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# DEVELOPMENT OF NATIONAL PENSION SYSTEMS IN UKRAINE AND POLAND

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## ABSTRACT

Poland and Ukraine have experienced a demographic crisis, increased financial burden on the able-bodied population and employers in terms of financing retirement age. Therefore, there was a need to reform the national pension systems in accordance with modern requirements of society and the need for social protection of retirement age citizens. The paper is dedicated to compare peculiarities of the formation and development of the national pension systems of Ukraine and Poland. Also the possibility of using the experience of both countries in the further implementation of the pension reform was discussed.

**Key words:** national pension system, pension reform, demographic sphere, population aging, retirement age, pension

**JEL codes:** J1, H55

## INTRODUCTION

The countries of Eastern Europe in the area of pensions solve problems that are characteristic all of them. Over the past decades, these countries have experienced a demographic crisis, increased financial burden on the able-bodied population and employers in terms of financing retirement age, there is a tendency towards an increase in the proportion of pensioners in the total population. Therefore, there was a need to reform the national pension systems in accordance with modern requirements of society and the need for social protection of retirement age citizens.

Eastern European countries, using their pension insurance principles, have used their multi-level national pension models in modern conditions. Taking into account that the data of the countries, as well as Ukraine, passed the way of reforming their national economies from the planning-directive to the market, the formation of financial systems is carried out on similar models. It is important to study the experience of implementing the use of accumulative pension programs in Eastern Europe. Among Eastern European countries, Poland became one of the first pension reform. Therefore, it is interesting to study the reform of the national pension systems of both countries, their formation in modern conditions and the possibility of using positive developments of each of them. [Parlińska and Rudyk 2019].

In examining this issue, it should be noted that today, the main developers of pension reform models in the world are organizations such as the International Labour Organization (ILO) [Convention 1952] and the Organization for Economic Co-operation and Development (OECD) [Convention 1960], which are the main ideologues and pension and social policy strategists in the world. The International Monetary Fund (IMF) and the World Bank, which include two financial

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institutions – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), play the leading role in reforming the pension system in different countries. These international financial organizations provide financial support to the reform processes, including in Poland and Ukraine [McTaggart 2001; USSSA 2014].

Adaptation of foreign developments to the conditions and specifics of financial science in Poland and Ukraine is of considerable scientific and practical interest and requires special research in the field of pensions. The main aspects of the functioning of pensions in both countries, the analysis of the problems and features of the functioning of the joint pension system and non-state pension provision, as well as the possibility of introducing a mandatory funded pension program are covered in the scientific works; for example: E. Libanova, L. Tkachenko, O. Koval, S. Onyshko, N. Goryuk, S. Naumenkova. However, the new requirements of the society to the pension system, the dynamic changes in the economic, financial, and demographic spheres necessitate their further research.

## MATERIAL AND METHODS

The Ukrainian pension system has not yet been fully formed, in accordance with the current pension legislation of the country. Practical application, for today, does not have its second level – a compulsory accumulative pension system. The non-state pension system, which forms the third level of the national pension system, is not in high demand among the population. Citizens do not have sufficient confidence in using it. The entire financial burden has assumed a solidarity pension system, but it is no longer able to effectively finance its level.

The experience of Poland in building its national pension system may be useful for Ukraine regarding the use of redistributive and accumulative pension programs, the activities of the main financial institutions in the pension sector, the mechanism for payment of pension insurance contributions, and the protection of pension assets of the population. His consideration would contribute to the development of a set of measures and their implementation at the current stage of pension reform in Ukraine.

The aim of research was to compare peculiarities of the formation and development of the national pension systems of Ukraine and Poland at the present stage of development of society and the possibility of using the experience of both countries in the further implementation of the pension reform. It should be pointed out that in Poland farmers have separate pension system which was not subject of this research.

The data about theoretical and financial issues were taken from the official sources: the applicable literatures, legal acts, Polish and Ukrainian pension funds, central statistical offices of Poland and Ukraine, World Bank and Eurostat. The descriptive and comparative statistical methods were used in the research paper in order to analyse the problem from the economic point of view.

## RESULTS AND DISCUSSION

Ukraine, while building its national financial model, highlights the social protection of the population among the main priorities. It is considered to be a decisive guideline for the development of socio-economic relations in society, enshrined at the legislative level and involves the formation of quality standards for all citizens. The level of well-being of citizens of retirement age depends to a large extent on the state and capabilities of the existing national pension system.

The modern national pension system of Ukraine began to be formed in the early 1990s of the twentieth century. In accordance with the current legislation, the structure of the pension insurance system in Ukraine includes three levels and is formed by the mandatory state pension insurance and voluntary additional pension insurance.

The three-tier pension system should distribute the risks associated with unfavourable demographic trends in society and fluctuations in the economy and the financial market between the three components. According to scientists, such a distribution of risks will make the pension system more financially balanced and sustainable, which insures workers from lowering the total income after retirement and is fundamentally important and beneficial to them.

The solidarity pension system provides for retirement benefits, which are mainly made at the expense of contributions of working citizens of the country and their employers. Persons who have a low insurance record and the amount of earnings from which insurance premiums were paid, and hence low pensions, provides for the provision of targeted social assistance. This will allow them to provide income at the level of minimum social standards in Ukraine, established by law.

In the reformed solidarity system, the size of the pension depends on the size of the wages from which the insurance contributions were paid, and the length of service during which they were paid. The mechanism of accrual of pensions involves the use of the system of personified accounting of information about earnings and payment of insurance premiums by citizens. The maintenance and servicing of such a system is carried out by the Pension Fund of Ukraine.

Creation of the second level of the national pension model will mean the introduction of a system of compulsory accumulative pension insurance in our state.

The main content of such a system is that part of the mandatory contributions to the pension system will be accumulated in a single Accumulation Fund and will be accounted for on the individual accumulative pension accounts of citizens who will pay these contributions. The funds of the accumulation pension system will be invested in the country's economy in order to obtain investment income and protect them from inflationary processes. In order to manage pension funds, asset management companies will be selected on a competitive basis, which will be issued the relevant licenses, and the state will control their activities. The investment of pension assets of the company will be carried out in accordance with the requirements of domestic legislation in this area, as well as in accordance with requirements for diversification of investment investments.

Pension asset management companies will instruct the custodian bank to directly hold pension assets, and it will be responsible for the targeted use of these funds. Pension assets will be the property of citizens who are members of the accumulation pension system and will be accounted for on their individual accumulative retirement accounts. Pension payments from the Accumulation Fund will be made additionally to payments from the joint-stock system.

The second level has not yet been found practically applied in the domestic pension model, as the corresponding macroeconomic conditions have not been formed, and its legal base continues to emerge. In addition, the financial crisis that manifests itself in society does not contribute to its effective implementation.

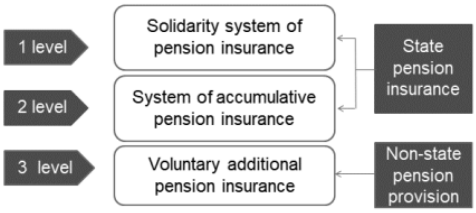
The third level of the pension system forms the system of non-state pension provision. It is created to create additional pension savings at the expense of voluntary contributions from individuals and employers. The main financial institutions that operate on the third level, according to the current legislation, are non-state pension funds (NPFs), insurance organizations and banking institutions.

The functioning of the first and third levels shows that the existing system of pension insurance does not perform its tasks correctly, and as a result, pensions generally do not allow them to maintain a minimum standard of living, do not protect themselves from poverty. It remains socially unfair both on a professional and on a gender basis. Society was not able to completely disinfect earnings and income in general.

Poland, becoming a member of the EU, is trying to achieve international standards in the field of pensions, which is provided by the International Labour Organization [Convention 1960]. To do this, she had to some extent change her pension system model, adapting it to new conditions, which requires the market and the general legal provisions of the European Union to save income after termination of employment, provision of a living wage for all incapacitated people and compulsory accumulation of old age all citizens of working age.

The pension model, which is being formed in Poland, involves several levels of pension provision for its population (the figure). It uses distribution and cumulative types of pension programs. Already during the 1990s of the twentieth century. this country, like most developed European countries, has concluded that a state pension can provide only a living wage. Under current conditions, distributive pension programs cannot fully meet the financial needs of retirement age people. In connection with this, there is a need to introduce accumulative pension schemes.

Ukraine




Poland

**Criteria for classification of three old-age pension pillars**

| Criteria for classification | first pillar | second pillar | third pillar |
|---|---|---|---|
| Status of the scheme | statutory | statutory | supplementary |
| Participation in the scheme | compulsory | compulsory | voluntary |
| Social objective | basic level of benefits | basic level of benefits | higher level of benefits |
| Scheme management | public | private/ public | private |
| Benefits financing | from current contributions | capital and from current contributions | capital |

**Fig.** The structure of the pension insurance system in Ukraine and Poland

Source: Law of Ukraine on mandatory state pension insurance of 2003, Social Insurance Institution of Poland [2017].

Among the countries of Eastern Europe, Poland was one of the first to introduce a compulsory cumulative pension system. The new mixed pension insurance system was introduced on 10 April 1999. It is mandatory for those born 1 January 1969 or later, and voluntary for those born after 1 January 1949. In accordance with its national legislation, all able-bodied people under the age of 30 years since 1999 began to participate in accumulative pension programs in a compulsory manner. Citizens aged of 31–49 can participate in the accumulation system in a voluntary form. Employees over the age of 50 remain in the solidarity pension system. All levels of the Polish pension system complement each other and reinsure each other.

The first level involves the formation of a minimum guaranteed pension, the second – forms the basic solidarity pension. At the third level, the compulsory accumulation system begins to operate. The third pillar is a tax qualified corporate pension scheme (Pracownicze Programy Emerytalne, PPE). From 2019 in terms of the third pillar, new Auto Enrollment Pension Plans (Pracownicze Plany Kapitałowe, PPK[1]) will be introduced. Studies have shown that the first two levels of the Polish pension system are administered by the state and the third is in non-state governance. However, the peculiarity of this level is that insurance premiums are collected by the state pension administrator, which then distributes between non-state pension funds [USAID 2010, Parlińska 2017].

An important study of the national pension systems of Poland and Ukraine is the analysis of retirement age and the size of insurance pension contributions, their distribution among employees and employers (Table 1). In Ukraine, they pay the single social contribution, which has been reduced to 22% for employers from 2017. In 2018, he was left for them at the same level. Employees pay a contribution of 5%.

In Poland, the pension insurance premium is 19.52% of the gross wage. This amount is divided into half, one half is paid by the employee and the other is the employer. Till end of the April 2011 the pension insurance premium in Poland was paid in the following amounts:

[1] Companies will be obliged to offer PPK and contribute at least 1.5% of the individual total salary. Companies with more than 250 employees will be covered by new legislation as of January 2019, and for companies with 50–250 employees as of July 2019. Under certain circumstances, the new PPK plans will work as an auto enrollment model. However, companies offering PPE will not be forced to set up PPK. In order to maintain this exception, the employer contribution in PPE will have to be at the level of 3.5% of individual total salary. PPK assets will be managed by private investment fund companies as well as dedicated governmental institution (s) because the Polish model follows UK Auto Enrollment and NEST, the National Employment Savings Trust concept.

**Table 1.** The retirement age, the insurance record and the amount of insurance pension contributions in Poland and Ukraine

| Index | Ukraine | | Poland | |
|---|---|---|---|---|
| | men | women | men | women |
| Retirement age | 60 | 58.5 | 65 | 60 |
| Insurance experience (years) | 25 | 20 | 25[a] | 20[a] |
| Insurance pension contributions (%) | 27.0 | 27.0 | 19.5 | 19.5 |
| Paid by employers (%) | 22.0 | 22.0 | 9.8 | 9.8 |
| Paid by employees (%) | 5.0 | 5.0 | 9.8 | 9.8 |

[a] The old-age pension is brought up to the amount of the minimum pension if the insured person: being a man – has reached the statutory retirement age and has completed a contributory and non-contributory period of at least 25 years, or being a woman – has reached the statutory retirement age and has completed a contributory and non-contributory period of at least 22 years (in 2016–2017) and 25 years as a target.

Source: Own calculations on the base of data from Eurostat, Pension Fund of Ukraine online database, State Statistics Committee of Ukraine online database, Statistics Poland online database and Social Insurance Institution of Poland online database.

- 12.2% to the Zakład Ubezpieczeń Społecznych – ZUS (the Social Insurance Institution) account;
- 7.3% was transferred to an account in an open pension fund (OPF).

However since 1 May 2011 the breakdown of the pension contribution was changed several times. Until 30 June 2014, the division of pension insurance contributions and the transfer of part of it to an open pension fund was mandatory for persons born after 21 December 1968. These people had to enter into an agreement with an open pension fund. If the person did not have such an agreement, then in this case the Social Insurance Institution (ZUS) established a casual open pension fund for the insured person. Starting from July 2014, depending on the choice of the insured person, part of the pension insurance (namely the remaining 2.92%) was either paid into an open-ended pension fund chosen by the insured, or a sub-ZUS (total 7.3%). If the insured person does not enter an open pension fund, the entire pension insurance contribution (19.52%) is transferred to the Social Insurance Fund and is on the individual account of the insured [Ostarbeiter.vn.ua 2017, Parlińska 2017].

In Poland, the current pension legislation envisages adjusting the retirement age according to the previous stage of the pension reform. New retirement rules came into force in Poland on 1 October 2017. Now women will be able to leave work at the age of 60 years, and men – 65 years. In the same way, the requirements of the 2012 pension reform were abolished, which meant that ultimately the retirement age for men and women would be 67 years. Women should reach this age mark in 2040, and men in 2020 [Social Insurance Institution of Poland 2017].

Regarding the retirement age in Ukraine, it is lower than in Poland. In 2018, men can retire at the age of 60, and women at 58.5. The insurance experience, as shown in Table 1, is the same in both countries.

Studies show that currently the average pension in the solidarity system in Poland is equal to PLN 2,127 and is 23.4% of the average wage in the country. The minimum pension in 2017 was PLN 1,000 (Table 2). Comparing the levels of minimum and average pensions in Ukraine during this period, they are five times lower than in Poland. The replacement rate in Ukraine is also lower than in Poland. But it should be noted that the average size of pensions in Western European countries is several times higher than the figures of the Polish pension system. This suggests that incomes of retired citizens of Eastern European countries have not yet reached the level of developed Western European countries.

**Table 2.** Analysis of the state of the national pension systems of Ukraine and Poland in 2017

| Index | Ukraine | Poland |
|---|---|---|
| Population (in million) | 42.3 | 38.6 |
| Number of pensioners (in million) | 11.9 | 7.0 |
| Share of pensioners in population (%) | 28.1 | 18.1 |
| Minimum pension | UAH 1 452 (EUR 45.92) | from 1 March 2017<br>PLN 1 000 (EUR 232.18) |
| Average pension | UAH 2 480 (EUR 78.42) | PLN 2 127 (EUR 493.85) |
| Average salary | UAH 7 105 (EUR 224.68) | PLN 4 271 (EUR 991.64) |
| The ratio between minimum and average pensions (%) | 58.5 | 47.0 |
| The ratio between the minimum pension and the average wage (%) | 2.4 | 23.4 |
| Replacement rate (%) | 34.9 | 36.1 |

Source: Own calculations on the base of data from Eurostat, Pension Fund of Ukraine online database, State Statistics Committee of Ukraine online database, Statistics Poland online database and Social Insurance Institution of Poland.

## CONCLUSIONS

Summarizing the above, it should be noted that Ukraine and Poland are building multilevel pension systems that involve the use of redistributive and accumulative pension programs. The experience of Western European countries shows that it is the accumulation of financial resources from all levels of the pension system that will be able to support the income of retired people at a high level, in accordance with the international standards of the ILO.

Studies conducted show that the current incomes of Ukrainian and Polish pensioners do not fully satisfy them. This situation in the pension sector forces the governments of both countries to continue the next stages of pension reform. The level of pensions in Poland is much higher than in Ukraine, but it has not yet reached the level of Western European countries. It is necessary to continue to carry out a set of measures that respond to demographic challenges, seek solutions to the problem of filling pension funds, and improve national pension systems. Their successful implementation will contribute to raising the welfare of retirement age citizens in both countries.

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## ROZWÓJ PAŃSTWOWYCH SYSTEMÓW EMERYTALNYCH NA UKRAINIE I W POLSCE

### STRESZCZENIE

Kryzys demograficzny oraz zwiększone obciążenie finansowe dla pełnosprawnych mieszkańców i pracodawców w zakresie finansowania wieku emerytalnego to doświadczenia Polski i Ukrainy. W związku z tym istniała potrzeba zreformowania państwowych systemów emerytalnych zgodnie z wymaganiami nowoczesnego społeczeństwa i potrzebą ochrony socjalnej obywateli w wieku emerytalnym. Autorzy artykułu przedstawili wyniki porównania charakterystycznych cech tworzenia i rozwoju państwowych systemów emerytalnych Ukrainy i Polski. Omówiono również możliwości korzystania z doświadczeń obu krajów w dalszej realizacji reformy systemu emerytalnego.

**Słowa kluczowe:** państwowy system emerytalny, reforma emerytalna, sfera demograficzna, starzenie się społeczeństwa, wiek emerytalny, emerytura