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## Pension

### What do reforms entail?

**Pension reform in Ukraine is inevitable. All civilized countries went through this, and their experience may be of interest to our citizens. When people are still young, they should think about the pension: weather the retirement age will increase, how advisable it is to reject the current solidarity system – we asked these and other questions of Senior Pension Lawyer of the USAID Capital Market Project, co-author of the Laws of Ukraine “On General Mandatory State Pension Insurance” and “On Non-State Pension Provision” Natalia Goriuk.**

### – What is the status of the law on implementing Pillar II of the pension system?

– The Law of Ukraine on General Mandatory State Pension Insurance contains the main provisions relating to the operation of the mandatory accumulation system – Pillar II.

In December 2006, the Government of Ukraine submitted to the Verkhovna Rada the Draft Law on Pillar II Implementation. It was reviewed by the Verkhovna Rada in its first reading in April 2007 and is being finalized now. The framework law provides that in some time after Pillar II implementation the participants of the Mandatory Accumulation Pension System will have the right to choose whether to pay their mandatory Pillar II insurance contributions into the Accumulation Pension Fund or into the non-state pension funds.

But whether non-state pension funds are to be allowed into Pillar 2 should be decided with the consideration of whether Pillar 3 operations comply with international standards on such issues as investments of pension assets, accounting, reporting, disclosure, supervision and control, payment of pension benefits. They also relate to the adherence of general principles: transparency, integrity, fairness.

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

– The law on Pillar 2 implementation may be passed only provided that there has been economic growth in the country for the last two years. This means that in each of these years GDP will grow at least 2% as compared with the previous year. It should be noted that before contributions can be paid to the Accumulation Fund, the following requirements must be met: the establishment of the system's institutional components, full implementation of the personified record-keeping system and ensuring access of the insured individuals to the information in their pension accumulation accounts, well-balanced budget of the Pension Fund of Ukraine in accordance with International Accounting Standards and ensuring the payment out of the state budget of compensation for the part of insurance contributions lost by the solidarity system, gaining experience of the operation of the non-state provision system.

Significant achievements of the Pension Fund of Ukraine relating to the IT improvements and the procedure for filing reports should be noted. The electronic reporting form has been implemented and monthly reporting of insurers has become effective on January 1 this year. These are very important steps to meet the prerequisites of Pillar II implementation.

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

– The bill provides for participation in Pillar II of those people who on the date of implementation of insurance contributions to the Accumulation Fund are under 40 years old. Currently there are other proposals relating to participation in Pillar II. Namely, it is

proposed to start with those who start their careers or those who are under 25 years old or those who reached 39 years. When determining the age of participation in Pillar II it is important to make a reasonable decision, taking into account the following three aspects: the first one being the possibilities 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 in 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.

### – How should an insurance contribution be split between an employee and an employer?

– The framework law says that a Pillar II contribution cannot exceed 7%. Who should pay Pillar II contributions? The draft law specifies that the Pillar 2 contributions payer is a person and the employer pays contributions to the solidarity system. In the course of working on the draft law on Pillar 2 implementation, it was noted that the amount of the employer's contributions to the solidarity system for Pillar 2 participants should be reduced by the relevant amount of the insurance contribution to Pillar 2.

### – For how long is it reasonable to maintain solidarity pension system after the implementation of mandatory accumulation system? Perhaps, it should be abandoned altogether?

– Pension system is a long term system. Its main foundation is the solidarity system. Mandatory accumulation pension system is viewed as a supplement to the solidarity system. It is not reasonable to abandon the solidarity system completely. At the same time, it must be improved to ensure its long-term financial sustainability. Actions must be taken even now to mitigate the expected “ageing of the nation”. Solidarity pension systems worldwide have already faced the demographic pressure of ageing population. For many governments, the first response to this problem was the implementation of plans to increase the retirement age and extend the period of pension contribution payment. It is time for Ukraine to start considering these issues and take appropriate decisions too.

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**P.S.** The views and opinions expressed herein are those of the author and do not necessarily reflect the views and opinions of the US Government and USAID.