

## Accumulation Pension System: It is Necessary to Pass a Specific Law

### 1. Natalia Vasilievna, what is the status of the Law on Implementing Pillar II pension system?

The framework law of the pension system of Ukraine "On Mandatory State Pension Insurance" provides neither for the concrete date of Pillar II implementation nor the contribution rates. The additional law should be adopted to specify these things.

In December 2006 the Government of Ukraine submitted to the Verkhovna Rada the Draft Law on Pillar II Implementation determining these matters. This Draft Law reviewed by the Verkhovna Rada in the first reading in April 2007 will have to be prepared for the second reading. Currently certain provisions of the framework law on Pillar II require specification and additional work. Some of its provisions are already not in line with the effective legislation.

### 2. What are the prerequisites of Pillar II pension system implementation in Ukraine?

The framework law sets forth that the implementing law shall only be adopted "provided that there has been a growth in the national economy for the last two years, specifically if in each of these years the gross domestic product (GDP) grew at least by 2% as against the preceding year". The optimistic scenario would be for the law to be passed no sooner than in two years and this is on condition that the Government projections of the GDP growth in 2010 and 2011 turn out to be accurate (3.7% and 5.4% respectively).

Moreover, the following requirements will have to be met: full implementation of the personified record-keeping system and ensuring access of the insured individuals to the status of their accumulation pension accounts, the Pension Fund of Ukraine budget's balance according to the International Accounting Standards and ensuring the payment of compensation for the part of insurance contributions lost by the solidarity system from the state budget. It is also necessary to delineate the scope of operation of the Accumulation Pension Fund.

It is important to point out the significant achievements of the Pension Fund of Ukraine relating to the IT improvements and the procedure for filing the reports. We are pleased to know that in the regional offices of the PFU all over Ukraine the information desks have been opened where the insured persons can receive a lot of information needed by them. The PFU has been working to create the unified computer database allowing the pensions to be assigned on the central level. The electronic reporting form has been implemented and monthly reporting of insurers has become effective since January 1 this year. These are very important steps to meet the prerequisites of Pillar II implementation.

### 3. What should be the age of participation in Pillar II for employees?

Currently there are different proposals relating to participation in Pillar II. Namely, it is proposed to start from new employees or from those who are below 25 years old or from those who has turned 39 years old on the date of implementation. When determining the age of participation in Pillar II it is important to make an informed decision based on the actuarial calculations taking into account the following three aspects. The first one being the possibility to ensure financial stability of the Pension Fund of Ukraine, the second one is the ability to ensure a sufficient accumulation period for the system participants to create such savings on their individual accounts which together with their solidarity pension could provide adequate amount of pension benefits and the third aspect being the ability of the financial market to absorb the influx of pension money.

### 4. How should an insurance contribution be split between an employer and an insured individual?

The amount of Pillar II insurance contribution shall also be subject to actuary calculation taking into account financial capacity of the Pension Fund of Ukraine and the ability of the financial market to digest such amount of money. The framework law says that Pillar II contribution cannot exceed 7%. It is determined that that an insured individual is the payer of Pillar II contributions and the employer contributes into the solidarity system. However, this issue is still under discussion. In the process of finalizing the draft law on Pillar II implementation there was a concept whereby an insurance contribution paid by employers to Pillar I should be decreased by the amount of the insurance contribution paid to Pillar II. Employers will deduct this contribution from the salaries of employees that participate in Pillar II. However, there is also a provision that bans to cut down the salary of an employee participating in Pillar II due to the implementation of mandatory Pillar II insurance contributions.

### 5. In our opinion, for how long is it reasonable to maintain solidarity pension system after the implementation of mandatory accumulation system?

Solidarity system is a base of the pension system. Mandatory accumulation pension system is viewed as a supplement to the solidarity system. It is not reasonable to quit the solidarity system completely. In the meanwhile, it must be improved to ensure its long-term financial sustainability.