FINANCIAL PROVISION OF THE PENSION SYSTEM IN THE EUROPEAN COUNTRIES AND UKRAINE UNDER GLOBALIZATION

Tetiana Ivashchenko
Taras Shevchenko National University of Kiev

Abstract

The most contradictions arise today over the pension system reforming. Each year the states spent significant resources to finance social and economic needs of the population. The positive effect of the nominal growth of the social and economic guarantees in Ukraine leveled nowadays in terms of financial, economic and political instability. Also the processes of depopulation have a very negative impact on the financial viability of the PAYG pension system. Given this, the research aim was to study and discuss tendencies in financial provision of the pension systems in the European countries and Ukraine under globalization. As a result in the process of research the main features of functioning and providing of the pension insurance systems in European countries and Ukraine were examined; the impact of the depopulation processes on the financial provision of the pension systems was determined; problems, related to introduction of the funded system of pension insurance were analyzed; the role of the minimum pension institute in provision of the effective pension system functioning was disclosed and recommendations in relation to optimization of pension insurance and providing co-operation under globalization were developed.

Key words: financial provision, insurance, pension, retirement, social guarantees, Ukraine.

Introduction

Pension provision in any country is a critical component of well-being of its citizens, that demonstrates the true government desire to comply with the principles of humanism for those, who gave to the society work, intelligence and health. Providing of the socio-economic guarantees by transfer (insurance) payments is a feature, that organically inherent to the market economy. Such systems were historically evolved through gradual evolution, that were determined by: 1) establishment and development of the legal regulation of social insurance relations, giving it the mandatory character for all the persons employed under the contract, and 2) increasing of the state's role in providing of the socio-economic guarantees.

The efficiently functioning system of pension insurance and a clear mechanism for implementation of social and economic guarantees in pensions are not formed for today in Ukraine, this is caused by a number of factors: economic, demographic, social and political. Therefore, due to the states inability under conditions of financial and economic crisis to guarantee provision to the citizens of economic guarantees by transfer (insurance) payments is a feature, that organically inherent to the market economy. Such systems were historically evolved through gradual evolution, that were determined by: 1) establishment and development of the legal regulation of social insurance relations, giving it the mandatory character for all the persons employed under the contract, and 2) increasing of the state's role in providing of the socio-economic guarantees.

The efficiently functioning system of pension insurance and a clear mechanism for implementation of social and economic guarantees in pensions are not formed for today in Ukraine, this is caused by a number of factors: economic, demographic, social and political. Therefore, due to the states inability under conditions of financial and economic crisis to guarantee provision to the citizens of their basic social and economic rights, essential and urgent is to find ways to improve the reliability and effectiveness of functioning of pension insurance system and maintenance.


Some problems of theoretical studies of the pension insurance and providing system in the context of improving the welfare of disabled, unemployed people were held by such Ukrainian economists as: V. Mandybura (1998), N. Boretska (2001), O. Paliy (2004), V. Tropina (2005), V. Novikov (2006), S. Batagok (2007), E. Libanova (2010), O. Krasota (2012). However, under conditions of the financial and economic globalization, it is extremely important to focus on solving problems related to the creation of reliable and efficient mechanism for accumulating savings and insurance funds to provide citizens a decent standard of living in retirement.

The object of research – the process of development of socio-economic relations, that arise between the state and individuals regarding the proper pension providing for the last.

The purpose of the research – to develop recommendations for optimizing the interaction of the pension insurance and providing processes in times of economic globalization.

Tasks of the research:
1) to examine the features of the pension insurance and provision system in European countries and Ukraine;
2) to determine the impact of the depopulation processes on the financial provision of the pension systems;
3) to analyze the problems, which associated with the introduction of fully funded pension insurance system;
4) to disclose the role of the minimum pension institute in provision of the effective pension system functioning;
5) to develop recommendations for optimizing the pension providing system in Ukraine.

In order to address the tasks, several methods are used: 1) monographic method for interpreting the research results, based on current scientific knowledge and theories; analysis and synthesis techniques – to explore the elements of the problem and formulate the coherence; scientific inductive method – from the individual elements or facts to form a scientific assumptions and interconnections; scientific deductive method –
logically systemize and explain empirical data; survey method – to disclose the features of the pension insurance and provision systems; statistical analysis method – descriptive statistic.

The sources: statistic data of the State Statistics Service of Ukraine, Ministry of Social Policy of Ukraine; European Commission data basic; the data of the International Social Security Association, legislation of the Ukraine.

**The features of the functioning of the pension system at different levels**

Each year the states spent significant resources to finance social and economic needs of the population. Expenditures on social security contain: social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs; administration costs, which represent the costs charged to the scheme for its management and administration; other expenditure, which consists of miscellaneous expenditure by social protection schemes (payment of property income and other).

On average in the European Union countries expenditures on social security programs account about 29.5 per cent of GDP (2009). In Ukraine, this figure in 2009 was 29.9 per cent. (SSSU, 2012).

At first sight, the trend of the social benefits expansion is positive and should help to increase the level of socio-economic security of the population. However, as practice shows, the positive effect of the nominal growth of the social and economic guarantees leveled in terms of financial, economic and political instability: firstly – of steady increasing in food prices, manufactured goods, housing and community amenities, health services; secondly, – that this growth is not mainly occurred through the increasing of the effectiveness of the national economy, but through increasing of the external debt of the country, which can negatively affect on the level of socio-economic security of the population in the future, when the time comes to repay the loan; and thirdly – lack of science-based approach to the establishing of the most important state social standards, norms of consumption etc.

The most contradictions arise today over the pension system reforming. Because the pension system, the main element of which – mandatory state pension insurance, as one of the main guarantees of social and economic security does not perform properly its main task – to support at the optimally sufficient level the material well-being of the citizens and their families at retirement age, disability or survivors’ benefits. The pension system created on the basis of insurance depends on many indicators of social and economic development: the situation in the labor market, the level and dynamics of wages, social efficiency, tax, banking, price and other components of the state policy.

Across Europe, pensions consume the largest portion of social security resources and, for most citizens, provide the longest periods of support. As such, they are the centerpiece of social security systems.

According to the forecasts of USAID pension expenditures in Ukraine will have significantly increased by 2050 (from 16.3 to 24.2 per cent of GDP). As we can see in all given countries costs will tend to grow, except for Poland and Denmark, where it will be reduced (see table 1). Of cause such positive effect in these countries can be achieved on account of economic growth. So, today to avoid this negative trend it is very important first of all to focus on providing all the necessary conditions for the development of the national economy.


<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>8.7</td>
<td>16.3</td>
<td>15.2</td>
<td>18.8</td>
<td>20.9</td>
<td>24.2</td>
</tr>
<tr>
<td>Germany</td>
<td>8.8</td>
<td>10.2</td>
<td>10.5</td>
<td>11.5</td>
<td>12.1</td>
<td>12.3</td>
</tr>
<tr>
<td>France</td>
<td>10.5</td>
<td>13.5</td>
<td>13.6</td>
<td>14.2</td>
<td>14.4</td>
<td>14.2</td>
</tr>
<tr>
<td>Great Britain</td>
<td>5.5</td>
<td>6.7</td>
<td>6.9</td>
<td>7.6</td>
<td>8.0</td>
<td>8.1</td>
</tr>
<tr>
<td>USA</td>
<td>5.1</td>
<td>4.9</td>
<td>5.3</td>
<td>6.0</td>
<td>6.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5.3</td>
<td>6.5</td>
<td>7.8</td>
<td>9.3</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>7.1</td>
<td>9.4</td>
<td>10.6</td>
<td>10.6</td>
<td>10.4</td>
<td>9.6</td>
</tr>
<tr>
<td>Russia</td>
<td>4.7</td>
<td>9.4</td>
<td>10.8</td>
<td>14.0</td>
<td>15.4</td>
<td>18.8</td>
</tr>
<tr>
<td>Poland</td>
<td>8.5</td>
<td>10.8</td>
<td>9.7</td>
<td>9.4</td>
<td>9.2</td>
<td>9.1</td>
</tr>
</tbody>
</table>

Pension reform in Ukraine has been implemented since 2004, its essence is, that the responsibility for pensions from the state partially translated into the citizen and this is achieved through the introduction of three-leveled pension system.

The first level – a solidarity system of compulsory state insurance (PAYG), in other words, pension, that majority of the citizens receive regardless of the length of service and insurance premiums, that are paid to the Pension Fund of Ukraine. The second level – funded system of compulsory state pension insurance, in which individuals pay contributions from wages, and in the end it will be a kind of deposit. The third level – private pension provision. We have pension funds with which people enter into appropriate agreements and voluntarily pay contributions (SSSU, 2012).
Many scientists now argue that the solidarity pension insurance system does not withstand the demographic risks (Krasota, 2012; Libanova, 2010). Therefore, in order to compensate for the future pensioners, who working, cannot provide a sufficient level of pension, it is necessary to implement the mandatory funded system as a guarantee that after reaching retirement age people will not be left without means of livelihood, and as a one of forms of reducing the risk of the pension system.

But do not forget that funded system is more vulnerable to the financial risks. And nowadays, especially in Ukrainian transformation economy and particularly the financial crisis only PAYG pension system is more reliable and able to provide each though slight, but steady income on the basis of parity agreements between generations. Method of payment of financial contributions of employees as a pensions has two important advantages: recalculation of pensions size according to changes in wage allows to compensate for the losses from inflation and provide participation of pensions in the overall growth in productivity which is respectively expressed in labor income (Mandybura, 1998).

According to the PAYG pension system the size of the average pension directly proportional depends on the income and number of employees and contribution rates to pension funds and inversely proportional depends on the number of persons eligible for retirement.

Impact of the depopulation processes on the financial provision of the pension systems

The processes of depopulation and aging population have a very negative impact today on the financial viability of the PAYG pension system.

Population ageing cause a drop in the ratio of active to inactive members of European societies, straining pension finance. Estimates suggest, that aging will cause pension expenditures to rise by an average of 2.4 percentage points of GDP by 2060, from 10.2 per cent to 12.6 per cent (MSPU, 2012). In most European countries, there is another, less-discussed pressure on pension system finances: informal, undeclared work. While precise statistics are difficult to come by, the best estimates suggest that such work equates to 15 to 20 per cent of the GDP of EU-15 economies, and this figure is approximately double for many of the EU Member States that have joined since 2004 (Schneider, Klinglmair, 2004). The missing contributions deprive the pay-as-you-go schemes of the resources they need to pay current pensioners, thus creating immediate financial pressures to increase the retirement age. The imbalance is evident in such countries as Serbia, Bosnia and Herzegovina, Ukraine, where large sectors of informal employment make the current ratio of contributors to pensioners 1.25 to 1. Lithuania faces a rapidly aging population too, with the old-age dependency ratio (the projected number of persons aged 65 or older as a percentage of persons aged 15 to 64) projected to fall from the current 1:4 to 1:2 by 2060. This is actually lower than the 1.4 to 1 ratio projected for the EU in 2060, after the retirement of the baby boom generation (EC, 2012).

In this connection, virtually all countries are increasing their pensionable ages. In this regard, Germany and the United Kingdom are at the forefront, with legislated ages of 67 being phased in over the next 25 to 35 years. Since the onset of the global recession, several countries have been discussing further increases (the United Kingdom, the Czech Republic, Finland, Greece, Hungary, Latvia, the Netherlands, Slovenia and Turkey). Also, the years of work required for a full pension are being gradually increased and the “escape routes” by which workers can leave the labor market early (early retirement, disability pensions and extended sick leave) are being restricted.

During 2001 to 2010 (2012), the average age of exit from the labor market in the EU-25 increased by 1.7 years. In the EU-27, the increase was 1.6 years; in the EU-15, a 1.4 years (see table 2). It must be underlined that significant differences in life expectancy among European populations, as well as among occupational groups within countries, give these increases very different impacts, both on insured persons and on pension system finances.

Table 2. Average exit age from the labor force, years (Source: consolidated and formed by the author on the basis of EC databases)

<table>
<thead>
<tr>
<th>EU countries</th>
<th>years</th>
<th>2001</th>
<th>2010</th>
<th>divergence</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union – 27</td>
<td></td>
<td>59.9</td>
<td>61.5</td>
<td>+1.6</td>
</tr>
<tr>
<td>European Union – 25</td>
<td></td>
<td>59.9</td>
<td>61.6</td>
<td>+1.7</td>
</tr>
<tr>
<td>European Union – 15</td>
<td></td>
<td>60.3</td>
<td>61.7</td>
<td>+1.4</td>
</tr>
</tbody>
</table>

In Ukraine a new pension law on legislative measures to ensure pension reforming, which was implemented on 1 October of 2011, raises the retirement age to 60 for women and 62 for man who in public service, and increase the insurance qualifying period to 30 years for women and 35 years for men (MSPU, 2012).

Besides, this law gradually raises the length of service to 25 years for military personnel. Moreover, each six months of studies in military high schools will qualify as one year of military service.
The maximum pension will be limited to ten minimum incomes to equal 7,840 (UAH) and 8,000 (UAH), as from 1 December (MSPU, 2012).

The law also decreases the wage ceiling taken into account for calculating public employees’ pension benefits from 90 to 80 per cent. However, the maximum pension will be limited to ten minimum incomes (MSPU, 2012).

A three year transition period is set for women to opt for an old-age pension either under the old or new pension legislation, which, if the deferred retirement is chosen, provides for a bigger pension. Specifically, if the person defers his/her retirement the pension’s increase will be 6 per cent for each of the first five years, and 9 per cent beginning from the sixth year. A lump sum equal to ten times the monthly entitled pension will be granted to medical professionals, teachers and persons employed in the social sector, if they stop their working activities.

The pension for public employees will be calculated based on a salary of up to UAH 14,400. Parliamentary deputies will no longer enjoy higher pension benefits compared to other citizens. However, they will have the right to retire one and a half years before reaching the retirement age.

Workers’ behavioral response to higher retirement ages is highly uncertain, especially in the current economic climate of recession and rising unemployment. Thus, higher retirement ages may leave some older workers without either a job or a pension for some years, and with a lower pension when they finally qualify. This scenario poses a significant risk of increased poverty among the elderly, especially for women. The risk faced by women stems from the continuing gender pay gap and women’s shorter average time in the workforce, which is in large part a result of family care giving.

Advantages and disadvantages of a funded pension system

Now, in many countries, reforms are seeking to link benefits more closely to the lifetime contributions that each worker pays. Advocates of this type of reform hold that it increases actuarial fairness.

The advantage of a funded system is the right of the private ownership of the accumulated funds, that will be paid to an insured person during the period after reaching retirement age or inherited by her family.

But from the standpoint of benefit adequacy, it is generally less favorable than counting final years, and thus creates financial incentives to delay retirement. The shift to Notional Defined Contribution (NDC) systems achieves this linkage most obviously, since these systems base benefits entirely on lifetime contributions. That is, savings schemes cause the increasing of the difference in pensions sizes of high-paid and low-paid professions (the last now represent the vast majority of contributors in Ukraine). Sweden, Italy, Poland, Latvia, Russia and Kyrgyzstan are phasing in such systems. A similar linkage is achieved by the new pension point systems put in effect by Bulgaria, Croatia, Romania and Slovakia, that are similar to the German model. The substitution of private savings for social insurance also strengthens the contribution-benefit linkage. However, high volatility in securities markets can leave similarly-situated plan members with quite different private benefits. Such substitution is now well advanced in many of the region’s countries (Croatia, the Republic of Macedonia, Sweden and most of the newer EU Member States and Kazakhstan).

The global financial crisis caused a loss in the value of most of the region’s public and private pension funds. In the first months of the crisis many countries incurred losses in the range of 10 to 35 per cent (ISSA, 2010). Although recently we have seen a partial recovery, the market turmoil has led many observers to reconsider the role and scope of private pension funds in “pillared” or “tiered” pension systems, especially when participation is mandatory and savings may be invested in equities.

These developments also call attention to problems that existed within many private schemes before the crisis, in particular weaknesses in governance, high private management fees and the absence of legal specifications for benefit computation.

What institution must absorb these recent financial losses depends on the type of pension scheme. In the defined contribution, individual savings schemes, that exist in large numbers in the newer EU Member States and in Denmark and Sweden, affiliates immediately lost a portion of their retirement savings. The situation differs in occupational defined benefit (DB) schemes, which exist in large numbers in Ireland, the Netherlands and the United Kingdom, and where the level of benefits is guaranteed by a law or a collective agreement. Here the losses incurred caused the schemes’ reserves to fall short of what is needed to meet their future benefit obligations. In Ireland and the United Kingdom, for example, funding ratios declined from a high of 120 per cent to around 75 per cent (ISSA, 2010). Unless buttressed with additional revenues, these imbalances will necessitate benefit cuts. In the wake of the crisis, the deficits are leading many employers to close DB funds to new entrants and shift to DC savings accounts. This accentuates the trend from DB to DC pensions that was underway across Europe before the crisis. In some countries, such as the United Kingdom, workers are resisting this shift.

Despite financial markets partially recovering in 2010 – 2012, public pressure for government action to mitigate the risks of private pensions continues. European governments have already adopted and implement a series of measures to solve this issue. Some of them can also be used in domestic practice.

Some of the European countries are providing plan members with clearer information on the risks. Lithuania, Turkey and the United Kingdom are carrying out information campaigns or requiring more disclosure by pension funds. In Slovakia, the government disseminated information showing the age and income profiles of
workers for whom private fund membership is disadvantageous. Hungary is requiring private funds to disclose the reasons for low investment returns. Austria has legislation requiring more disclosure of management fees.

Some governments are developing and improving so-called default options, which automatically assign workers to the choices judged best for them, while giving them the right to switch. In 2012, the United Kingdom will automatically enroll all eligible workers in either a personal account or their employer’s occupational scheme. Bulgaria, Germany, Hungary, Italy and Poland are developing and/or improving so-called life cycle funds that include less volatile investments, to which worker funds are switched automatically as they approach retirement age (ISSA, 2010).

The next line of action targets the governance of private pension funds, with calls for higher levels of expertise on pension boards. Germany has passed legislation to improve independent monitoring and risk management. Norway is reviewing its Financial Assessment Framework, used to judge the solvency of private funds. In several countries (Spain, Portugal, the United Kingdom and Italy) pension regulators are coordinating their efforts more closely with government agencies with similar mandates (the central bank and the finance ministry) (Zaidi, Grech, 2007).

The crisis is leading some governments to address longstanding problems with private pensions, in particular high administrative costs, that consume high portions of worker’s lifetime savings. Several governments (Belgium, Poland, Latvia, Lithuania, Spain and Slovakia) have placed ceilings on fees or made them contingent upon the investment performance of a fund manager. In the wake of the crisis, Poland halved the maximum management fee that private pension funds could charge. Slovakia is considering a similar cut (ISSA, 2010).

Today in Ukraine the conditions for implementation of the funded system of pension insurance and private pensions isn’t created. It is not developed and not worked out a clear mechanism of the protection of the citizens’ assets. Besides the unstable political and economic situation increases the riskiness of not returning of the funds accumulated by citizens.

It is important to understand, that pension fund assets cannot be pledged, they cannot be taken for redemption of penalties or be taken away, if they are formed with funds obtained legally. To the pension assets cannot be applied obligations founders of the pension funds, employers, payers, asset managers, administrator, custodian of the pension fund.

The role of the minimum pension institute in provision of the effective pension system functioning

As pension systems in the European region become more earnings-related and privatized, both the importance of minimum pensions and their possible impact on work incentives are commanding increased attention. Pensioner poverty remains an issue in a number of countries. In 2010, in Cyprus (34.7), Bulgaria (28.7), Croatia (25.5), Switzerland (24.1), Greece (20.8), Spain (20.6), Portugal (20.0) more than 20 per cent of pensioners were at risk of poverty. In contrast, the EU-27 average rate of poverty risk for pensioners is 15.3 per cent. There are higher portions of poor elderly in the other countries of the region, especially in the countries of Central Asia, though comparable statistics are not available (EC, 2012).

Several governments have recently adjusted their minimum pensions upward beyond what statutory indexation requires. Finland announced a minimum pension increase of 23 per cent (effective 2011). Croatia combined a large increase in the minimum pension with more restrictive eligibility requirements. Portugal’s new Solidarity Supplement provides additional income for pensioners older than age 80. Kazakhstan reintroduced a basic state pension (2005), which had been eliminated a decade earlier when it “privatized” its pension system. Russia increased the flat-rate portion of its pension formula, which had the effect of boosting the minimum pension, and is planning another major reform in the near future. During last years, several other countries (Armenia, Azerbaijan, Kyrgyzstan, Georgia, Tajikistan and Moldova) also increased their minimum pensions significantly.

As a result of the crisis, several countries adopted special measures to assist minimum pension recipients. Slovenia provided a one-off allowance to compensate for increases in food prices. Austria provided an energy supplement and Iceland pays a supplement for pensioners whose capital income, employment income and pension income fall below a minimum threshold (ISSA, 2010).

In earnings-related pension schemes, minimum pensions are often inaccessible for workers who fail to satisfy certain minimum contribution requirements. A number of countries have recently tried to address this problem. For example, the Netherlands now covers workers on short-term contracts and Belgium recognizes periods in part-time work when assessing eligibility for the minimum pension. In addition, several EU Member States have improved pension rights for periods of childcare leave and some (the United Kingdom and Germany) are introducing such rights for providing care to elderly family members. These rights can help women and men who engage in family care giving to qualify for a minimum pension. From this perspective, equalizing the retirement age, as in the United Kingdom and Hungary, will also improve women’s pensions. Increasingly, the perception that earlier pensionable ages for women are favorable is being challenged. Women’s often shorter, less-well paid and more fragmented employment histories may actually result in lower or no entitlements to pensions.

77
For today the minimum pension in Ukraine is 844 UAH (about 80 EUR). Since 1996 the nominal pension benefits tend to increase, which does not correspond to real growth in commodity prices in the consumer market and inflation rate increasing, so the level of the minimum pension for retirees today does not provide satisfaction even at the simple level (physiological) of reproduction.

It is also worth to note, that today the minimum pension does not include costs for pensioners medical care and other important needs. Previously such services in Ukraine were provided by the state, but now the state is financially unable to give such kind of services, that is why there is a need to obtain necessary medical services at the commercial structures, that for a fee guarantee its clients skilled assistance.

**Recommendations for optimizing the pension providing system in Ukraine**

Thus, the state must guarantee the public's right for a pension in case of social insurance risks, that are enshrined in law, of receiving monthly cash in the amount, that typically reflects past earnings and provide a decent life for pensioners, and in cases of appointment pensions, excluding work activity, – at a rate, that corresponds with social standards.

Implementation of storage elements to the state pension system has its advantages, but for the successful realization of these benefits it is necessary to keep to several conditions:

– defined, and thus a high level of welfare of the population, including the already achieved level of social security;
– economic and political stability of society;
– durability of the national currency, low level of inflation;
– the existence of a developed financial infrastructure, a set of financial instruments, mainly long-term, working in an economy, that can provide mutually beneficial investment process, that is the essence of funded schemes;
– strict government control over the pension funds’ financial situation;
– high and stable level of public confidence to the funded pension system;
– favorable demographic situation;
– tax system, that encourages savings schemes.

Improvement of the mechanism of the social and economic guarantees’ realization in the system of pension insurance is a prerequisite for the implementation of the pension reform and other socio-economic transformations under conditions of transformational and globalized economy. In Ukraine, nowadays, the mechanism of social and economic guarantees provision in the sphere of pension system needs some changes, namely:

– improvement of the mechanism of strict supervision of compliance with the pension legislation requirements;
– balancing of flexibility and financial security in the law, given the current situation in the sphere of pension insurance;
– control over the execution of the norms of the law and in general of the implementation of the principle of legality in law-applying activity. It is important, that executive agencies do not change the provisions of the laws and do not violate citizens' rights to pension provision;
– bridging the gap in pension legislation, contradictions in some laws norms in this area. It is necessary to clearly indicate the circumstances, in which a pensioner can count on one or another of pension benefits, and in what cases the state provides additional benefits for him etc.
– establishing certain rules, grounds and conditions of compensation of material and moral damages in the case of wrong assignation of the pensions value (or delay of its assignation), entering to the document invalid data about the length of service, salary, value of insurance contributions and other legally significant circumstances, the disclosure of this information, late pensions payment, illegal denial of the pensions assignation and so on.
– development a clear mechanism for the protection of human rights in the event of its violation. It is the court protection provided by the Constitution of Ukraine;
– development and implementation of the mechanism of responsibility by all own property of managers and organizations, where accumulated funds were invested to preserve and receive dividends for the future payments to pensioners;
– control over the level of the citizens informativeness regarding any changes in pension legislation, the procedures of obtaining funds and its savings for further benefits after achieving the retirement age.

The government should implement the mechanisms, that on conditions of its using in practice will: firstly – prevent abuses and frauds in the pension system; secondly – insure against errors and gaps in information providing and thirdly – ensure the fulfillment of obligations to participants, when other mechanisms provided do not work. Ukrainian economy should be ready for effective using of long-term investment resources – money of the pension accumulation system.

The best way to achieve the goal of the effective pension providing in Ukraine is using the mixed system, which includes the traditional PAYG system of financing of certain retirement benefits from the current
earnings or a system of minimum pensions, guaranteed by the State or those, that paid on the basis of means test procedures; the mandatory funded financial system of individual retirement accounts or occupational pension insurance system and voluntary system of additional (individual) pension savings, that can be engaged by pension funds, banks, insurance companies and other financial institutions.

Conclusions

1. In terms of economic transformation and globalization, it is necessary to optimize the interaction of the pension insurance and providing processes. The main features of the pension insurance and provision system in European countries and Ukraine are: 1) a long time is needed for the pension assets accumulation. So there is a high probability of loss previously accumulated pension funds; 2) financing of the pension system consumes a significant part of the budget; 3) almost in all of the countries pension system consists of three levels: PAYG, funded system of compulsory state pension insurance and private pension provision; 4) recently many countries raise retirement age.

The distinguishing feature of the Ukraine’s pension system is, that despite of increasing over the years the sizes of the nominal pensions, they do not provide all necessary physiological and spiritual needs for the person.

2. The impact of the depopulation processes manifests in the fact, that firstly: aging of the population compels governments to raise the limit of retirement age, because the burden of the pension provision is transferred to a smaller number of employees; secondly: it is actively implemented the funded system of compulsory state and private pension insurance.

3. The main advantages of the funded system are: 1) compared with the PAYG pension system in funded systems the size of the pension is usually higher; 2) a right of the private ownership of the accumulated funds, that will be paid to an insured person during the period after reaching retirement age or inherited by her family. But at the same time funded system is more sensitive to financial risks, such as inflation rate, rate of investment income, stability of the stock market, etc. and also is not entirely free from the influence of demographic processes – in particular, increasing in life expectancy at retirement age.

4. The role of the minimum pension institute is, that in the context of globalization, socio-economic and political instability only minimum pension payments could guarantee to the person, who is unable to accumulate the necessary amount of money for retirement, the availability of means, needed for providing the simple level of reproduction.

5. To optimize the pension providing system in Ukraine the government should implement the mechanisms, that on conditions of its using in practice will: firstly – prevent abuses and frauds in the pension system; secondly – insure against errors and gaps in information providing and thirdly – ensure the fulfillment of obligations to participants, when other mechanisms provided do not work.

In future research problems and prospects of guarantees providing in the funded pension system will be examined in more detail.

Literature

7. KRASOTA O. 2012. The reformation of the pension system as a main factor of competitiveness of national economy. Theoretical and practical aspects of the economy. vol. 2, no 27, h.139 – 145.
PENSION POLICY IN EU25 AND ITS IMPACT ON PENSION BENEFITS.


POVERTY RISKS FOR OLDER PEOPLE IN EU COUNTRIES – AN UPDATE.

PENSIONS IN THE EUROPEAN UNION AND UKRAINE IN THE CONTEXT OF GLOBALIZATION

Tetiana Ivashchenko
Kiev Taras Shevchenko National University

Abstract

In the context of economic changes and globalization, it is necessary to optimize the relationship between pension insurance and the processes that support it. Pension insurance is characterized by the fact that it takes a long time to accumulate. Therefore, there is a high probability of losing accumulated pension funds earlier. Therefore, it is important: 1) to improve the mechanism for controlling strict pension rights requirements, 2) to balance flexibility and financial security in the rights acts, taking into account the current situation in the pension insurance field, and 3) to create and develop a mechanism to ensure responsibility of all directors and organizations so that the accumulated funds are invested, paying dividends to future pensioners. Taking into account that the system is more sensitive to financial risks - inflation, interest rates on invested incomes, stability of the stock market, and so on, it is not completely independent of the impact of demographic processes - first of all, the life expectancy of working-age and pension-age increases, PAYG pension system is more reliable and ensures each current, even small, but stable incomes, whose size depends on productivity, supported by intergenerational solidarity.