

Bulletin of Taras Shevchenko National University of Kyiv. Economics, 2017; 2(191): 32-37

УДК 631:368.914.2

JEL classification: G 230, H 530, H 550, I 380

DOI: <https://doi.org/10.17721/1728-2667.2017/191-2/5>

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INTERNATIONAL EXPERIENCE OF RETIREMENT INSURANCE AND ITS IMPLEMENTATION IN UKRAINE

The article attempts to provide an overview of world experience in functioning and development of retirement insurance system based on insurance principles. The world experience in the sphere of retirement insurance and realization of pension reforms in countries with different economic development will help to apply certain elements to Ukrainian pension program. The importance of functioning of multilevel pension models is considered in the study. The analysis has shown that pension models based on redistributive and accumulative pension programs give an opportunity to receive differential pensions to citizens of retirement age.

Keywords: pension insurance, redistributive retirement program, accumulative pension program, pension reform, national pension system.

Introduction. The increasing role of insurance principles is currently of great interest in modern society. These principles are especially vivid in terms of long-period financial relations between the state, its citizens and employers. In the words of many scientists the world experience shows, that the objective process and one of the leading directions of social and economic relations development in most countries are strengthening the social orientation of economic systems. These trends explain the constant attention to the development of insurance on the part of all the participants of financial relations and the appropriate state reaction to response to pension provision as one of the indicators of the development of the society [9, p. 18].

Ukrainian pension legislation states that the society should create the optimal pension model that would protect the interests of the citizens of retirement age and provide with a high level of their lives with the help of system of pension insurance system. The efforts of either state or employers should be aimed at the general development strategy of the pension insurance system. Consequently, the issue of the pension insurance and its role, principles of creating optimal Ukrainian pension model is of great interest among scientists.

The pension reform in Ukraine is characterized by the formation of a multilevel type of the national pension model. The solidarity pension system and private pension system are used in our country. The implementation of state obligatory accumulating pension system is expected in the nearest future.

The reform of the pension system of any country has a long-term character. This period is accompanied by changes in the economic development of society, which are characterized both by the economic rise and financial crises. Therefore, the national programs of pension reformation must be constantly corrected taking into account the period of retirement reform realization and modern tendencies in the development of national economy.

It is important to explore the world experience of the functioning and development of pension systems on the bases of insurance to make a complete study of the system of pension insurance in Ukraine. Consequently, the aim of the study is to examine experience of foreign countries with different levels of economic development to adopt the most significant characteristics and principles in the formation of Ukrainian pension systems.

We will focus our study on the experience of European countries. It is explained by European direction of development Ukraine has chosen. In addition, our national retirement system follows the multi-level model, which is typical for most European countries.

Analysis of recent research and publications. Nowadays both national and foreign scientists focused their attention on the formation and functioning of retirement system in Ukraine. Retirement reforms in many countries stimulated the scientific studies into the identification of role of pension reform and its realization. The need for reforms of our national retirement system leads to analysis of national and foreign expert experience to develop a set of measures and mechanisms of implementation of the accumulative obligatory pension insurance in our country. The study of foreign pension reform experience was launched on ideas of O. Morozova [9], L. Luzghina [3], M. Plaksii [17, 18], N. Horiuk [15], T. Salnikova [21], I. Miroshnychenko [8.], M. Malovanyi [4], O. Poplavskiy [19], O. Petrushko [16]. They explored multilevel pension systems of many countries, including European, highlighted the role of redistributive and accumulative pension programs in getting various kinds of pensions.

Research assistants of Scientific Institute of demography and social research named after M. Ptukhi consider the issue of retirement insurance application to transform national retirement system. They take into account the international experience on this issue, particularly in terms of introducing obligatory accumulative retirement system that forms the second level of the national pension system [14, p. 13.].

A lot of statistical and theoretical material on the foreign experience of retirement insurance reform of national retirement systems is concentrated in the International Retirement Bulletin. It highlights the issue of the functioning of all levels of retirement systems of many European countries, especially the use of redistributive and accumulative pension programs [6].

However, it should be mentioned that tendencies of changes in national pension systems, instability in the financial situation of the national economies of most European countries, the further impact of demographic factors on the pension sector require carrying out the additional study of foreign experience of pension insurance and possibilities to realize it in Ukrainian pension system.

The methodology of the study. The processes that take place in the society, the trends of economic development in the current context determine certain changes in the methodological approaches to the improvement of the national retirement systems of foreign countries. The impact of the demographic situation and the need to reform the pension systems of the country must be taken into account in the process of studying of international experience in retirement insurance. To evaluate the effectiveness of the system of the other country in modern context the financial aspect must be considered. It is important to determine in what way the size of incomes, retirement age affect the size of the

insurance of retirement contributions, the ratio of taxes between employers and employees, the insurance length of service of participants in pension plans, the retirement age of citizens, the magnitude of the average share of pensions from different levels of the pension system, the amount of administrative expenses on pension system service.

The study into development of the stock market and its abilities to provide the needs of the accumulative retirement programs is of great importance for successful implementation of its elements in our country. The use of pension assets of accumulative retirement insurance during a long period of time causes the formation of their protection systems, as well as the control of their use by the state and financial institutions. The study of experience in terms of the formation of the mechanisms that contributes to overcoming the financial crisis in the sphere of retirement is important.

Results. The process of ageing of the population, the growing number of retirement age people, the need for financial resources, strengthening the financial burden on citizens able to work, employers, state budgets in the system of compulsory pension insurance is observed in most countries during the recent decades. The demographic factor caused the need for retirement reform in many countries of the world. First of all, we mean the European countries, where the part of the retirement age population has a tendency to growth. Every year, the vast majority of European countries face the problem of financial security of their citizens that have reached retirement age. Therefore, the search of additional financial resources for the retire-

ment sphere requires certain reforms, improvement of their national retirement systems.

The international practice shows, the world has not found a unique system, which would be able to solve all the problems in the sphere of pension provision, that is to guarantee a minimum standard of living for people of retirement age, to provide a reliable mechanism of stimulation of the working population to implement pension savings individually, to ensure the fairness of pensions, which would be proportionally depended on the amount of paid insurance pension contributions. Therefore, to create the optimal, secure pension model is quite a challenging task and it provides for the formation of several levels [1, p 223].

The main theme for discussions about the reform of the retirement systems in scientific and political circles of Western countries during the last decades is the search for the most effective insurance methods and mechanisms of creation the multi-level interconnected pension systems that supplement each other, the active involvement of the private sector and the insured people to finance the pension costs, to involve in the process of collective and personal pension insurance of persons employed in the informal labour market and the creation of a complex institutions of social protection of elderly people.

The three levels that combine the redistributive and accumulative types of pension provision are typical for national pension models of most European countries. Figure 1 shows the average proportion of pensions at different levels.

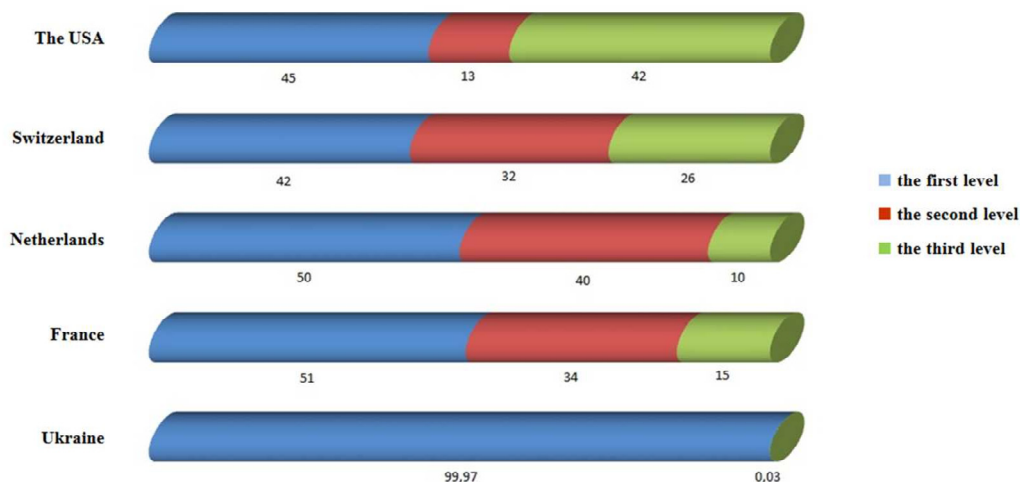


Fig. 1. Average distribution of different level pensions of retirement system in some countries (%)

Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search>

Analysis of this graphic picture shows that Ukrainian retirement model is expected to be a three-level model due to retirement legislation, but, in fact, the country uses only solidary system. As a result, Ukrainian pensioners receive a pension only from the first level. In contrast, pension receipts are based on three levels in other countries. An additional feature of this process is that pension receipts received from the second and the third levels dominate in the total value of pension income of retirement age people of the countries as can be seen in Figure 1. This means that redistributive systems are actively used alongside with accumulative ones in these countries. These considerations imply that the use of the financial resources of all three levels of the retirement system in the majority of European countries allows them to

maintain a high level of pensions for their retirees that meet the international standards of the ILO [4].

Another important issue insurance experts are working at is a distribution of insurance pension contribution payment between employers and insured. Previous models of pension insurance in most European countries, as well as the countries of Eastern Europe and the former Soviet Union, expected to put the main financial burden of the insurance contribution payment on the employers. The development of accumulative pension programs caused a gradual transformation of the national pension models into the system based on alignment of insurance pension contributions between the subjects of the pension relations.

It is worth noting that European countries with developed market economy started to carry out this transformation earlier. As far as employers were concerned they

were financially burden due to poor demographic situation. Recently the size of insurance pension contributions between employers and paid employees has been flattened out in most countries. The experts are sure that this tendency must be maintained in order to enhance the competitiveness of enterprises in the global market and to remove the part of financial burden of providing pension payments. The Governments of these countries updated existed types of their national pension models through the introduction of accumulative pension system and the obligatory and free pension insurance, shifting this financing for able-bodied population.

Interestingly, but nowadays the post socialist countries are still not able to make such a radical transformation to obligatory accumulation system. To realize this reform, the country needs the appropriate economic conditions, the general development of the national economy, the growth of incomes of the population, the formation of private pension funds, well-developed legislative framework and society ready for such reforms. Therefore, in almost all countries of the former Soviet Union the equal ratio between employers and paid employees is kept.

In 2016 the Government of our country made an attempt to reduce the amount of insurance of pension contributions for the employers to solidary pension system from 36,76–49,7 % to 22 %. Unfortunately, this led to significant growth of the deficit of the Pension Fund of Ukraine almost of 125 billion UAN [10].

As far as the retirement age of citizens in most European countries is concerned, it is higher than in Ukraine and is supposed to increase in future. The appropriate changes in their national pension systems confirm this fact. The demographic crisis and aging population oblige the

European Governments to use a not very popular procedure of increasing the retirement age.

Most specialists in the sphere of retirement insurance argue that the important issue of the introduction and effective functioning of the accumulative pension programs is determination of the institutional foundations of these programs management. Analyzing and solving these problems in the countries of Eastern Europe is of great importance for Ukraine, because it will help to choose the right option to manage pension assets in the process of implementing the obligatory accumulative pension model.

The obligatory individual accumulative long-term pension insurance involves solving the main problem, that is, the protection of pension savings of future generations, the preserving of the corresponding fund assets, and the increasing of their investment income. Table 1 shows the role of the state and the private sector in the management of obligatory accumulative pension programs that form the second level of retirement systems in most countries of Eastern Europe.

The practical experience of many countries shows that cooperation between the public and private sector in the management of obligatory pension insurance funds has a variety of forms:

- 1) The state provides normative and legal base and supervision, while non-state pension funds collect fees, manage and account the assets;
- 2) The state or state institution itself performs all of the mentioned functions and performs the management of accumulative schemes;
- 3) The state or government institutions collect premiums, control their accounting and provide asset management to the private sector

Table 1. State and private sector participation in management of obligatory accumulative retirement programs of the second level in Eastern Europe

№	Country	Institutions that collect insurance premiums	The asset management company	Accounting
1	Bulgaria	State National Income Agency	Private pension funds	Private pension funds
2	Hungary	Pension funds	Private pension funds	Private pension funds
3	Romania	State National House of Pension Provision	Private pension funds	Private pension funds
4	Poland	State Social Security Institute	Private pension funds	Private pension funds
5	Slovakia	State Central Insurance Agency	Private pension funds	Private pension funds
6	Croatia	State Central Register of Insured Persons	Private pension funds	State Central Register of Insured Persons

Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/searchdatabase>

The analysis of this table shows that the pension asset management of accumulative insurance system is carried out by private pension funds. They also control premiums and personal accumulative accounts.

The participation of the state in the management of accumulative insurance schemes of the second level in the mentioned countries is quite important. With the help of its financial institutions the state collects premiums on obligatory accumulative pension insurance and distributes them between private pension funds according to the features of the national legislation of each European country.

Accumulative pension systems have a long-term perspective. Therefore, the accumulative pension insurance is associated with of risks in the financial, investment, political spheres. Due to introduction of accumulative type in the pension systems of the countries of Eastern Europe the

reforms are accompanied by significant difficulties and require a long period of time.

The efficiency of accumulative pension insurance depends, primarily, on the size of the administrative costs in the total value of the pension assets of accumulative pension programs.

Table 2 shows the high level of administrative costs in national accumulative funds in comparison with other countries. Expenses are many times higher than the corresponding figures in other countries. At the primary stage of the second level implementation it is important to take into account the experience of many countries of Eastern Europe, which also faced the problem of reducing administrative costs during the first years of its functioning. Today, Poland, Slovakia, Slovenia have a very low level of administrative costs in the total value of the pension assets of accumulative pension programs.

Table 2. Administration expenses in general rate of pension assets of accumulative pension programs in some countries

№	Country	% of total value of pension assets
1	Spain	1,3
2	Czech	1,4
3	Hungary	1,0
4	Slovenia	0,9
5	New Zealand	0,7
6	Australia	0,6
7	Slovakia	0,5
8	Poland	0,4
9	Denmark	0,1
10	Ukraine	5,9
11	Macedonia	1,9
12	Latvia	1,9
13	Nigeria	1,3
14	Bulgaria	1,2
15	Costa Rica	1,0

Source: [15]

Our results demonstrate that Ukrainian stock market is not developed, the amount of activated pension assets at the third level is still not large and they do not help to reduce the administrative costs of private pension funds. The administration of pension assets of the second level at the primary stage of its functioning was given to accumulative pension fund, which is reflected in the new national pension legislation, and this innovation is, to our opinion, to the point. It will perform the functions of their accounting, saving, investment, and development of investment policy. Administrative costs are predicted to be much lower than that of private pension funds. Taking into account the lack of practical experience of the use of financial resources accumulative pension programs, such a regulating state investment model is the most optimal.

Conclusion. To sum up, the principles of insurance play an extremely important role the sphere of pension ensuring. This statement confirms the study of foreign experience in terms of formation of national pension systems, which are being reformed with the help of the pension insurance system. As a result, the optimum pension model that would protect the interests of the citizens of retirement age and provide a high level of their lives must be created.

The study of national pension systems of most European countries showed that they use a multi-level pension model where both redistributive and accumulative pension programs. They allow pensioners to receive several different types of pensions, and, consequently, increase their retirement income and reduce financial risks.

The low level of pensions of Ukrainian pensioners, activation of the first level only of the national pension system force the Government to continue carrying out the reform of the pension system. The experience of the European countries is extremely important for the successful implementation of the pension reform. Both the solidary and the accumulative pension system types are considered.

Undoubtedly, a new phase of pension reform involves the reorganization of the solidary pension system. First of all, the unification of pension payments in it, that is the calculation and payment of pensions at this level at equal standards for all categories of citizens. In addition, the introduction of the accumulative pension system, which forms the second level of the national pension system, is planned. According to the bill number 4608 is being considered by the Supreme Soviet of Ukraine, the second level is supposed to be introduced in July 1, 2017 [17]. It will be a starting point to further development of private pension provision and it is supposed to consist of professional accumulative and obligatory accumulative systems.

New stages of pension reform continue to confirm the key role of the national pension system in the formation of the pension insurance. Therefore, the study of the theoretical and practical aspects of its further development, the formation of the corresponding complete system in the sphere of retirement insurance that is built on the principles of this type of insurance is important and continues to be an up-to-date issue in modern science.

Discussion. Obligatory pension system invasion is one of the main tasks of the modern stage of pension reform. There are three pension systems in Ukraine, which were declared almost two decades ago. Among them only solidary system really works. Besides, the third level of this system is not widely spread among the population. Today the situation in the pension sphere does not guarantee worth-while pensions. That is why, the experience of European countries shows that the ability to use various pension programs contributes to getting several types of pensions.

However, Ukrainian scientists and experts argue over the urgency of introduction of the second level of the national pension system. The main argument for economists and experts is the instability of the national Ukrainian currency. Its devaluation will cause the inflation of pensions, accumulated by population by that time. Moreover, economists consider the effect of accumulative pension system possible only in case of stability of the national currency.

The first group of experts thinks that tax reforms are the starting point of retirement insurance transformations. Ukrainian economy needs time to rise. At first, the tax sphere should be reformed and when the economy starts to rise, it is high time to carry out the changes in the field of pension. The second group of financiers believes that considerable toning of economy and, accordingly, the wage fund, will not contribute to the effective functioning of the second level.

Therefore, the main task of the scientists, state specialized financial institutions, and pension experts is to develop and to demonstrate the optimal mechanism of obligatory accumulative pension system, which would be able to minimize all possible financial risks in the second level.

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Надійшла до редакції 20.01.17

Date of editorial approval 26.02.17

Author's declaration on the sources of funding of research presented in the scientific article or of the preparation of the scientific article: budget of university's scientific project

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ЗАРУБІЖНИЙ ДОСВІД ПЕНСІЙНОГО СТРАХУВАННЯ ТА ЙОГО ІМПЛЕМЕНТАЦІЯ В УКРАЇНІ

Досліджено світові надбання функціонування і розвитку пенсійних систем, що діють за принципами страхування. Вивчення досвіду системи пенсійного страхування у країнах із різним рівнем економічного розвитку, особливостей проведення в них пенсійних реформ, сприятиме імплементації деяких їхніх елементів у вітчизняній практиці. Заслуговує на увагу функціонування багаторічних пенсійних моделей, які використовують перерозподільчі та накопичувальні пенсійні програми, що дає можливість одержувати кілька видів пенсій громадянам пенсійного віку.

Ключові слова: пенсійне страхування, перерозподільчі пенсійні програми, накопичувальні пенсійні програми, пенсійна реформа, національна пенсійна система.

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ЗАРУБЕЖНЫЙ ОПЫТ ПЕНСИОННОГО СТРАХОВАНИЯ И ЕГО ИМПЛЕМЕНТАЦИЯ В УКРАИНЕ

Исследовано мировые достижения функционирования и развития пенсионных систем, которые построены на принципах страхования. Изучение опыта системы пенсионного страхования в странах с разным уровнем экономического развития, особенностей проведения у них пенсионных реформ, будет благоприятствовать имплементации некоторых их элементов в отечественной практике. Заслуживает внимания функционирование многоуровневых пенсионных моделей, которые используют перераспределительные и накопительные пенсионные программы, что даст возможность получать несколько видов пенсий гражданам пенсионного возраста.

Ключевые слова: пенсионное страхование, перераспределительные пенсионные программы, накопительные пенсионные программы, пенсионная реформа, национальная пенсионная система.

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Bulletin of Taras Shevchenko National University of Kyiv. Economics, 2017; 2(191): 37-42

УДК 339.13.024

JEL Classification: D11, D91, D40, E20, E11, L15, O31

DOI: <https://doi.org/10.17721/1728-2667.2017/191-2/6>

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TRANSFORMING CONSUMER AND IT'S IMPLICATIONS FOR THE UKRAINIAN SOCIETY

This article reviews the changes of consumption patterns in the Ukrainian society over the last 25 years and the impact this transformation had on Ukrainian consumers. The author researches the market forces and the influence those market forces had on the consumer behavior. Finally, the author concludes that the market forces present on the Ukrainian market resulted in transforming consumption patterns and consumer behavior. In this scientific research also presents a critical analysis of the implications for the Ukrainian society and the possible choices of market models.

Keywords: Consumption, Consumer behavior, Ukrainian consumer, Ukrainian economy, Ukrainian society.

An evaluation of Ukrainian economic indexes since 1991, demonstrate a performing well lower its potential. After the difficult transition of the 1990-s, it was an economic boom in the early 2000 – s with growth rates more than 7 %. The shock of the 2008 global financial crisis showed the vulnerability of the economic model. GDP in Ukraine contracted by nearly 15 % in 2009, for example, the OECD countries average was 3.7 %. Economy in Ukraine is very delicate and dependent on external support. This article reviews the changes of consumption patterns in the Ukrainian society over the last 25 years and the impact this transformation had on Ukrainian consumers. The author researches the market forces and the influence those market forces had on the consumer behavior. Finally, the author concludes that the market forces present on the Ukrainian market resulted in transforming consumption patterns and consumer behavior. In this scientific research also presents a critical analysis of the implications for the Ukrainian society and the possible choices of market models.

Introduction. The Ukrainian consumption segment operates according to the cultural and social norms and is based in stratification systems that change over time. Consumer patterns transform for both macro and micro factors. At the macro level, such transformation occurs because of structural changes in the environment. At the micro level, this transformation is attributable to personality consumer's varying tastes.

This paper examines the changes of consumption patterns in the Ukrainian society over the last 25 years (1991 – 2016) and the transformation of the Ukrainian consumers as a result of these processes. Also the paper studies the market forces and the influence those market forces had on the consumer behavior. This scientific research is based on the relevant data from the published research papers, government documents, publications and reports.

The objective of this research is to give a picture of transformation of the Ukrainian consumer, the effects and implications for the Ukrainian society. In this paper the following research questions will be answered:

- *What are the effects and implications of the consumer transformation in Ukraine?*
- *How the consumer transformation influence for the Ukrainian society?*

This research paper is structured as follows: Section 2 – Literature review; Section 3 – Conceptual Framework; Section 4 – Practical outcomes; and Section 5 – Conclusions.

Literature review. Consumer behavior has been always of huge interest to economists. The understanding of consumer behavior helps the economists to realize how customers select their products and brands; think and feel, also how the consumers are impacted by the economical situation, environment, the reference groups, and family, etc. Consumer's buying behavior is influenced by cultural, social, economic, psychological, and personal factors. Most of these factors are out of control.

Consumer is the study "of the processes involved when individuals or groups select, purchase, use, or order of products, ideas, experiences, or services to satisfy needs and desires" [14, p. 7].

In the economical context, "consumer" refers to patterns of total buying; post purchase and pre purchase activities has implications for repurchase and purchase (Foxall, 1987).

Engel, et al. (1986) generated the term "consumer behavior" as "those acts of individuals directly involved in obtaining, using, and disposing of economic goods and services, including the decision processes that precede and determine these acts" (p. 5). Cheung et al. (2005) collected specific literature in order to categorize the contradictory and fragmented studies (published from 1994 until 2002; 351 papers), presenting an integrated framework of the motivating factors of consumer behavior. They thought that five factors clarify consumer behavior: individual characteristics; product or service characteristics; merchant; medium characteristics; and intermediaries characteristics.

The economists were the primary to dominate model constructing, in the context of buying behaviour. Economic theory holds that purchasing decisions are the effect of mostly conscious and "rational" economic calculations.

Thus, every buyer wants to spend the income on those products that will bring the most satisfaction according to his relative prices and tastes. The background of this vision can be traced back to Adam Smith (1776).

Alfred Marshall (1890) generated the classical and neoclassical theory in economics, into a refined theoretical framework. His theoretical work was about simplification assumptions and examination the effects of changes in