

Reforming the Pension System during Globalization Process: Experience of Ukraine and the CIS Countries

Oksana KHORVATOVA

Ph.D in Law, Head of Commercial and International Law sub-faculty of “European University” private institution of higher education, UKRAINE

Abstract

In the article modern reasons and terms of reform bay the system of the pension providing are analyzed in some European states. Determination of concept of pension is given, pension providing, basic legislative guarantees over of providing of pension reformation, and also primary objectives and directions of pension reform, are brought in Ukraine.

Key words: *Globalization, pension, pension providing, pension reform, life insurance.*

The transition to market relations, a process taking place in ex-Soviet states in the past twenty years, leads to the inevitable reformation of the pension system. These reforms are necessitated by the fact that the number of retirees is rapidly growing, and soon will outnumber the working population. Given this negative demographic factor, current heads of many states face a difficult choice: to raise the retirement age to 65 years or to have by 2050 half of the country's population comprised of retirees with miserly pension. And Ukraine is no exception from the problem of pension reform.

It is worth noting that by definition, retirement is a period of worry-free pastime, i.e. the time when a man 'reaps' the harvest of his lifetime labor. It is the time when a citizen is vulnerable like never before, because as a rule, he's no longer able to earn money, thus facing an acute need in certain social insurance. In Soviet times, right of the citizens to material provision in old age, during disability and illness was provided by the Constitution of the USSR as one of the state's priority objectives. Pension provision was guaranteed by the political system which existed back then. Pension provision was fully financed from government and public funds, and the very social status of pensioner was considered honorable.

At the beginning of the 21st century the situation has changed drastically: demographic data shows that currently, the number of retirees is rapidly growing, and today, their number is almost the same as that of the working population. For example, according to data by the Ministry of Social Relations of Ukraine, in 2010 the number of retirees reached 13,721,100 vs the working population of approximately 19 million [5]. And the reasons which caused this situation include not only the ageing of the nation and the increasing number of people of retirement age, but the fact that in Ukraine, large number of people enjoy numerous retirement benefits, whereby people may retire at the age of not 55-60 but even 35 years (for example, military servicemen and law enforcement officers). As a result, we have a situation when the government agencies concerned with pension provision are unable to provide all retirees with even minimum pension. The only progressive way out of this situation seems to be the increase of the retirement age for all citizens, because



otherwise, by 2025 the number of retirees in the country will exceed the working population.

Another, not less important precondition of the pension reform in Ukraine as well as in a number of CIS countries is the desire of these countries to accede to the European Union and work with the International Monetary Fund.

Considering all the aforementioned reasons necessitating the pension reform, and based on the study of experience of pension reforms in Germany, Poland, Italy, Hungary, Austria, Japan, Canada, and the United States, Ukrainian parliament passed a number of legislative acts aimed at the reform of the pension system, including: the 1996 Law of Ukraine On the Insurance (with 2001 amendments concerning pension insurance); the 2003 Law of Ukraine On the Mandatory State Pension Insurance; the 2003 Law of Ukraine On the Non-Governmental Pension Provision; the Program of Economic Reforms for 2010-2014 'Rich Society, Competitive Economy, Efficient State', adopted in 2010.

So, the proposed pension reform envisages direct participation of various financial institutions and organizations in the pension system, which will create a competitive alternative to the government pension provision.

The main goals of the pension reform include voluntary retirement; increase of retirement age; introduction of accumulating level of pension provision with an inheritance option, should beneficiary not reaching the retirement age (accumulating life insurance); reduction of burden on wages; reformation of economy through discontinuation of foreign borrowing; maximum removal of earnings from the 'shadow'; engaging business entities in the participation in pension accumulation system.

Nevertheless, increase of the retirement age will become one of the principal changes instituted by the pension reform in Ukraine, as well as in other CIS countries. In Ukraine, the retirement age will be 60 years for women and 65 years for men. However, these changes will be implemented not at once as the IMF requires for issuing another loan, but gradually, by adding 0.5 years annually, beginning from 1 February 2011 [4]. And that is the most problematic issue for Ukraine today. Although in many European countries, pensions are paid at a later age and the retirement age is equally high for both men and women: 62 years in Slovakia, 65 years in Germany, Sweden, Japan, 67 years in the United States [6].

Overall, the main areas of the pension reform in Ukraine may be narrowed down to the following:

- minimum work experience entitling to a social pension for reaching retirement age (50% of the minimum pension) must be increased from 5 to 15 years;
- minimum work experience from which deductions are withheld to the Pension Fund for a retirement age pension is planned to be increased from 20 to 30 years for women and from 25 to 35 years for men;
- maximum eligibility age for public servants will be increased from 60 to 62 years for men and from 55 to 60 years for women; working pensioners won't receive pension bonuses for an extra work experience (plus 1% on the pension amount per each year of additional work experience: over 30 years for women and over 35 years for men) and additional pay on the minimum subsistence amount when it increases;
- pension amount will depend on the amount of earnings only, disregarding, for example, material assistance, and based only on the personified accounting data (maintained in Ukraine since July 2000);
- amount of the median national income which bears upon the pension amount will be determined for the three calendar years preceding the year of application for pension (today, for example, this amount is calculated for the past one year).

Therefore, reform of the pension system is a logical measure for many CIS countries, which will require not one year and the combined efforts of a number of institutions for its successful implementation. Organizations which may assist in the pension reform include the International Monetary Fund, the European

Bank for Reconstruction and Development, and certain international organizations, for example, USIAD.

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