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Strategic directions for the reform of pension provision in Ukraine

Current state of development of the pension provision in Ukraine is a crisis, the solidarity system is not able to fulfill its state functions of social protection of pensioners. From the collapse of the solidary system hold only allocations from the state budget, which for the last 5 years make up about 45% of the revenues of the Pension Fund. For example, for 2013 year, the budget of the Pension Fund of Ukraine of all legally certain sources of income received 250.5 billion UAH, of which own admission 166.9 billion UAH [1]. The Central source of filling the budget of the Pension Fund is a single fee for obligatory state social insurance. According to article 7 of the law of Ukraine «On the collection and accounting of the single contribution for obligatory state social insurance» base accrual and retention fee includes: wages of employees, remuneration to individuals for execution of works, the payment of the first five days of temporary disability at the expense of the employer, the temporary disablement allowance, benefit or compensation paid in accordance with legislation, financial support [2].

The role of government in pension systems is paramount in the quality of life of its retiring populations. Whether the governmental pension includes medical benefits, disability and survivor benefits, the cash out benefit should always guarantee some basic benefits, however current modern realities indicate that no government pension alone can meet the needs of retirees. Adding the perception and reality of increasing longevity all over the world leads to the conclusion that single governmental pensions are insufficient. Given this reality government policy¬makers, industries and employees need to give the proper incentives and contributions to ensure that the basic benefits from a single central system are supplemented with additional pensions.

In previous years, the government has taken various measures to solve the problems of financial security pensions, but they were not sufficient because they were not systematic and did not bring effective results. During the whole period from the beginning of economic reforms the government has failed to formulate a holistic approach to the regulation of pension provision.

For politicians the most common method to slow down benefits is always the idea of increasing the retirement age, and to increase future benefits the solutions is always to increase current contributions. Both policies are often counter- productive as increasing the retirement age stifles the normal rate of labor substitution between new employees and retiring employees. Postponing the assimilation of younger employees with new skills may be an overall society loss. Increasing contributions may also affect disposable income reducing current consumption and life style. Governments need to be cautions implementing these policies as the desire results may not be accomplished. If government does not implement radical reforms of the PAYG pension system, it may happen that two years Ukraine will find itself in a situation where the budget of the Pension Fund is more than the state budget. In this case, the state will be bankrupt in relation to their retirees.

To increase their own revenues of the Pension Fund by increasing the rate of "pension tax" is impossible, because in Ukraine the rate of contributions for obligatory state pension insurance (payroll charge) and so is almost the highest in the world: for employers - from of 36.76- 49.7% of the wage Fund (in accordance with the classes of professional risk) and for employees of 3.6 % of salary. Similar levels of interest rates were established only in Poland - 35%, Czech Republic - 32.5 %, the Netherlands - 31.1 %, Spain - 28.3% and the average in OECD countries is 21 % [3].

There are five temporary payments (transactions of purchase and sale of foreign currency, jewelry, property, alienation of cars, use cellular services) that together create a significant fiscal pressure on the economy. The situation with the financing of the costs of the Pension Fund, which actually pays a pension citizens only get worse as it is already today one working person for 0.9 pensioners. The proportion of persons who work and retirees approaches 1:1 because of the deteriorating demographics (ageing) [4, p. 93].

National peculiarity of formation of the solidarity pension Fund of Ukraine is the so-called "tax on poverty" namely, since 1998, was entered and valid today limiting the maximum salary, which charge a single social contribution. The brunt of the formation of the pension Fund falls on the poorest segments of the population, while people with incomes above 17 living wages receive undue benefits. For comparison, in Russia analogical size-limiting salary is used for additional recovery of funds in solidarity Fund of the pension system (10 % over limit base - "tax the rich"), remain incorporated in the third stage of development of the pension system the principle of social justice and the principle of solidarity of generations.

The introduction of "social luxury tax", which would have been: revenues over 17 living wages (10%), the market value of previously privatized state property, the cost of luxury items, the area of the leased agricultural land, would form a balanced pension Fund and to ensure a dignified old age people of retirement age by implementing the principles of social responsibility and solidarity between generations.

Governments can create incredible gains by teaching its population to increase the saving rate in favor of increased cash flows when income from salaries and wages will decrease at retirement age. Although it is a risky governmental policy, large pension pools are good source of government financing that if manage well can generate stable income from return in investments.

In capitalist societies there is some level of competition in employee recruitment and retention when companies advertise as a benefit their supplemental pensions which often are offered in terms of a matching benefit. Some industries for example on top of the contributions to retirement through a centralized social security system, offer supplemental pensions with a percentage of salary matched. It is not unusual that employers match a retirement contribution up to 8 % of salaries. It would ideal that governments support and provide incentives to these programs.

The introduction of the second pillar of the pension system is delayed due to low solvency of population and legal entities, as well as the insufficient level of development of the financial market. Even despite the fact that current demographic trends require rapid implementation of the second pillar of the pension system, such implementation will be possible only if the country has reached a high economic growth rate (GDP growth rate), and subject to but definitely the State budget of Ukraine and the budget of the Pension Fund of Ukraine.

The introduction of a second pillar of pension insurance will allow to:

- increase the total amount of pension benefits due to receipt of investment income;
- strengthen the relationship of the size of retirement from the labor of contribution person, and therefore increase the interest of citizens and their employers to pay pension contributions;
- reduce the "tax burden" on the payroll of employers due to the transfer of a part of mandatory pension contributions that will be made from the employee's wages;
- inherit means, recorded on a personal retirement savings account, relatives of the insured person;
- create a powerful source of investment resources for the growth of the national economy;
- spread the risks of low payments of pensions between the first and second level of the pension system, and thus to insure future retirees from the negative demographic trends and fluctuations in the economic development of the state;
- enhance the management of the pension system due to the transmission of non-public companies the function of managing pension assets.

According to experts, the introduction of mandatory funded pension system in Ukraine can become real only under the following conditions: mandatory balanced budget of the Pension Fund; availability of budget deficit no higher than 1% of GDP;

the stability of the economic growth of the country in the last 2 years; the creation of the institutional components of the functioning of the cumulative system, in particular, the proper development of the stock market; the experience of the functioning of the system of non-state pension provision [5, p. 199].

It is evident that given this reality in the modern world, individuals must supplement their future pension levels by contributing to additional pension systems and these systems should be supported by a strong system of governmental incentives. The philosophical tendency to think that we all are the same and deserve equal decent pensions is absurd and unsustainable; therefore governments' most important activity in strengthening the pension system should to support employer/employee pension groups or systems that will ensure that older populations will have decent pensions without facing poverty.

Additional (voluntary) funded system (third level) is designed for those people who want and can do more than usual, savings for retirement. The size of pension payments in the private pension scheme depend on the size of insurance contributions and the period during which such contributions were accumulated, and the amount received on them investment income.

Private pension funds are the largest institutional investors in the stock market. In countries such as USA, UK, Netherlands, Canada, Switzerland the amount of investment of private pension system has more than half of GDP [6, p. 34]. In Ukraine, the total assets of private pension funds are 2381.3 million UAH on 30.06.2014. If you take the data for 2013, there is 0,145 % of GDP (calculated by [7]) and 0,185 % of the total assets of Ukrainian banks (calculated by [7]).

Pension system cannot be static they must be design to meet employees taste and preferences. Deferring current disposable income to increase cash flow in the future should be a very important government policy. The new pension system should gradually, generation by generation, to replace the old system, which is a pyramid scheme and is on the verge of collapse. Pensions should depend only on the personal contribution of a person (the amount of insurance premiums and insurance experience).

In the pension world often small changes in policy or small creative practices may be the best approach to have stronger and better pensions. To do nothing to improve pension rates below poverty rates is irresponsibility on the part of government, employees and employers. Thus, the main strategic directions of pension system of Ukraine are the following: significant improvement of the solidarity pension system and the introduction of the funded pension provision; change the main source of taxation in the formation of revenues of the pension Fund property and resources, as well as individual costs; ensuring a high level of correlation of the size of pension payments made from contributions during employment; matching the ratio of the maximum, minimum, average levels of pension provision and their compliance with the relevant performance pay system.

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