



MINISTRY OF LABOR AND SOCIAL POLICY OF UKRAINE  
PENSION FUND OF UKRAINE

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# **PENSION SYSTEM IN UKRAINE**

**ESSENTIAL FACTS AND NUMBERS**

Kyiv - 2008

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Pension provision in Ukraine is a component of the public social security system and covers senior citizens incapable of working, disabled persons, those who lost a breadwinner, and benefits to whom are paid in the form of pension benefits, additions to and raises of pension benefits, compensation benefits, additional pension benefits and social government benefit to persons not entitled to the pension and disabled persons.

The Ministry of Labor and Social Policy of Ukraine is the main body in the central executive system to ensure that the government policies in the pension provision area are implemented. The Pension Fund of Ukraine manages pension financing funding. It is also charged with awarding (recalculating) pensions. Effective on January 1, 2007, the pension benefits awarding function is transferred from 13 departmental security and court bodies to the Pension Fund of Ukraine.

Benefits in the pension system are paid through bank institutions and postal offices. In the solidarity system of mandatory state pension insurance, sources of pension funding are separated under different pension programs between the budget of the Pension Fund and the State Budget.

Money to implement the State Pension Program is raised through:

- Mandatory contributions of enterprises, institutions and organizations;
- Mandatory contributions by citizens;
- Payments from the State Budget and social insurance funds;
- Other inflows.

On April 16, 2008, the Report on Execution of the 2007 Budget of the Pension Fund of Ukraine was first presented to mass media at the Pension Fund's office.

Ukrainian law provides for a three-pillar pension system that will expand the opportunities to improve the well-being of people and economic growth in the country. Pillar I is a solidarity system of the mandatory state pension insurance that is based on solidarity, subsidizing and paying pension benefits and providing social services at the expense of the Pension Fund. Pillar II is an accumulation system of the mandatory state pension insurance that is based on mandatory accumulation of pension money and financing of life annuity one-time payments on the conditions and in the manner prescribed by law. Pillar III is a non-state pension provision system that is based on voluntary participation of citizens, employers and their associations in raising pension money for citizens to receive pension benefits in addition to pension benefits of Pillars II and III.

### Landmarks of Pension System Reform in Ukraine

1991

Insurance contributions are implemented and pension benefits are financed out of them (and not from the state budget). The Pension Fund is created; insurance-based pension system is launched.

1999

Sources of pension funding are separated under different pension programs between the budget of the Pension Fund and the State Budget of Ukraine.

2000

Personification of information on insurance contribution payments, conditions are in place for the solidarity system to function based on insurance principles.

2001

The President's Address to the Ukrainian Parliament and the Cabinet of Ministers of Ukraine, *On Main Areas of Providing Pensions to the Ukrainian Public*, which envisioned pension reform actions for 2001 – 2009.

2001 - 2002

The pension award and payment functions are given to the Pension Fund.

2004

The Law of Ukraine "On Mandatory State Pension Insurance" came into effect. Under this law:

- Pensions are awarded only based on periods of work and earnings from which insurance contributions are paid, according to personified records;
- Sources of pension funding are separated under different pension programs between the budget of the Pension Fund and the State Budget of Ukraine.

The additional benefit was implemented to raise the pension to the subsistence level then effective (UAH 284.69), which, along with providing a minimal guarantee leveled off the differentiation of pension benefits amounts.

The Law of Ukraine "On Non-state Pension Provision" came into effect.

## 2005

From January 12, 2005, according to amendments made to Article 28 of the Law of Ukraine "On Mandatory State Pension Insurance", the Law:

- Provides for the payment of the minimal retirement pension if men have 25 years of service and women – 20 years of service, in the amount of the subsistence level prescribed by law for those who are incapable of working (UAH 332);

- Makes the first step towards the pension differentiation by introducing additional benefits for excess service;

- Raises, for the first time, pension benefits due to salary raises.

After the Law of Ukraine "On State Social Benefit to Persons Not Entitled to the Pension and Disabled Persons" came into effect on January 1, 2005, social pensions were converted to social benefit. Awarded in accordance with the Law of Ukraine "On Pension Provision", social pension benefits, if a pensioner so desires, will continue to be paid by the Pension Fund of Ukraine until the payment term expires.

## 2006

Non-state pension provision is gradually developing. In 2006, the number of non-state pension fund participants doubled as compared to 2005, assets of non-state pension funds tripled and totaled UAH 128 million.

In 2006, pensions to disabled war veterans, participants of hostilities and to families of those perished were based on the subsistence level set for those who are incapable of working.

## 2007

The pension awarding function is transferred from 13 departmental security and court bodies to the Pension Fund of Ukraine.

The applied pension benefits index, due to the average salary raise in economy sectors for the previous year, exceeds the minimal one: pensions awarded before 2005 (based on the average salary in economy sectors for 2002 and 2003) are increased by 28.03%, which corresponds to 96% of the average salary growth rate in 2006 as compared to 2005, and those awarded during the last 2 years (i.e. taking into account the average salary in economy sectors for 2004 and 2005), – by 20%, which corresponds to 68% of the salary growth rate. Pensions during the year were raised in three stages.

Disabled war veterans and participants of hostilities are given the state target benefit in addition to the pension (subsidy) in the amount of the difference: for disabled war veterans – 100%, II group – 90%, III group – 80%, participants of hostilities – 70% of the average salary in Ukraine according to the State Committee on Statistics for 2006. The minimal pension benefit without pensions for meritorious service to Ukraine is: for disabled war veterans – UAH1041.47, for disabled war veterans of Group II – UAH 937.32, disabled war veterans of Group III – UAH 833.18, for participants of hostilities – 729.03.

The Draft Law of Ukraine "On Implementing the Accumulation System of Mandatory State Pension Insurance" passed the first reading in the Parliament.

## 2008

Due to the increase in the value of 1 year of the covered service period and bringing the salary up to the modern level, which is taken into account when calculating the pension amount, the pension differentiation will be restored for most pensioners, specifically:

- The estimated value of one year of the covered service period is 1,2 %, from October 1, 2008, the estimated value of this one year of the covered service period will be 1,35%;

- The salary is more than tripled for the purpose of pension calculations, specifically, from UAH 306, which was used to recalculate the pension in 2004, to UAH 928.

Effective from April 3, 2008, the minimal pension benefit to all categories of recipients is fixed at a level not lower than the subsistence level for those who are incapable of working.

In addition to the pension system, there is a system of benefits, compensations, guarantees, residential subsidies program and other kinds of social government benefit to senior citizens, disabled persons, families with children, etc.

All Government's pension-related proposals that require regulatory and legislative changes are agreed with social partners. The Government complies with the arrangement with the Ukrainian Parliament regarding their preliminary processing of and reaching agreement on initiated draft laws and providing guidance to Parliament members in exercising their legal initiative right in the pension provision domain. Close cooperation with members of Parliament is ensured regarding consideration of letters from citizens.

Currently, pension provision is governed by the Constitution of Ukraine, international treaties and Ukrainian laws:

1. Law of Ukraine "On Mandatory State Pension Provision"
2. Law of Ukraine "On Non-state pension Provision"
3. Law of Ukraine "On Pension Provision"
4. Law of Ukraine "On the Status and Social Protection of Citizens Who Suffered As a Result of the Chernobyl Disaster"
5. Law of Ukraine "On Provision of Pensions to the Persons Dismissed from the Military Service and Some Other Persons"
6. Law of Ukraine "On the Cabinet of Ministers of Ukraine"
7. Law of Ukraine "On the Status of the Member of Parliament of Ukraine "
8. Law of Ukraine "On Government Service"
9. Law of Ukraine "On Prosecutor's Office"
10. Law of Ukraine "On the Status of Judges"
11. Law of Ukraine "On Forensic Examination"
12. Customs Code of Ukraine
13. Regulation on the Advisor Assistant to a Member of Parliament, as approved by Resolution of the Ukrainian Parliament No. 379/95-BP of October 13, 1995
14. Law of Ukraine "On the Status of War Veterans, Guarantees of their Social Protection "
15. Law of Ukraine "On Fundamentals of Social Protection of Labor Veterans and Other Senior Citizens in Ukraine"
16. Law of Ukraine "On Rehabilitation of Victims of Political Repressions in Ukraine"
17. Law of Ukraine "On Victims of Nazi Suppression"
18. Law of Ukraine "On Social Protection of War Children"
19. Law of Ukraine "On Employment"
20. Law of Ukraine "On Donorship of Blood and Blood Components"
21. Law of Ukraine "On the Status of Mountain Settlements in Ukraine"
22. Law of Ukraine "On State Support to Mass Media and Social Protection of Journalists"
23. Law of Ukraine "On Scientific, Scientific and Technical Activities"
24. Law of Ukraine "On the National Bank of Ukraine"
25. Law of Ukraine "On Pensions for Meritorious Service to Ukraine"
26. Law of Ukraine "On Mandatory State Pension Insurance Charge"
27. Law of Ukraine "On Local Government Service"
28. Law of Ukraine "On Mandatory State Social Insurance Against Work-Related Accident and Occupational Disease That Caused Disability"
29. Law of Ukraine "On Diplomatic Service"
30. Law of Ukraine "On State Social Benefit to Persons Not Entitled to the Pension and Disabled Persons"

### Awarding and Paying Pensions to Ukrainian Citizens Who Live Outside Ukraine

Pensions to Ukrainian citizens who live outside Ukraine and to citizens of other countries who moved to Ukraine for permanent residence are awarded and paid in accordance with Ukrainian legislation comprising the Law of Ukraine "On Mandatory State Pension Insurance", other regulations and international treaties that govern relations in the pension provision area.

Pursuant to Article 51 of the Law of Ukraine "On Mandatory State Pension Insurance", in the event that a pensioner moves outside Ukraine for permanent residence, the pension awarded in Ukraine, as requested by the pensioner, can be paid to him for six months in advance before his departure, counting from the month following the one during which he is removed from records at the place of permanent residence. During his stay abroad, pension benefits are paid to him if it is provided by the international treaty of Ukraine ratified by the Ukrainian Parliament.

At present, pension provision in Ukraine is governed by international agreements (treaties) signed with 21 countries.

Such agreements (treaties) fall into two categories:

- Treaties based on the geographical principle, under which pension benefits are paid by the country where the beneficiary resides (with CIS countries, Hungary, Romania, Mongolia).

- Treaties based on the pro rata principle, under which each contracting party awards and pays the pension for the covered service period accumulated in its country. Based on the pro rata principle, Ukraine entered into social security agreements with the Republic of Bulgaria, Kingdom of Spain, Czech Republic, Slovak Republic and others.

Effective is also the Temporary Agreement between the Government of Ukraine and the Government of Russia Regarding Pension Provision for Citizens Who Worked in the Utmost North and Localities Equivalent to the Utmost North.

The implementation of a new insurance system (the adopted Law of Ukraine "On Mandatory State Pension Insurance") synchronized with European legal requirements in this area, on the one hand, made it necessary to revise effective international agreements (treaties) with other countries regarding pension provision by the parties for the period of insurance contribution payments in each of the member states.

Specifically, the work is now underway to prepare such treaties with the Hungarian Republic, Germany, Portugal Republic, Romania and to revise the Agreement on Guarantees of Rights of CIS Member States in the Pension Provision Area of March 13, 1992.

#### List of Treaties and Agreements That Govern Pension Provision (Geographical Principle)

#	Country	International Agreements (Treaties)
1.	Belarus Armenia Kazakhstan Kyrgyzstan Russian Federation Tajikistan Turkmenistan Uzbekistan Ukraine	Agreement on Guarantees of Rights of CIS Member States in the Pension Provision Area of March 13, 1992, effective on signature
2.	Hungary	Agreement between the USSR and the Hungarian Peoples' Republic on Cooperation in the Social Security Area, signed on 20.12.1962, ratified on 31.05.1963, effective on April 12, 1963
3.	Moldova	Agreement between the Government of Ukraine and the Government of the Republic of Moldova on Guarantees of Citizens' Rights in the Pension Provision Area, signed on 29.08.1995., ratified on 29.10.1996, effective on December 19, 1996
4.	Georgia	Agreement between the Government of Ukraine and the Government of the Republic of Georgia on Cooperation in the Pension Provision Area, signed on 09.01.1995, ratified on 22.11.1995, effective on December 22, 1995
5.	Azerbaijan	Agreement between the Government of Ukraine and the Government of the Azerbaijan Republic on Cooperation in the Pension Provision Area, signed on 28.07.1995, ratified on 07.05.1996, effective on November 2, 1996
6.	Mongolia	Agreement between the USSR and the Mongolian Peoples' Republic on Cooperation in the Social Security Area, signed on 06.04.1981, ratified on 02.12.1981, effective on January 28, 1982
7.	Romania	Agreement between the USSR and the Romanian People's Republic on Cooperation in the Social Security Area, signed on 24.12.1960, ratified on 10.05.1961, effective on June 27, 1961
8.	Belarus	Agreement between the Government of Ukraine and the Government of the Republic of Belarus on Guarantees of Citizens' Rights in the Pension Provision Area, signed on 14.12.1995, ratified on 22.11.1996, effective February 11, 1997.

#### List of Treaties and Agreements That Govern Pension Provision (Pro Rata Principle)

#	Country	International Agreements (Treaties)
1.	Latvia	Agreement between Ukraine and the Latvian Republic on Cooperation in the Social Security Area, signed on 26.02.1998, ratified on 19.03.1999, effective on June 11, 1999
2.	Kingdom of Spain	Agreement between Ukraine and the Kingdom of Spain on Social Security of Citizens signed on 07.10.1996, ratified on 17.12.1997, effective on March 27, 1998
3.	Lithuania	Agreement between Ukraine and the Lithuanian Republic on Social Security, signed on 23.04.2001, ratified on 10.01.2002, effective on February 2002
4.	Estonia	Agreement between the Government of Ukraine and the Government of the Estonian Republic on Cooperation in the Social Security Area, signed on 20.02.1997, ratified on 04.11.1997, effective on January 28, 1998
5.	Slovakia	Agreement between Ukraine and the Slovak Republic on Social Security, signed on 05.12.2000, ratified on 20.09.2001, effective on January 1, 2002
6.	Czech Republic	Agreement between Ukraine and the Czech Republic on Social Security, signed 04.07.2001, ratified on 22.11.2002, effective April 1, 2003
7.	Bulgaria	Agreement between Ukraine and the Republic of Bulgaria on Social Security, signed on 04.09.2001, ratified on 22.11.2002, effective on April 1, 2003

## Qualitative Changes in Pension Provision

Unlike most countries where pension reform had been implemented, Ukraine recalculated pensions awarded earlier in accordance with new pension law requirements, with guarantees to retain the amount of pensions awarded earlier and period of service calculation benefits provided by previous law.

A new pension calculation formula based only on earnings from which insurance contributions have been paid to the Pension Fund, according to personified records in the mandatory state pension insurance system, was introduced. The maximum actual hired labor cost, taxable income (profit), from which, insurance contributions are paid to the Pension Fund under Ukrainian law, is fifteen times the subsistence level set for able-bodied persons, specifically: from January 1, 2008 – UAH 9495.00, from April 1, 2008 – UAH 9705.00, from July 1, 2008 – UAH 9735.00, from October 1, 2008 – UAH 10035.00.

At the same time, the Government of Ukraine will pay mandatory state pension insurance contributions for those who, by law, are entitled to the child care benefit before the child reaches three years of age, disabled child care benefit, group 1 disabled person care benefit or senior citizen benefit if, according to the medical opinion, the person requires constant care or has reached 80 years of age, for military personnel. Beginning from January 1, 2008, insurance contributions are also paid for parents – family orphanages educators. Accordingly, the period of upbringing orphans and children deprived of parent care will be added to the covered service period when pensions are awarded.

The service period for which the salary is taken into account in awarding pensions has been extended. This is achieved through the gradual extension of a period, for which the salary is taken into account in awarding pensions, from two years to the entire duration of service with the possibility of excluding a period of up to 60 calendar months provided that such period is not more than 10% of the service duration. This made the pension a function of the salary from which contributions have been paid to the Pension Fund of Ukraine and motivates to extend the participation in the labor market formation.

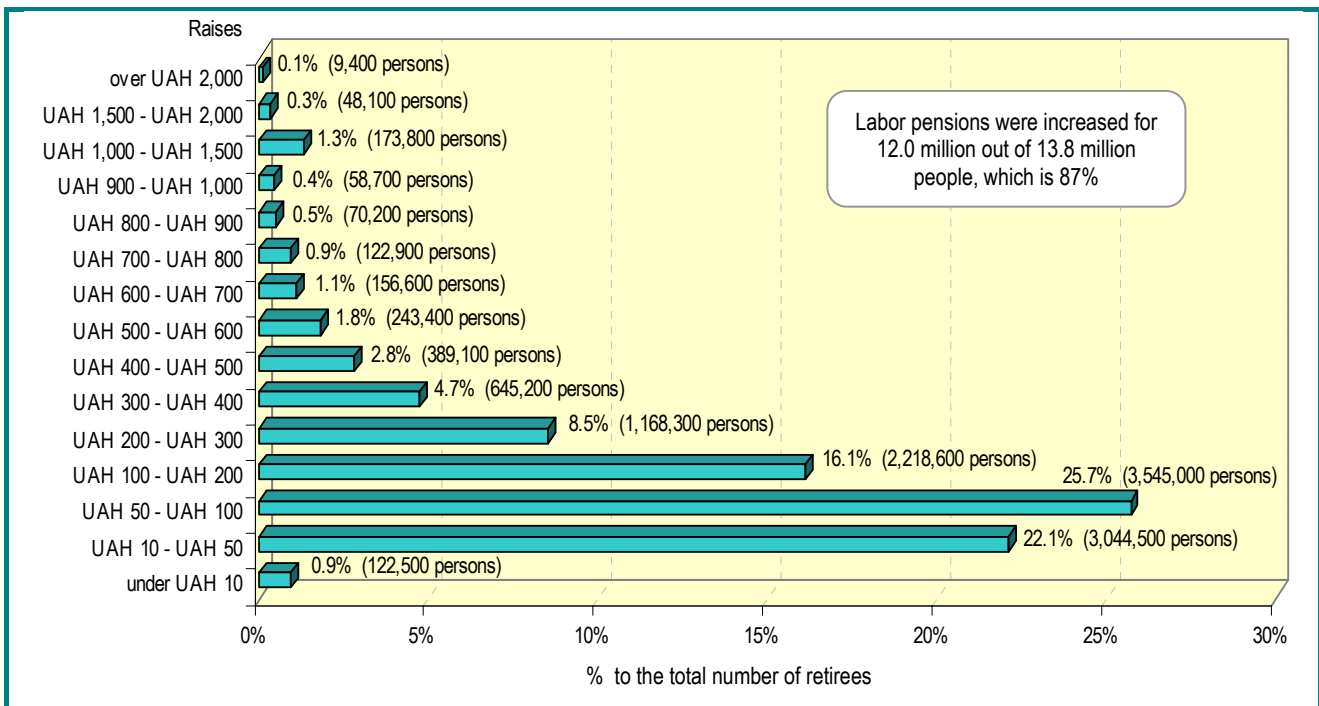
Under new pension law, every year, from March 1 (beginning from March 1, 2005) the pension is raised by the index equal at least to 20% of the average salary growth rate in Ukraine as compared to the previous year.

From January 1, 2008 (with the adoption the Law of Ukraine "On the State Budget of Ukraine for 2008 and on Amending Some Laws of Ukraine"), pensions have been recalculated based on the salary of UAH 928.81, which is the average salary per one insured person across Ukraine, from which insurance contributions have been paid for 2006.

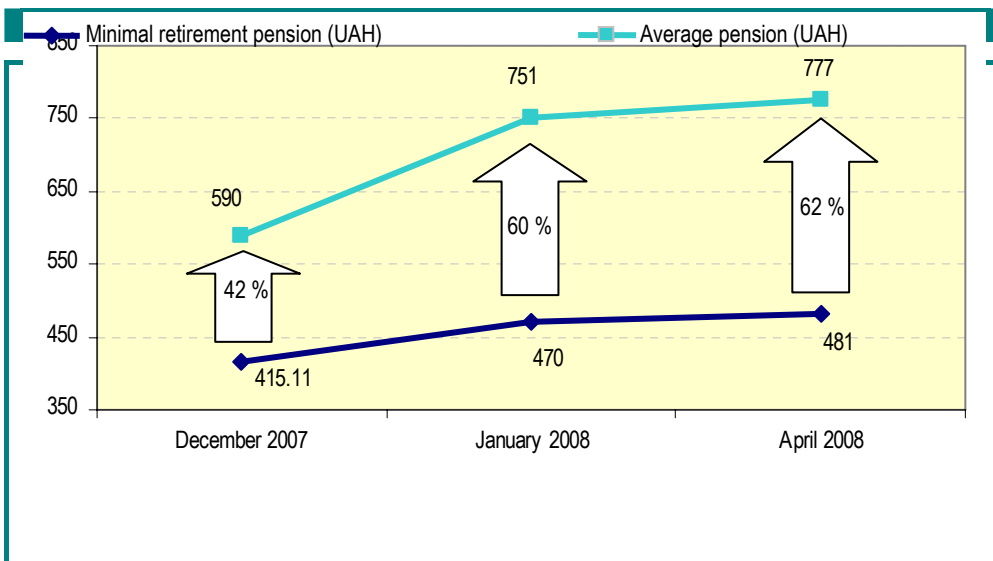
At the same time, the accrual rate set out in Article 25 of the Law of Ukraine "On Mandatory State Pension Insurance" was increased: to 1.2% from January 1 and to 1.35% from October 1, 2008 (this accrual rate was 1% before January 1 this year).

In view of the above changes, pensions were increased for 12.0 million or 87% of retirees.

### Number of Retirees Who Had a Raise from January 1, 2008 Due to Amendments Made to the Law of Ukraine "On Mandatory State Pension Insurance" and Amounts by Which Pensions Increased After Recalculation



The simultaneous implementation of a three-fold increase in salary for calculating pensions (from UAH 306.45, used in pension calculation in 2004, to UAH 928.81) and an accrual rate increase made it possible to move away from "egalitarianism" that existed earlier when pensions for most retirees were fixed at the subsistence level for those who lost their ability to work, ensured fairness in terms of pensions awarded in different years, differentiated pensions. If, in December 2007, the average pension exceeded the minimal pension by 42% (UAH 590.80 compared to UAH 415.11), then, in April 2008, this ratio reached 62% (UAH 777.77 compared to UAH 481).



The average pension with above changes in January 2008 was fixed at UAH 751.38, and in April – UAH 777.77 (or increased by 27% and 32%, respectively, as compared to last December).

The minimal retirement pension and disability pension equal to the subsistence level are provided to be paid to those who lost their ability to work. At the same time, pensions for meritorious

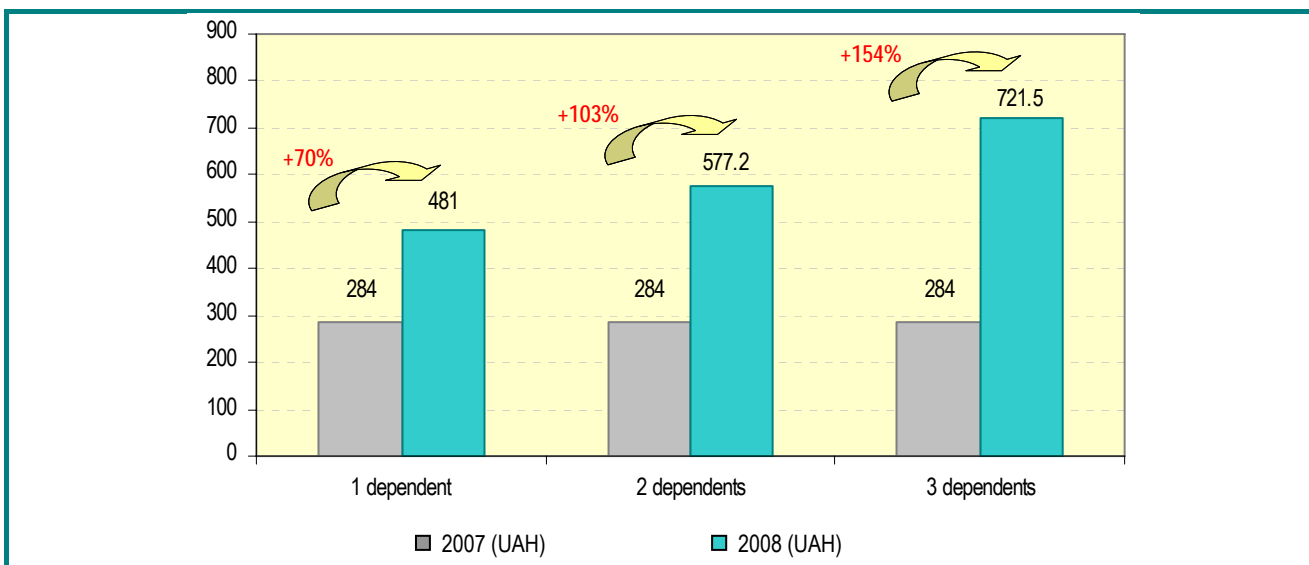
service exceed the subsistence level for those who lost their ability to work.

Minimal pensions for people disabled during the conscription service, awarded in accordance with the Law of Ukraine "On Provision of Pensions to the Persons Dismissed from the Military Service and Some Other Persons" are fixed at 100% - 120% of the subsistence level for those who lost their ability to work.

From April 1, 2008, pensions and benefits are increased to the set level for all, without exception, groups of retirees, beneficiaries, disabled persons and disabled children whose pensions or benefits (including bonuses, raises, additional pensions, target cash benefits, indexation and other additional payments prescribed by law, other than pensions for meritorious service to Ukraine) are less than the subsistence level for those who lost their ability to work (Resolution of the Cabinet of Ministers of Ukraine No. 265 of March 26, 2008 "Some Issues of Providing Pensions to Citizens").

A minimal pension benefit in view of the death of the breadwinner is differentiated based on the number of children: for one family member – 100% of subsistence level for those who lost their ability to work, or UAH 481, for two family members – 120%, or UAH 577, for three and more family members – 150%, or UAH 721.50.

#### Increase in a Minimal Pension Benefit in View of the Death of the Breadwinner from April 2008 (UAH)



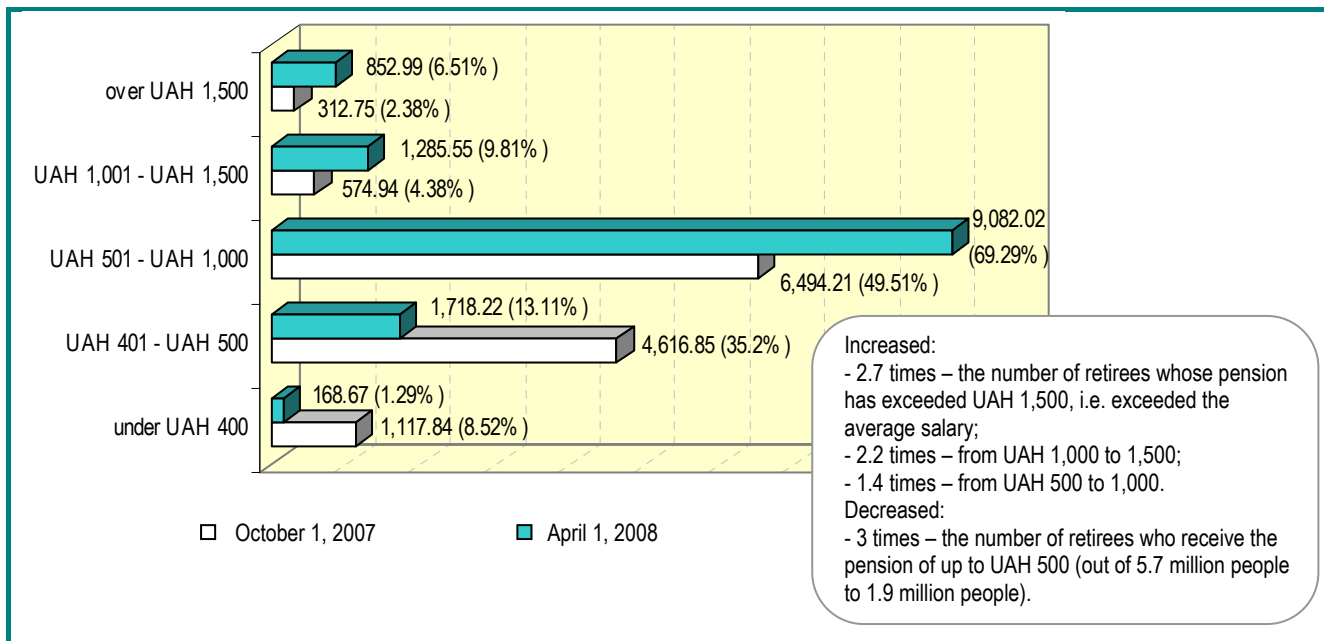
The structure of pension beneficiaries by pension amount has changed significantly. Thus, as of April 2008 as compared to October 2007:

The number of retirees whose pension exceeds UAH 1,500, i.e. has reached and exceeded the average salary, has increased 2.7 times; pension beneficiaries with a pension of UAH 1,000 – 1,500 - 2.2 times; pension beneficiaries with a pension of UAH 500 - 1,000 – 1.4 times;

The maximum pension (including bonuses, raises, additional pensions, target cash benefits, and pensions for meritorious service to Ukraine and other additional payments to pensions prescribed by law) calculated in accordance with the Customs Code of Ukraine, Laws of Ukraine "On Government Service", "On the National Bank of Ukraine", "On Diplomatic Service", "On Local Government Service", "On Forensic Examination", "On the Status and Social Protection of Citizens Who Suffered As a Result of the Chernobyl Disaster", "On State Support to Mass Media and Social Protection of Journalists", "On Scientific, Scientific and Technical Activities", "On Provision of Pensions to the Persons Dismissed from the Military Service and Some Other Persons", "On Mandatory State Pension Insurance", "On Pension Provision", Regulation on the Advisor Assistant to a Member of Parliament, as approved by Resolution of the Ukrainian Parliament No. 379/95-BP of October 13, 1995, cannot exceed 12 times a minimal retirement pension set out in the first paragraph of the first part of Article 28 of the Law of Ukraine "On Mandatory State Pension Insurance", specifically: from January 1, 2008 – UAH 5640.00, from April 1, 2008 – UAH 5,772.00, from July 1, 2008 – UAH 5,784.00, from October 10, 2008 – 5,976.00. The pension awarded in accordance with the Law of Ukraine "On Prosecutor's Office" (including bonuses, raises, additional pensions, target cash benefits, and pensions for meritorious service to Ukraine, indexation and other additional payments prescribed by law) is UAH 10,000 per month.

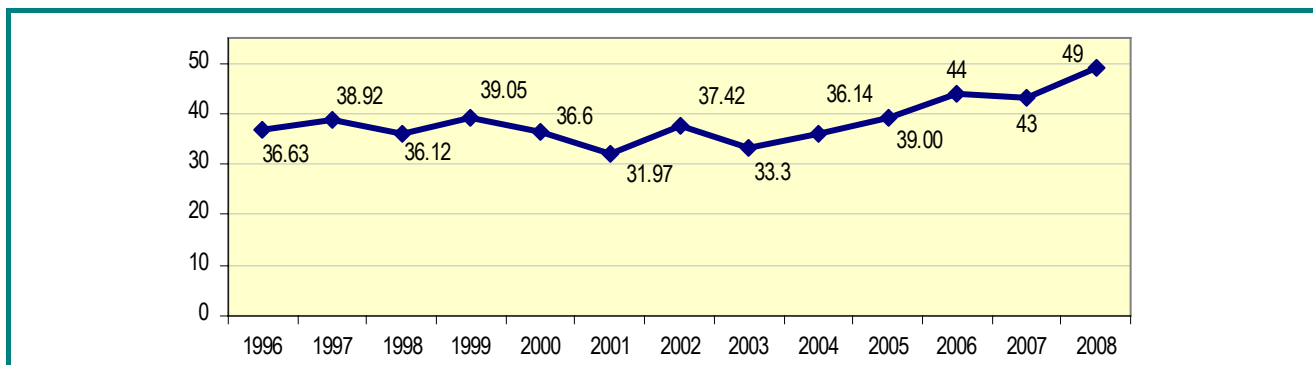
The number of retirees who have a pension of up to UAH 400 has decreased 6.6 times (from 1.1 million people to 169 thousand people).

### Breakdown of Retirees by Amount of Pension After the Raise on April 1, 2008



The lost earnings substitution ratio increased from 36.5% as of January 1, 2004 to 49.4% as of January 1, 2008, which meets the recommendations of ILO Social Security (Minimal Standards) Convention No. 102.

### Substitution Ratio for January 2008 (average pension to average salary ratio, %)



## Substitution Ratios in Ukraine and Other Countries

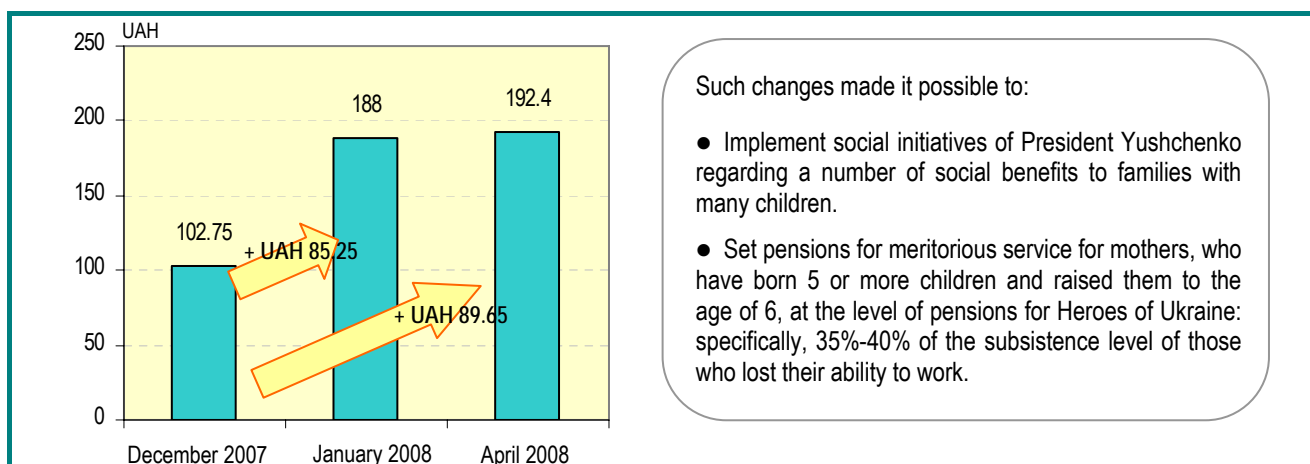
Country	Pillar I, %	Pillar II, %	Total Payments, %	% Private Sector,
Australia	25	33	58	57
Argentina	33	34	67	51
Belarus	47	0	47	0
UK	17	17	34	49
Denmark	28	34	62	56
Kazakhstan	0	38	38	100
Poland	34	25	59	42
Russian Federation	33	0	33	0
Hungary	43	27	70	39
Ukraine	49	0	49	0
Switzerland	30	30	60	50
Sweden	35	10	45	21

### Additional Payments to Pensions

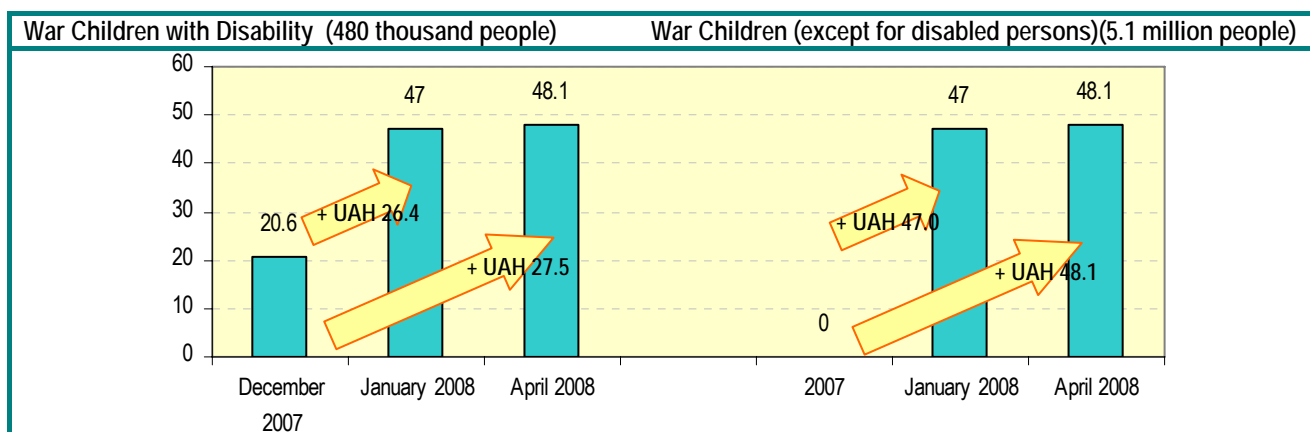
Almost 1 million citizens who performed meritorious service to Ukraine (mothers who have born five or more children and raised them to the age of 6, Heroes of Ukraine, Heroes of the Soviet Union, Heroes of the Socialist Labor, persons who were awarded with the "honored" title, orders and medals, state prizes), receive pensions for meritorious service. Pensions for meritorious service to Ukraine are fixed at 20% to 40% of the subsistence level for those who lost their ability to work. In 2008, they will amount to: from January 1 – UAH 94 -188; from April 1 – UAH 96.20 – 192.40; from July 1 – UAH 96.40 – 192.80; from October 1 – UAH 99.60 – 199.20.

In 2008, financed from the state budget, the bonus to the pension for meritorious service was almost doubled for mothers who have born five or more children and raised them to the age of 6.

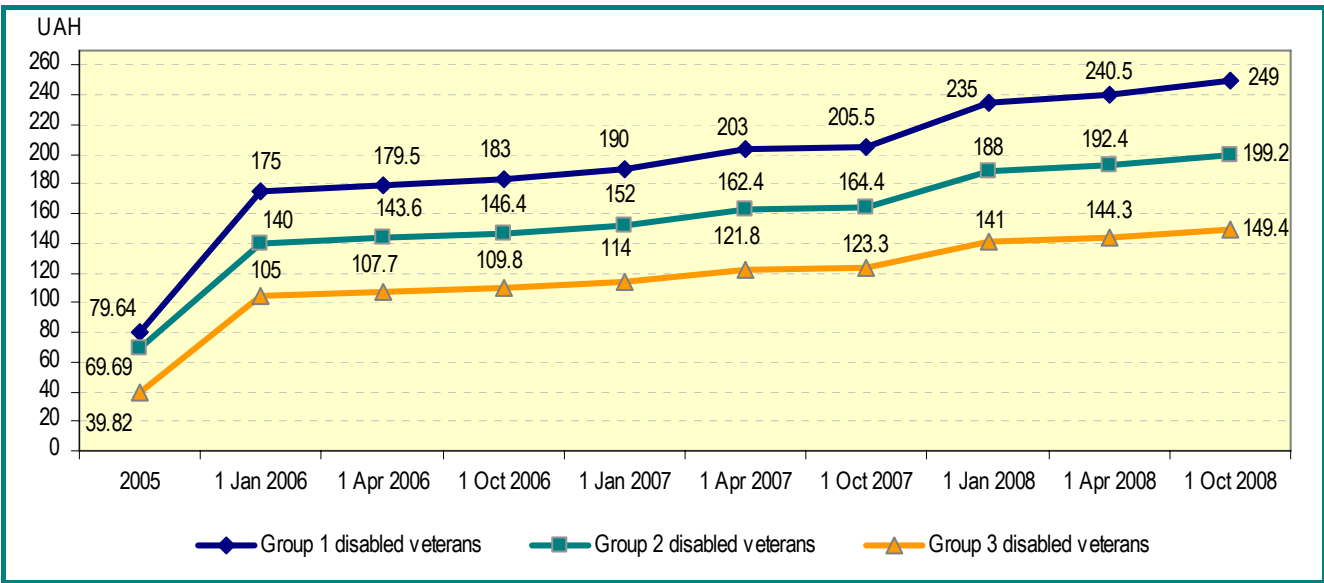
### Pensions for Meritorious Service for Mothers Who Have Born 5 or More Children Were Increased 1.8 times



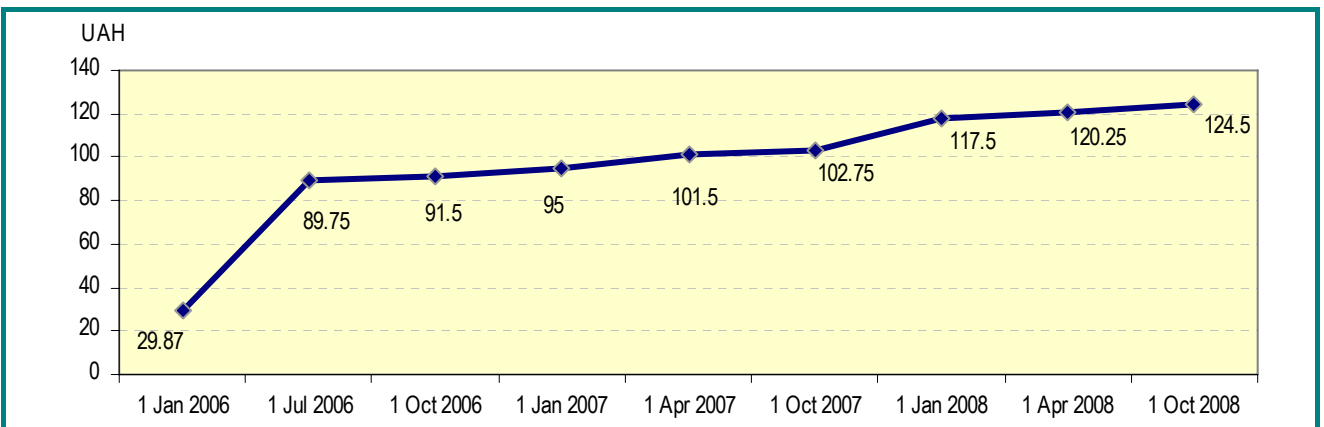
### Raises to Pensions for War Children



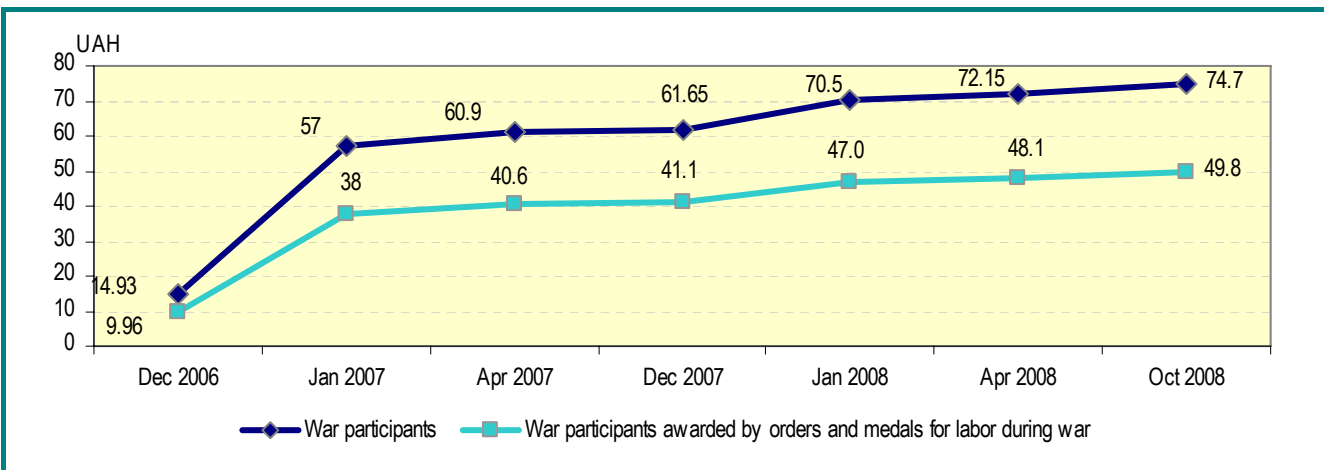
**Raises to Pensions, or Monthly Cash Allowances, or State Social Benefit That Are Paid Instead of Pensions to Disabled War Veterans in Accordance with the Law of "On the Status of War Veterans, Guarantees of their Social Protection"**



**Raises to Pensions, or Monthly Cash Allowances, or State Social Benefit That Are Paid Instead of Pensions to Participants of Hostilities and Families of Those Perished, in Accordance with the Law of "On the Status of War Veterans, Guarantees of Their Social Protection"**



**Raises to Pensions, or Monthly Cash Allowances, or State Social Benefit That Are Paid Instead of Pensions to War Participants, in Accordance with the Law of "On the Status of War Veterans, Guarantees of their Social Protection"**



## Pension provision indices

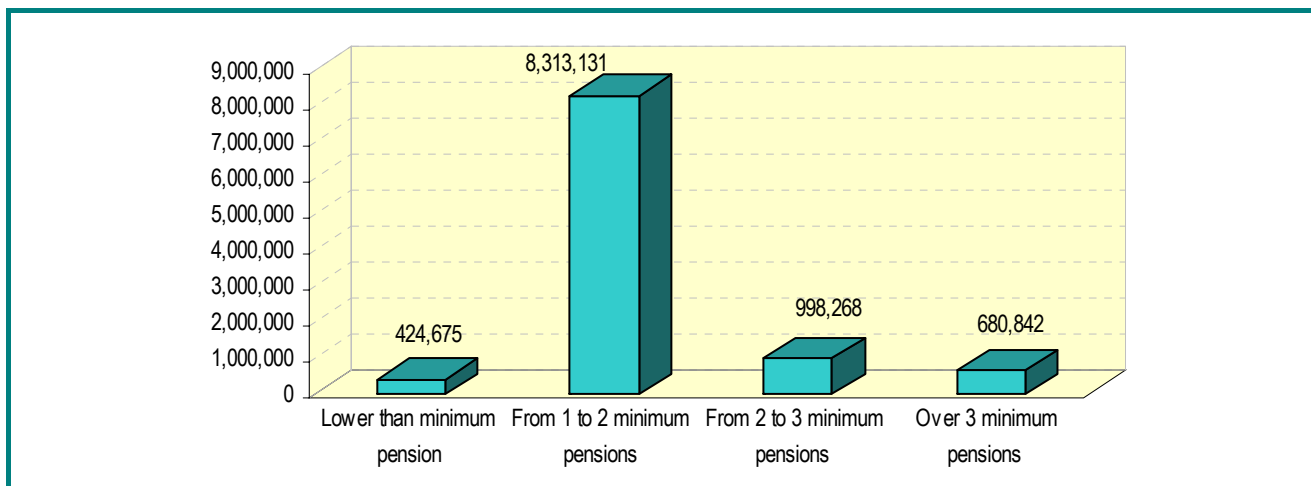
Number of retirees of all categories (other than military) registered at Pension Fund bodies, and amount of pensions assigned as of January 1, 2008

Oblast	Number of retirees, individuals	Average assigned pensions with target assistance taken into account, UAH	Average monthly wage for January 2008 (gross), UAH	Average monthly wage for January 2008 (net), UAH	Pension amount in % compared to average monthly wage (gross) for January 2008	Amount of pension in % compared to average monthly wage (net) for January 2008
Crimean AR	519 612	713.49	1328.42	1136.13	53.7	62.8
Vinnitsia	514 912	639.79	1148.91	982.61	55.7	65.1
Volyn	278 225	639.67	1161.69	993.54	55.1	64.4
Dnipropetrovsk	1 006 871	831.79	1621.68	1386.94	51.3	60.0
Donetsk	1 423 776	936.94	1745.16	1492.55	53.7	62.8
Zhytomyr	400 935	664.76	1154.90	987.73	57.6	67.3
Zakarpattia	279 878	615.07	1188.31	1016.3	51.8	60.5
Zaporizhzhia	533 703	784.00	1546.73	1322.84	50.7	59.3
Ivano-Frankivsk	364 471	650.25	1289.19	1102.58	50.4	59.0
Kyiv	536 301	743.26	1544.97	1321.34	48.1	56.3
Kyrovohrad	312 354	676.24	1203.67	1029.44	56.2	65.7
Luhansk	744 301	907.52	1508.65	1290.27	60.2	70.3
Lviv	680 466	677.64	1294.74	1107.33	52.3	61.2
Mykolaiv	326 115	702.54	1369.84	1171.56	51.3	60.0
Odessa	612 304	708.00	1403.22	1200.1	50.5	59.0
Poltava	463 057	720.72	1428.52	1221.74	50.5	59.0
Rivne	302 833	640.03	1235.52	1056.68	51.8	60.6
Sumy	364 033	684.26	1221.35	1044.56	56.0	65.5
Termopil	309 197	602.90	1072.77	917.49	56.2	65.7
Kharkiv	768 834	739.80	1404.74	1201.4	52.7	61.6
Kherson	302 665	677.97	1126.65	963.57	60.2	70.4
Khmelnitsk	414 291	629.38	1174.55	1004.53	53.6	62.7
Cherkasy	419 422	680.81	1212.06	1036.61	56.2	65.7
Chernivtsi	232 555	624.65	1147.94	981.78	54.4	63.6
Chernihiv	375 027	666.24	1120.15	958.01	59.5	69.5
Kyiv city	628 571	983.75	2576.13	2203.24	38.2	44.7
Sevastopol city	94 527	799.49	1493.90	1277.66	53.5	62.6
Total in Ukraine	13209236	751.38	1521.39	1301.17	49.4	57.8

Number of military retirees registered at the Pension Fund bodies, and amount of pensions assigned by regions, as of January 1, 2008

Oblast	Number of retirees, individuals	Average pensions assigned with target assistance taken into account, UAH
Crimean AR	35453	1276.61
Vinnitsia	20323	1240.22
Volyn	10830	1193.03
Dnipropetrovsk	39835	1260.53
Donetsk	32360	1250.73
Zhytomyr	24663	1184.56
Zakarpattia	9026	1311.75
Zaporizhzhia	21710	1247.76
Ivano-Frankivsk	9679	1238.66
Kyiv	24957	1251.50
Kyrovohrad	11139	1188.28
Luhansk	19934	1265.49
Lviv	27726	1289.82
Mykolaiv	19864	1200.63
Odessa	42355	1342.46
Poltava	224447	1228.71
Rivne	9562	1302.75
Sumy	15387	1179.61
Termopil	7065	1210.16
Kharkiv	43602	1302.21
Kherson	10872	1274.48
Khmelnitsk	21293	1196.44
Cherkasy	15982	1224.57
Chernivtsi	7481	1289.57
Chernihiv	18978	1241.47
Kyiv city	66259	1727.85
Sevastopol city	20980	1297.64
Total in Ukraine	609770	1308.23

Division of retirees by age and amount of pensions assigned according to the Law of Ukraine On Mandatory State Pension Insurance (as of 01.01.2008)

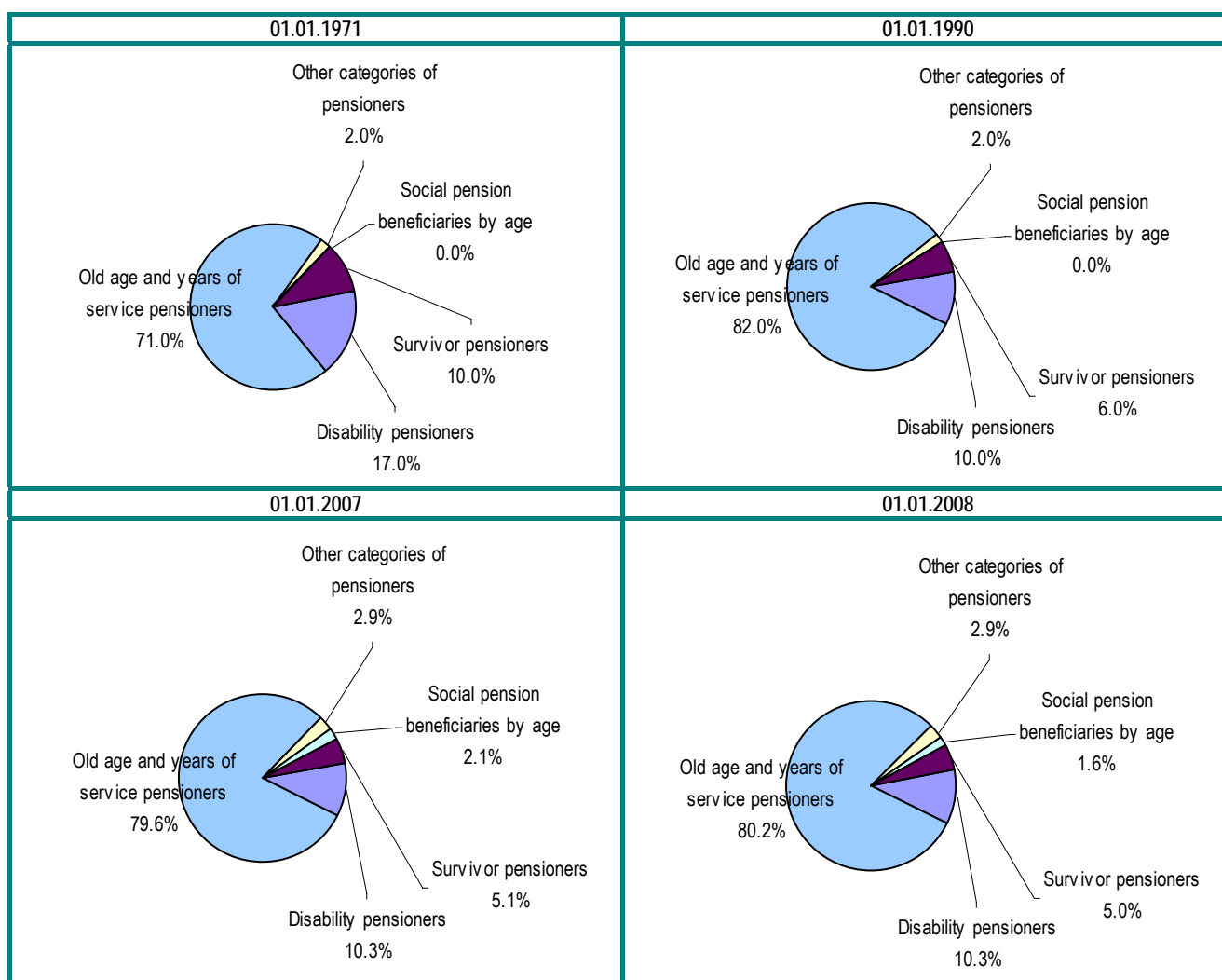


Average pension amount

Item	Type of pension Year	Average pension, UAH						
		2002	2003	2004	2005	2006	2007	2008
1.	Old-age pensions	125.79	139.46	189.92	317.41	409.11	480.91	799,27
2.	Disability pensions	118.54	132.61	153.50	296.42	358.30	383.66	598,15
3.	Survivor pensions	83.84	94.99	119.12	257.76	291.41	318.45	474,24
4.	Years of service pensions	138.12	153.20	190.95	312.89	414.76	476.37	760,87
5.	Social pensions	54.85	59.03	62.62	266.23	339.62	316.33	369,66
<i>Information: average earnings as of January of the respective year, UAH</i>		<i>320,76</i>	<i>400.59</i>	<i>499.66</i>	<i>640.86</i>	<i>864.91</i>	<i>1111.90</i>	<i>1521.39</i>



## Structure of pension beneficiaries by pension types in 1971, 1990, 2007 and 2008



## Division of pensioners by pension program types as of January 1 of the respective year

Law	Number of pensioners, individuals				Percentage of the total number for every year			
	2005	2006	2007	2008	2005	2006	2007	2008
Total number of pensioners, namely, according to the below laws:	13489716	13449493	13321042	13209236	100	100	100	100
1. On mandatory state pension insurance	12640290	12702906	12601018	12563826	93.70	94.45	94.59	95.11
2. Other laws, total:	848817	745931	719248	644301	6.30	5.55	5.41	4.88
On pension provision	534448	430309	339843	264373	3.96	3.20	2.55	2.00
On pension provision for military servants, officers and servants of enforcement agencies, and some other individuals	90267	83089	116387	106020	0.67	0.62	0.87	0.80
On civil service	65183	71839	82384	89175	0.48	0.53	0.62	0.68
On prosecutor's office	4136	4397	4737	4981	0.037	0.033	0.036	0.038
Regulation on advisory assistants of people's deputies	555	609	722	750	0.0041	0.0045	0.0054	0.0057
On judges status	6	9	58	1002	0.00004	0.00007	0.0004	0.008
On forensic examination	152	207	223	243	0.0011	0.0015	0.0017	0.0018
On scientific and research and development activities	76133	79111	81786	84294	0.56	0.58	0.61	0.64
On government support of mass media and social protection of journalists	2865	3042	3355	3618	0.021	0.023	0.025	0.027
On service in local authorities	3836	5600	8559	10494	0.028	0.042	0.064	0.079
On the National Bank of Ukraine	204	325	468	645	0.0015	0.002	0.003	0.005
On the status and social protection of citizens affected by Chernobyl victims	71032	67394	80726	78706	0.52	0.50	0.61	0.59

Number of pension beneficiaries according to the Law of Ukraine On Pension Provision, and from 01.01.2004 according to the Law of Ukraine On Mandatory State Pension Insurance, by pension types, as of 01.01.2008 compared to the 01.01.2000 – 01.01.2007 figures

№	Pension type	Number of pensioners, individuals										Percentage of the total number for every year								Percentage compared to the previous year							
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2000	2001	2002	2003	2004	2005	2006	2007	2008	2001/2000	2002/2001	2003/2002	2004/2003	2005/2004	2006/2005	2007/2006	2008/2007
1	Old age pension	10386376	10234068	10200164	10169316	10177112	10223040	10446075	10411631	10416916	77.6	76.9	76.2	75.9	76.6	77.6	79.5	80.5	81.2	98.5	99.7	99.7	100.1	100.4	102.1	99.6	100.1
2	Disability pension	1605456	1657614	1750661	1797319	1672275	1545300	1428075	1373772	1360730	12.0	12.4	13.1	13.4	12.6	11.7	10.8	10.6	10.6	103.2	105.6	102.7	93.0	92.4	92.4	96.2	99.1
	including, pension:																										
	from general disease	1495673	1552796	1648824	1706399	1602221	1487394	1375884	1325770	1315773	11.2	11.7	12.3	12.7	12.1	11.3	10.4	10.2	10.3	103.8	106.2	103.5	93.9	92.8	92.5	96.4	99.2
	from industrial mutilation and occupational disease	109783	104818	101837	90920	70054	57906	52191	48002	44957	0.8	0.8	0.76	0.68	0.53	0.44	0.3	0.4	0.3	95.5	97.2	89.3	77.0	82.6	90.1	92.0	93.7
3	Survivor pension	833720	841144	854094	865055	877242	757823	699711	676822	664090	6.2	6.3	6.4	6.5	6.5	5.7	5.2	5.2	5.2	100.9	101.5	101.3	100.3	86.2	92.3	96.7	98.1
4	Years of service pension	126603	152932	159319	167496	179170	181351	189708	194389	173881	0.9	1.1	1.19	1.25	1.35	1.4	1.4	1.5	1.4	120.8	104.2	105.1	107.0	101.2	104.6	102.5	89.5
5	Social pension	428772	430967	429485	407657	398364	389632	369646	284247	212582	3.2	3.2	3.2	3.0	3.0	2.9	2.8	2.2	1.7	100.5	99.7	94.9	97.7	97.8	94.8	76.9	74.8
	Total, receiving pension	13380927	13316725	13393723	13406843	13294507	13174738	13133215	12940861	12828199	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100	99.5	100.6	100.1	99.2	99.1	99.6	98.5	99.1

Number of pensioners assigned early pensions, broken down by categories of persons (2000-2008)

Pik	Number of pensioners as of 1st January of the corresponding year (individuals)								in % by 2000:							2005/ 2004 (%)	2006/ 2005 (%)	2007/ 2006 (%)	2008/ 2007 (%)
	2000	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2007				
<i>Total pre-term old age pensions</i>	<i>2182248</i>	<i>2194400</i>	<i>2214484</i>	<i>2231041</i>	<i>2240826</i>	<i>2319596</i>	<i>2307451</i>	<i>2296758</i>	<i>100.56</i>	<i>101.48</i>	<i>102.24</i>	<i>102.7</i>	<i>106.29</i>	<i>105.73</i>	<i>105.25</i>	<i>100.4</i>	<i>103.52</i>	<i>99.48</i>	<i>99.54</i>
Tractor operators	123201	121178	119557	118261	119354	119448	117613	115863	98.36	97.04	95.99	96.9	97.0	95.5	94.0	100.9	100.1	98.5	98.5
Tractor operators, females	1038	1311	1337	1356	1411	1445	1443	1452	126.30	128.81	130.64	135.9	139.2	139.0	139.9	104.1	102.4	99.7	100.6
Milkmaids, pig-tenders	109636	114003	113977	113120	113139	112594	110050	109069	103.98	103.96	103.18	102.9	102.7	100.4	99.5	100.0	99.5	97.7	99.1
Female tobacco pickers	1513	1676	1627	1616	1594	1570	1452	1425	110.77	107.53	106.81	105.3	103.8	96.0	94.2	98.6	98.5	92.5	98.1
Textile production workers	8858	9781	10049	10367	10605	10966	11143	11356	110.42	113.45	117.04	119.7	123.8	125.8	128.2	102.3	103.4	101.6	101.9
Underground and surface mining workers	143334	169804	184442	190229	186903	188766	191519	196223	118.47	128.68	132.72	130.4	131.7	133.6	136.9	97.2	101.0	101.5	102.4
War invalids	5634	2386	425	61	--	-	-	-	42.35	7.54	1.08	--	--	--	--	--	--	--	--
Mothers having many children	186661	176492	175850	186045	188582	193345	196291	201256	94.55	94.21	99.67	101.0	103.6	105.2	107.8	101.4	102.5	101.5	102.5
Lilliputians-dwarfs	169	153	142	144	148	165	172	175	90.53	84.02	85.21	87.6	97.6	101.8	103.6	102.8	11.5	104.2	101.7
Blind men	480	517	162	73	111	148	133	129	107.71	33.75	15.21	0.23	30.8	27.7	26.9	152.0	133.3	89.9	97.0
Females having many children, in agricultural production	17867	20329	22673	23365	23678	23085	23221	23297	113.78	126.90	130.77	132.5	129.2	130.0	130.4	101.3	97.5	100.6	100.3
Participants of military operations, servicemen, their parents and spouses in the event of their death						63077	58778	54387										93.2	92.5
City transfer drivers	6143	7693	8491	9391	10224	11029	11719	12414	125.23	138.22	152.87	166.4	179.5	190.8	202.1	108.9	107.9	106.3	105.9
Far North	34345	32234	30926	28706	31831	33779	34302	34499	93.85	90.05	83.58	92.7	98.4	99.9	100.4	110.7	106.1	101.5	100.6
List No.1 (total)	807548	788296	788900	792732	793039	786334	774542	757337	97.62	97.69	98.17	98.2	97.4	95.9	93.8	100.0	99.2	98.5	97.8
List No.2 (total)	735821	748547	755926	755575	760207	773845	775073	777876	101.73	102.73	102.68	103.3	105.2	105.3	105.7	100.6	101.8	100.2	100.4
<i>Total, pre-term pensions by length of service</i>	<i>126576</i>	<i>159886</i>	<i>167453</i>	<i>179170</i>	<i>181351</i>	<i>189708</i>	<i>194389</i>	<i>173881</i>	<i>118.42</i>	<i>132.29</i>	<i>141.55</i>	<i>143.27</i>	<i>149.88</i>	<i>153.57</i>	<i>137.37</i>	<i>98.80</i>	<i>104.61</i>	<i>102.46</i>	<i>89.45</i>
Aviation personnel, pilots and aircraft engineers and technicians	8844	10427	10476	10548	9935	9950	9878	9699	117.90	118.45	119.3	112.3	112.5	111.7	109.7	94.18	100.15	99.3	98.2
Railroad and metro transportation personnel	14244	13967	13852	13832	14430	15429	15167	11870	98.06	97.25	97.11	101.3	108.32	106.5	83.3	104.3	106.9	98.3	78.3
Cargo truck drivers	399	308	293	282	300	321	323	309	77.19	73.43	70.68	75.2	80.5	81.0	77.4	106.4	107.0	100.6	95.7
Geological expeditions	2730	2759	2768	2773	2862	3081	2939	2525	101.06	101.39	101.58	104.8	112.9	107.7	92.5	103.2	107.7	95.4	85.9
Timber felling and rafting	3196	3366	3489	3423	3535	3587	3580	2763	105.32	109.17	107.10	110.6	112.9	112.0	86.4	103.3	101.5	99.8	77.2
Machine operators, stevedores in ports	346	292	299	310	323	405	506	547	84.39	86.42	89.60	93.3	117.1	146.2	158.1	104.2	125.4	124.9	108.1
Ship complements	5376	5760	5384	5702	6009	7219	7290	6724	107.14	100.15	106.06	111.8	134.3	135.6	125.1	105.4	120.1	101.0	92.2
Education, health protection, social protection	89120	120693	128604	140017	141732	147512	152600	137478	135.43	144.30	157.11	159.04	165.52	171.2	154.3	101.22	104.08	103.4	90.1
Sportsmen	428	423	433	440	446	461	471	472	98.83	101.17	102.80	104.2	107.7	110.0	110.3	101.36	103.4	102.2	100.2
Artists	1893	1891	1855	1843	1779	1743	1635	1494	99.89	97.99	97.36	94.0	92.1	86.4	78.9	96.5	98.0	93.8	91.4
<b>TOTAL</b>	<b>2308824</b>	<b>2344286</b>	<b>2344286</b>	<b>2410211</b>	<b>2422177</b>	<b>2509304</b>	<b>2501840</b>	<b>2470639</b>	<b>101.54</b>	<b>101.54</b>	<b>104.39</b>	<b>105.1</b>	<b>109.8</b>	<b>108.4</b>	<b>107.01</b>	<b>100.50</b>	<b>103.60</b>	<b>99.70</b>	<b>98.75</b>

## Disability pensions

### Disability pensions structure as of January 1 of the corresponding year

Year	Number of individuals					% of disability pensioners					in % till the previous year			
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2005/ 2004	2006/ 2005	2007/ 2006	2008/ 2007
Total number of disabled in line with the Law of Ukraine On Mandatory State Pension Insurance	1602221	1487394	1375884	1325770	1315773	64.4	62.7	57.2	56.1	55.8	92.8	92.5	96.4	99.2
Including:														
Group I	215261	209421	216832	185473	168787	8.7	8.8	9.0	7.9	7.2	97.3	103.5	85.5	91.0
Group II	754264	694675	584486	544905	533952	30.3	29.3	24.3	23.1	22.6	92.1	84.1	93.2	98.0
Group III	632696	583298	574566	595392	613034	25.4	24.6	23.9	25.2	26.0	92.2	98.5	103.6	103.0
Total number of disabled receiving pensions at the PFU bodies	2486228	2372953	2405551	2362399	2357463									

### Structure of disability pensions resulting from industrial mutilation and occupational disease as of January 1 of the respective year

Disability category	Number of individuals										% of the total number of disabled pensioners										In % compared to the previous year							
	Pik	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000	2001	2002	2003	2004	2005	2006	2007	2008	2001/ 2000	2002/ 2001	2003/ 2002	2004/ 2003	2005/ 2004	2006/ 2005	2007/ 2006	2008/ 2007	
Total number of disabled by occupational disease and industrial mutilation, including		109783	104818	101837	90920	70054	57896	52191	48002	44957	4.63	4.38	4.22	3.95	2.82	2.44	2.17	2.041	1.91	95.5	97.2	89.3	77.1	82.6	90.1	92.0	93.66	
Group I		8172	7853	7507	6282	4416	3512	2636	2312	1949	0.34	0.33	0.31	0.27	0.18	0.15	0.11	0.10	0.08	96.1	95.6	83.7	70.3	79.5	75.1	87.7	84.30	
Group II		29864	27428	25497	21056	14256	10872	8553	7432	6361	1.26	1.14	1.06	0.91	0.57	0.46	0.36	0.31	0.27	91.8	93.0	82.6	67.7	76.3	78.7	86.9	85.59	
Group III		71747	69537	68833	63582	51382	43512	41002	38258	36647	3.03	2.91	2.85	2.76	2.07	1.83	1.70	1.62	1.55	96.9	99.0	92.4	80.8	84.7	94.2	93.3	95.79	
Total disabled		2369976	2391227	2413506	2303148	2486228	2372953	2405551	2362399	2357463																		

## Allocations to Pension Fund of Ukraine

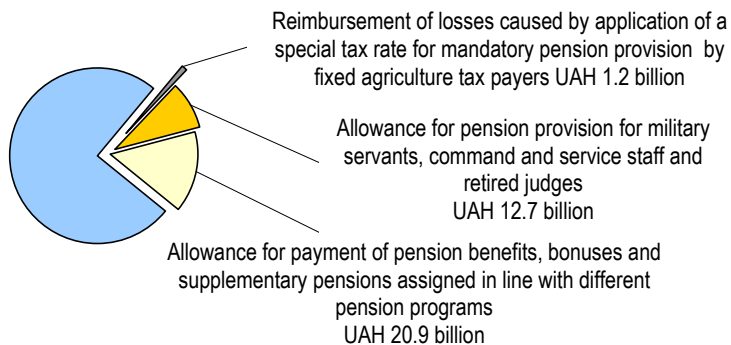
*Data source: Ruling of the Cabinet of Ministers of Ukraine dated January 30, 2008, No 30, On Approval of PFU 2008 Budget*

	UAH, thousand
Balance as of the year start	4 330 844.8
Revenues:	136 830 594.2
<b>Total own revenues, including:</b>	<b>101 836 147.8</b>
mandatory contributions paid by enterprises, institutions and organizations	88 087 598.4
mandatory contributions paid by citizens	5 395 839.9
mandatory contributions by payers, engaged in agricultural industry	1 926 461.1
mandatory contributions paid by servicemen, commanding officers and servicemen of interior units and some other persons	3 962 617.2
mandatory contributions by payers on streamlined taxation system	769 854.8
other revenues	899 124.3
<b>Total own revenues with the account of balance</b>	<b>106 166 992.6</b>
<b>Total, transfers from the State Budget of Ukraine, including:</b>	<b>34 823 744.6</b>
subvention on pension payment, additional payments and increases to pensions, assigned by various pension programs	20 918 650.0
subvention on pension provision of servicemen, commanders and servicemen and retired judges	12 737 968.5
reimbursement of losses from application by payers of fixed agricultural tax of a special rate on fee payment on mandatory pension insurance	1 167 126.1
Transfers from the Fund of mandatory social insurance unemployment	75 586.5
Transfers from the Fund of social insurance against industrial accidents and occupational diseases	95 115.3
<b>Total, revenues</b>	<b>141 161 439.0</b>

## Items of expenses of the Pension Fund of Ukraine for 2008

<b>Expenditures:</b>	
<b>Expenditures at the expense of own revenues, total</b>	<b>108 384 271.4</b>
including:	
pension provision of persons, whose pension is assigned in accordance with the Law of Ukraine "On mandatory state pension insurance"	101 907 458.3
<b>Expenditures at the cost of transfers from the State Budget of Ukraine, total</b>	<b>32 606 465.8</b>
including:	
payment of pensions, additional payment and increases to pensions, assigned by various pension programs	19 868 497.3
pension provision to servicemen, commanders and rank and file men and retired judges	12 737 968.5
<b>Expenditures at the cost of transfers from the Fund of mandatory social insurance unemployment</b>	<b>75 586.5</b>
<b>Expenditures at the cost of transfers from the Fund of social insurance against industrial accidents and occupational diseases</b>	<b>95 115.3</b>
<b>Total expenditures</b>	<b>141 161 439.0</b>
<b>Expenditures at the cost of transfers from the Fund of mandatory social insurance unemployment</b>	<b>0.0</b>

## Division of funding sources for different pension programs between the Pension Fund of Ukraine and the State Budget of Ukraine



Total revenues of the Pension Fund of Ukraine

UAH 141.2 billion

Own revenues, including balance as of the year start

UAH 106.2 billion

State Budget of Ukraine funds

UAH 34.8 billion

### Insurance Fee Schedule for Employers and Hired Employees for Mandatory State Social Insurance in 2005-2006-2007-2008

Insurance contributions payers	Social insurance against unemployment	Social insurance against a temporary loss of the ability to work	Retirement insurance	Social insurance against accidents	Total
<b>Employers</b>					
2005	1.6	2.9	32.3	1.73	38.53
2006	1.3	2.9	31.8	1.51	37.51
2007	1.3	1.5	33.2	1.51	37.51
2008	1.3	1.5	33.2	1.51	37.51
<b>Hired employees</b>					
2005	0.5	0.5 of sal. lower than subsistence level 1.0 of sal. higher than subsistence level	1.0 of sal. up to UAH150 2.0 of sal. over UAH150	-	2.0 of sal. up to UAH150 3.0 of sal. over UAH150 3.5 of sal. higher than subsistence level
2006	0.5	* insurance contributions are the same during 2005-2006	* insurance contributions are the same during 2005-2006	-	* insurance contributions are the same during 2005-2006
2007	0.5	* insurance contributions are the same during 2005-2007	0.5 of sal. lower than subsistence level 2.0 of sal. higher than subsistence level	-	1.5 of sal. lower than subsistence level 3.5 of sal. higher than subsistence level
2008	0.5	* insurance contributions are the same during 2005 - 2008	2.0 of the taxable item	-	3.0 of sal. lower than subsistence level 3.5 of sal. higher than subsistence level
<b>Total (employers and hired employees)</b>					
2005	2.1	3.4 of sal. lower than subsistence level 3.9 of sal. higher than subsistence level	33.3 of sal. up to UAH150 34.3 of sal. over UAH150	1.73	40.53 of sal. up to UAH150 41.53 of sal. over UAH150 42.03 of sal. higher than subsistence level
2006	1.8	insurance contributions are the same during 2005-2006	* insurance contributions are the same during 2005-2006	1.51	39.51 of sal. up to UAH150 40.51 of sal. over UAH150 41.01 of sal. higher than subsistence level
2007	1.8	2.0 of sal. lower than subsistence level 2.5 of sal. higher than subsistence level	33.7 of sal. lower than subsistence level 35.2 of sal. higher than subsistence level	1.51	39.01 of sal. lower than subsistence level 41.01 of sal. higher than subsistence level
2008	1.8	2.0 of sal. lower than subsistence level 2.5 of sal. higher than subsistence level	35.2	1.51	40.51 of sal. lower than subsistence level 41.01 of sal. higher than subsistence level

\* Insurance fees for this insurance type, as differentiated by economy sector (activities) based on the occupational hazard class (there are 67 occupational hazard classes, Class 1 – 0.66%, Class 67– 13.6%).

## Development of Non-State Pension Provision

Non-state pension provision is an element of the pension system in Ukraine. Its development began back in 2004 based on the Non-State Pension Provision Law of Ukraine.

The foundation for non-state pension provision in Ukraine is the best international experience of a 100-year long NPFs operation.

High dynamics of pension funds establishment and development of their infrastructure are one of the key features in the non-state pension provision situation of today.

Total number of officially registered pension funds (NPFs, hereinafter) grew 21.5% in 2007, up to 96 NPFs as of December 31, 2007.

The number of administrators with NPF administration licenses increased 25% in 2007, totaling 40 administrators. 16 of them service more than one NPF which is typical for the system of non-state pension provision.

Asset management companies holding NPF asset management licenses increased 49% in number over the reporting period, reaching 342. 44 of them already have contracts to service NPFs.

The number of custodian banks went up to 241, with 31 holding contracts to service NPFs.

Employers and trade unions participate more actively in the system of non-state pension provision.

All in all, over 200 companies and organizations acted as founders and nearly 1800 as NPF contributors. Over the last year, 700 participants added up to the above figure.

Real sector economy are the most active here, covering nearly 60%.

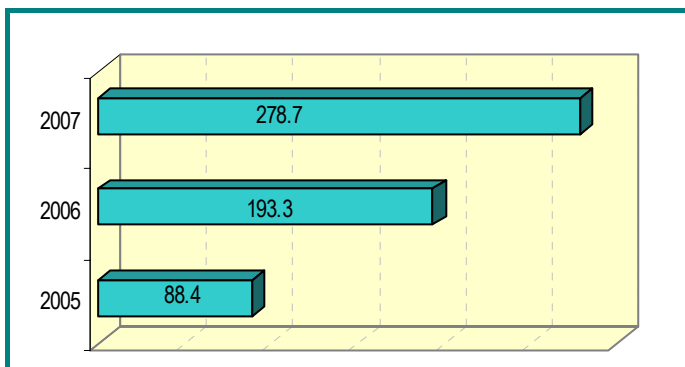
The biggest companies acting as NPF founders and participants include UkrTelecom OJSC, StiroI OJSC, and UkrPoshta state-owned enterprise; the National Bank of Ukraine and UkrEximBank for banks; Ukrainian Automobile Corporation for corporations, and power and electric engineering industry trade union for trade unions.

Around 278 thousand people only participate in non-state pension provision, i.e. 1.3% of the employed population of Ukraine. Of them, 21,322 thousand people contribute to occupational NPFs, and 13,183 thousand people participate in corporate pension funds. Thus, the smallest number of participants in corporate NPFs (13 thousand people or 4,7%).

The biggest part of NPF participants is concentrated in open NPFs (244 thousand people, i.e. 87.6% of the total number of participants).

In the meantime, over 2007, open NPF participation grew 52.1%, while occupational NPF participation increased only 10.4%, and corporate fell 2.4%.

**Dynamics of NPF participants numbers over 2005-2007  
(thousand people)**



Such trend is linked to the better flexibility of open NPFs allowing participants to enter and leave such funds. Physical decline in the number of corporate funds participants is caused by firing of employees at companies which leads to their immediate exit from corporate pension funds according to the law and transfer, in most cases, to open NPFs.

The inflow of pension contributions from legal entities in 2007 almost doubled (for open NPFs, such growth is 113.8%, for corporate – 79.2%, and 99% - for occupational NPFs). Meanwhile, pension contributions by individuals have grown only in open NPFs (170.6%).

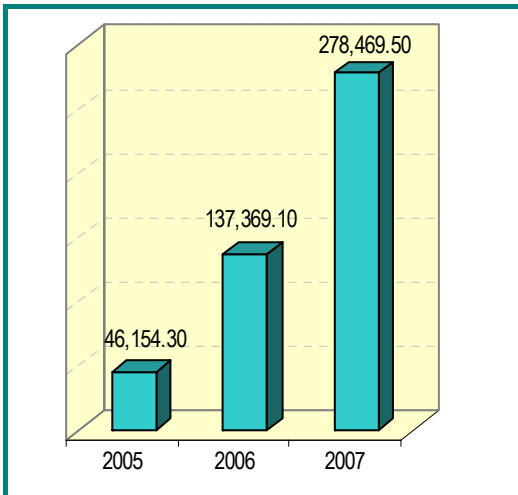
Total average pension contribution calculated by one NPF participant in 2007 was UAH 434, that is 7% higher compared to year 2006, while average wages grew 29%. In corporate pension funds it was the highest, amounting to UAH 2,026; for occupational NPFs the figure is around UAH 1000.

Along with pension contributions accumulation, NPFs have been paying benefits to NPF participants – total of UAH 9.1 mio., a 129% increase over 2007 compared to 2006. Among these, lump sums were UAH 8.2 mio, and defined period pension benefits were UAH 894 thousand.

The number of participants getting defined period benefits is 1,580 which is 176 times lower than the total number of participants.

## Dynamics of assets for non-state pension funds over 2005 - 2007

### Net asset value (UAH, thousand)



Total value of NPF assets went from UAH 137.4 up to 280.6 Mio, i.e. 104%. In particular, net asset value increased 117%, from UAH 128 to 278 Mio.

For the period of NPF existence, total investment return was UAH 68 Mio or 29% of the amount of paid contributions, growing 191.6% over the reporting period.

The highest return of NPFs over the previous year was 42%.

In the general investment portfolio structure assets are distributed as shown below:

- share of corporate bonds in absolute terms was UAH 6,6842 (23.8%);

- UAH 10,8428.4 thousand in bank deposits (38.6%).

Thus, most pension assets still stay at bank deposits. Moreover, over the last year, their share has grown from 35.8% to 38,6%, average deposit interest rate was below inflation rate (13% and 16.6%).

Around 80% of deposits range from 1 to 3 years in term, the

rest are less than one year long.

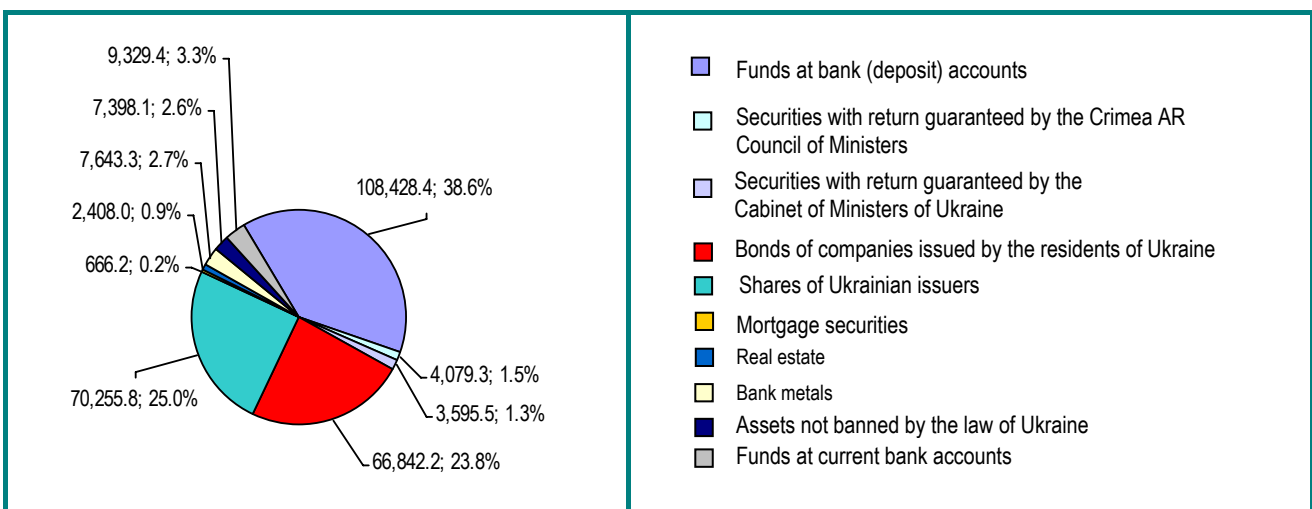
Low level of pension assets investment in government bonds is typical of the national consolidated portfolio. Over the last year, the share of such investment fell from 1.6% to 1.3%, even though the allowed maximum is 40%.

Beginning 2007, some NPF portfolios have had mortgage securities included in their portfolios. However, the share thereof, all in all, is less than 0.2%, compared to the 40% allowed. This is linked to slow securitization of mortgage commitments.

NPF portfolios include no securities of non-residents of Ukraine, at all, caused by the procedure for obtaining NBU authorization to buy currency which unacceptable for portfolio investors.

In 2007, compared to 2006, the share of equities by Ukrainian issuers in NPF consolidated portfolio grew 4.4 times.

### Consolidated portfolio structure for pension assets invested as of 31.12.07



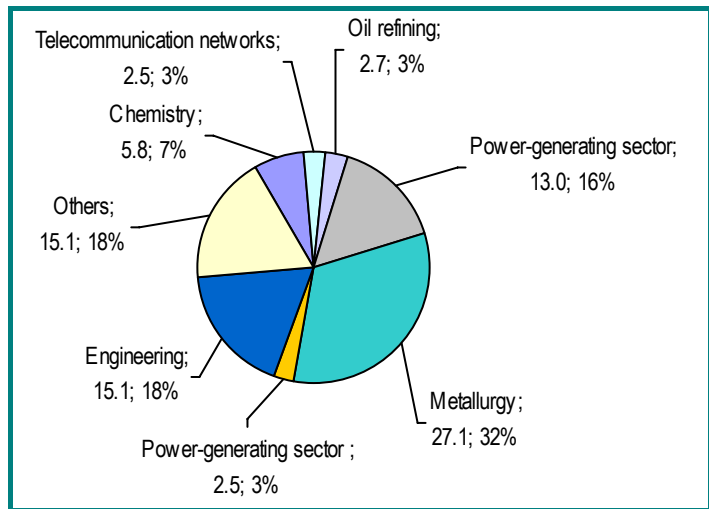
Under the investment structure of NPF assets in the branches of economy, the biggest share of investment goes to metallurgy, even though it has declined from 40% to 30%; and to engineering where the situation has hardly changed over the previous two years.

In the time of NPF existence, total expenses of NPFs have gone up from UAH 6 to 15 Mio. The reason for this is both the growing number of operating NPFs, and servicing amount for participants and their accounts.

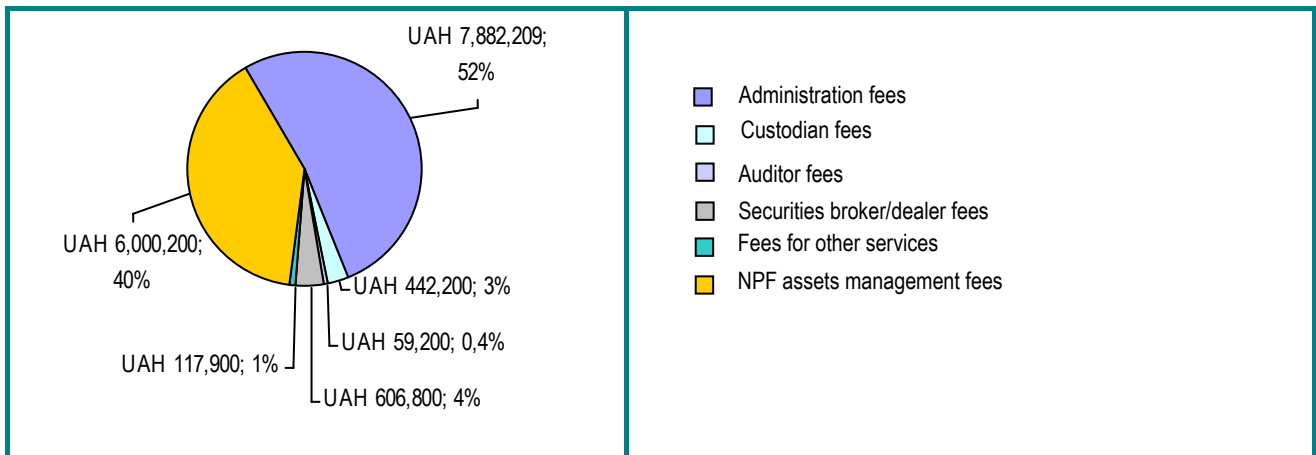
NPF administration, asset management, custodian, auditor and securities broker/dealer fees and expenses are covered from NPF pension funds.

Even though they take a relatively high percent in NPF assets, these expenses are not so high in absolute terms compared to NPF servicing fees in other countries, given the small amount of NPF assets in Ukraine and of transactions with such assets.

### Structure of investment in shares of Ukrainian shares, by branches, as of 31.12.07



### Structure of expenses



### State oversight and enforcement in non-state pension provision

State oversight and enforcement in non-state provision covers:

- operation of NPFs, insurance companies, and bank institutions – by the State Commission for Regulation of Financial Services Markets in Ukraine;
- operation of pension funds asset managers, and custodians – by the Securities and Stock Market State Commission.

Under the system of non-state pension provision, after passing a special law, corporate and occupational pension funds must ensure pension provision for certain categories of employees with hazardous and arduous working conditions allowing privileged retirement or for-the-years-of-service pensions.

The implementation of mandatory occupational pension system provides for additional burden on employers, including the State Budget, caused by payment of mandatory occupational pension contributions for the participants of the system. Therefore, according to the Population Labor and Employment Research Institute under the Ministry of Labor, contribution tariffs for employees occupied in arduous and hazardous conditions included in List 1, will be 18.23 %, and 8.8% for employees from List 2.

In turn, a prospect is studied to determine, based on employees' health data whose change affected by production environment proves the likeliness of occupational diseases, the kinds of economic activities and categories of employees where up-to-date production technologies and labor arrangements cannot remove hazardous working conditions; to ensure the development of mandatory occupational pension programs for such employee categories, and promote their implementation.

## Demographic situation and pension system

One of the manifestations and effects of the today's demographic crisis in Ukraine is rapid ageing of the population, and, respectively, the growing ratio of retirees to the working population. Altogether, ageing population should be viewed as a positive trend that appears at a high stage of social development and confirms human achievements in decreasing death rates and improving life expectancy. The trouble is, that in Ukraine this is a very speedy process. According to the 1959 census of population in Ukraine, people aged 60 and older constituted 10.5% of the total population. In 2001 census the figure doubled – to 21.4%. Note that, in late 1990's and early 2000's, the few generations born before WWII were beyond working age, while more numerous generations born in early 1980's added up to the working population. Thus, in 1999-2003 the working age population ratio increased slightly and ageing population declined a little. However, in 2004 the working age strata began to decline, and will be declining faster further.

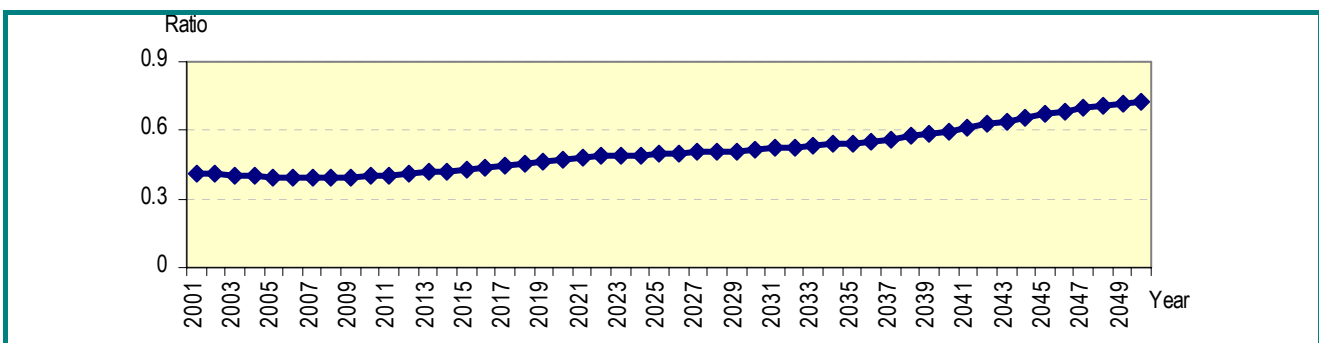
Today, Ukraine has one of the fastest ageing rates in Europe, while birth rate is one of the lowest, too. Demographic predictions show, that in the first half of the current century, the existing de-population tendencies will prevail. Moreover, the working age population will be declining, while retired population will be growing in number at a stable rate. Percentage of people aged 60 and more will be growing and, in 2050, will reach 32%, with the ratio of retired and working population (demographic burden in the pension system) at 72%, according to the Institute of Demography and Social Studies under the Academy of Science of Ukraine.

Meanwhile, note, that, irrespective of the positive trends in the labor market development, economic growth seen in Ukraine since 2000 does not provoke growth in the amount and level of employment, with the labor supply hardly changing at all. Today, the employment rate in Ukraine is much lower compared to the historical hindsight into the Soviet times, as well as to modern indicators in most European countries. Particularly, this concerns men at the best working age of 30 to 45 years, and young population aged from 15 to 24.

Even today, the ratio of contributors and retirees in the pension system of Ukraine is 10 to 9 respectively. Provided that, participation of the public in pension insurance does not change by mid 2020's, the number of retirees may outcome the number of contributors.

Such demographic prospects require adjustment of the economy and the community to the situation of the "ageing" population where consumers outcome economically active population in number. In particular, de-population and population ageing affect adversely financial capacity of the I pillar that is based on the solidarity of generations where the working generation supports the retired generation.

### Ratio of retirement age population (women above 55 and men above 60) and the working population (women (16-54), and men (16-59))



### Ageing rate for the population of Ukraine, 1959–2050 (forecast)

