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PENSION REFORM: WHAT HAMPERS IT?

This topic would have been perfectly timely back in 2005 or 2006. So that in 2010, experts could have reviewed palpable and tangible results of the first years (and steps) of the reform. Alas, this was not meant to happen. The creation of a three-pillar pension system in Ukraine has been reduced to empty talk and banal increases of pension benefits on the eve of a next election campaign. Given the fact that we live in a constant election environment, pension payouts have now become a permanent phenomenon, too.

Now it is time for people at MinFin [*Ministry of Finance – translator’s note*] to clutch their heads: every sixth Hryvnia of State finances is allocated for pension payouts. Well, with the insufficient State budget of Ukraine, there are only enough funds in it for social payouts and public debt payments. Ukraine’s Finance Minister has recently released the following statistics: the budget deficit of the Pension Fund of Ukraine exceeded UAH 29 billion in Q1, 2010. And news of pension benefits payout delays is trickling in from one region after another.

It is obvious that this is a blind corner situation, but we are moving there at a brisk pace, trying to fool everyone around (primarily ourselves) by uttering a commonplace phrase to the effect that the “pensions have been paid in full”. Yes, they were, and in full – today, but what about tomorrow? How can one balance the budget of the Pension Fund of Ukraine, which is generating ever increasing risks for the system of public finance and Ukraine’s economy in general? What sacrifices are affordable for Ukraine, and which [sacrifices] are not? Is there anything more than wishful thinking in the talks about the impending implementation of the mandatory accumulation system in Ukraine?

These and other matters have been discussed for two and a half hours at the roundtable called by the Ptukha Demography and Social Research Institute under Ukraine’s National Academy of Sciences (NANU) and by *The Dzerkalo Tyzhnia* newspaper with support from the Financial Development League. Participating in the discussion were Academician Ella Libanova, Director of NANU Demography and Social Research Institute; Vasyl Nadraha, Minister for Labor and Social Policy; Viktor Kolbun, First Deputy Chair, Pension Fund of Ukraine; SSMSC Commissioner Serhiy Biriuk; Andriy Bakhmach, Board Chair, Ukrainian Non-State Pension Administrators Association; Yuriy Blashchuk, Board Chair, Platinum Bank; Greg MacTaggart, Senior Pension Advisor, USAID Capital Markets Project; Anna Nechay, Deputy Director, Financial Law Research Institute, Dr. in Law; Marcin Swiencicki, Blue Ribbon think tank director, UNDP; and Olena Hariacha, advisor to the Minister for Labor and Social Policy.

For lack of space, we placed a brief summary of the discussion on page 7; for its full version, please see the site of *The Dzerkalo Tyzhnia* (www.dt.ua).

Mr. Greg MacTaggart: - “Ukraine differs significantly from the other countries of the world”. I heard this from Natalia Goriuk, when she still worked at the Labor Ministry of Ukraine. Now, having worked in Ukraine for 12 years, I understood what she had meant.

Ukraine passed the Mandatory State Pension law back in 2003, and even then the country decided that it would create its own model, in which the mandatory accumulation system (Pillar II) is to be under centralized management.

Yes, we know that there is no Pillar II in Ukraine so far. The developments that took place in 2008 – 2009 have proven how wise Ukraine was. I cannot imagine what would have happened, had Ukraine passed the draft law on the implementation of the mandatory accumulation system (MAS) submitted to the Verkhovna Rada in January 2007, and if the new law had been actually implemented. Just to remind the attendees, Pillar II was expected to be implemented starting from January 2009. The negative investment return would be taken very badly by the general public.

I agree with the thesis of Mr. Biriuk that the pension reform is not a driving force of capital markets. So if capital markets are not ready yet, do not tie them in with the pension reform. Pension assets are not the funds to play with, creating new investment products and instruments.

Ukraine is still unwilling to be like everyone else. [But] The outside world has changed in the previous ten years. Maybe it is good time for us to look outside the box. So it is probably not worth copying blindly the examples of other countries and pushing through the pension reform as part of the financial reform. We might as well need to go back to basics and make use of the experience accumulated over the previous ten years...