The World Bank Data (2016). Available at: <http://data.worldbank.org/> (Accessed 20 October, 2016)
2. State Statistic Service (2016). Available at: <http://www.ukrstat.gov.ua> (Accessed 20 October, 2016)
3. Global Age Watch Index (2015). Available at: <http://www.helpage.org/globalagewatch/> (Accessed 20 October, 2016)
4. Mihalkina, E.V., Pisanka, S.A. (2004). *Nakopitel'nye mehanizmy pensionnogo obespechenija*, [Accumulative mechanisms of pension provision]. Moscow, 310 p.
5. Shestakova, E.E. (2004). *Opyt vvedenija mnogourovnevnyh pensionnyh sistem v gosudarstvah Vostochnoj Evropy i SShA: obshhie podhody i osobennosti* [Experience in management of multi levels pension systems in Eastern Europe countries and USA: common methods and peculiarities]. *Trudovoe pravo* [Labour Law]. No. 2. pp. 79-85.
6. Trading economics (2016). Available at: <http://www.tradingeconomics.com/> (Accessed 20 November, 2016).
7. Zyrjanova, T.V. (2007). *Zarubezhnyj i otechestvennyj opyt regulirovanija pensionnoj sistemy* [Foreign and localexperience of pension system managment]. *Buhgalterskij uchet v bjudzhetnyh i nekommercheskih organizacijah* [Accounting in governmental and non-governmental organizations], no. 2, pp. 45-50.
8. Roik, V.D. (2004). *Pensionnaja reforma: rezul'taty i perspektiva, Pensionnye fondy i investicii* [Pension reform: results and perspective, Pension funds and investments]. Moscow, 236 p.
9. Maljutina, M.S. (2013). *Makroekonomicheskie aspekty reformy sistemy pensionnogo obespechenija: analiz modeli peresekajushhihsja pokolenij* [Macroeconomics aspects of pension provison reform: analysis of crossing generation model]. *Ekonomika i matematicheskie metody* [Economics and mathematical methods], no.1. pp. 63-75.

Стаття присвячена аналізу зарубіжного досвіду пенсійного забезпечення. У статті ставиться завдання розглянути основні показники пенсійної системи. У результаті аналізу були виявлені сильні сторони моделей зарубіжних пенсійних систем. Особлива увага звертається на сьогодинішній стан пенсійного забезпечення в Україні. На основі проведеного дослідження було зроблено актуальні висновки.

Ключові слова: пенсійна система, рівень інфляції, рівень тривалості життя, пенсійні виплати, мінімальний прожитковий мінімум.

Статья посвящена анализу зарубежного опыта пенсионного обеспечения. В статье ставится задача рассмотреть основные показатели пенсионной системы. В результате анализа были выявлены сильные стороны моделей зарубежных пенсионных систем.

тем. Особое внимание обращается на сегодняшнее состояние пенсионного обеспечения в Украине. На основе проведенного исследования были сделаны актуальные выводы.

Ключевые слова: пенсионная система, уровень инфляции, уровень продолжительности жизни, пенсионные выплаты, минимальный прожиточный минимум.

Одержано 28.11.2016