

Pillar II Administration Learning from the Neighbors - Plan Ahead!

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There are a number of policy issues pertaining to the mandatory accumulation pension system that still need to be worked out. One of them will be to determine whether there will be any change in the role prescribed for the Pension Fund of Ukraine under the Law "On Compulsory State Pension Insurance" passed in 2003 whereby it will act as the administrator of the second pillar. It takes time to develop, test and implement administrative systems and the importance of planning ahead cannot be overstated. Three of Ukraine's immediate neighbors - Russia, Hungary and Poland - have had major issues with the administration of Pillar II. Both Hungary and Russia have even reversed their initial administration model. In Russia, pension contributions were initially collected through the State Tax Administration; however, it soon became obvious that such a system caused enormous problems. Now the Pension Fund of the Russian Federation has taken over from the State Tax administration, collecting and organizing the transfer of mandatory accumulation scheme contributions. In Hungary, employers initially had to remit contributions directly to Pillar II providers. Now the contribution process is, on the contrary, centralized: employers only have to make one contribution. However, this important change was introduced after pillar II had been operating for ten years, making it an extremely expensive reform.

Poland had to address a particularly difficult situation. In Poland, the question of administration received insufficient attention and the authorities did not allow for enough time to set up the system. When Pillar II was launched, ZUS, the central administrator, was not ready: the software needed to execute the administration was not in place. As a result, when millions in contributions started to flow in, they could not be allocated to individual accounts, and could not be efficiently invested, causing participants to lose on interest returns. The Government had to compensate these losses out of the state budget. Also, it had to bring modifications to the administration system under pressure. This chaos significantly drove up the cost of software development and installation.

The unfortunate experience of Ukraine's neighbors shows that poor planning comes at a heavy price, in particular modifying the pillar II administration set-up after it has been launched. Planning ahead is one way to successfully streamline administrative requirements - for employers and participants.

**The views expressed here are those of the author and do not necessarily reflect the views of USAID or CMP*