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# Pension Reform In Ukraine

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Strategy, Policy,  
Politics And Practice

# Pension Strategy

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- ☺ Presidential decree - April 1998
- ☺ Adopt 3 pillar system
- ☺ Revise solidarity system
- ☺ Introduce accumulation and private schemes
- ☺ Make Pension Fund of Ukraine a world class organisation

# Pension Policy

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- ☺ New system to be
  - ☺ Financially sustainable
  - ☺ Equitable
  - ☺ Reduce cost burden

# Pension Politics (1)

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☹ Prepare for October 2000  
Presidential Election

☹ Pensioners come first

☹ Adhere to constitution  
Minimum pension =  
minimum subsistence level

# What Happened?

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- 😊 USAID & TACIS technical assistance
- 😊 Draft laws produced
- 😊 Personification of data for 23 million contributors began 1998
- 😊 Automated contribution returns began 1999
- 😞 Laws submitted to Rada – July 2000 but not considered

# Pension Politics (2)

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- ☹ Prepare for March 2002 Rada Election
- ☹ Pensioners come first
- ☹ Adhere to constitution
  - Minimum pension =  
minimum subsistence level

# What Happened?

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- ☺ PFU collection rate significantly increased
- ☺ Pension payment function transferred to PFU - all pensions paid on time
- ☺ Scanning of contribution returns introduced
  
- ☺ Laws drafted and submitted to Rada
  - ☹ - voluntary law rejected
  - ☹ - compulsory law stalled



# Pension Politics (3)

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☹ Prepare for October 2004  
Presidential Election

☹ Pensioners come first

☹ Adhere to constitution  
Minimum pension =  
minimum subsistence level

# What Is Happening?

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- ☺ Both laws passed by Rada in July, 2003 – signed by President in August
- ☺ Huge public education campaign
- ☺ Huge training program for PFU and MoLSP
- ☺ Huge implementation effort

# What Does New System Look Like?

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- ☺ 1<sup>st</sup> pillar – reduced solidarity benefit
- ☺ 2<sup>nd</sup> pillar – mandatory accumulation scheme
- ☺ 3<sup>rd</sup> pillar – voluntary, supplementary funds

# 1<sup>st</sup> Pillar

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- ☺ Co-efficient for all 1% per year – was 2.75% for women and 2.25% for men
- ☺ Final salary replaced by career average earnings
- ☺ Privileged pensions transferred to 3<sup>rd</sup> pillar

# 1<sup>st</sup> Pillar

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- Pensioners are the big winners
  - Recalculate pensions from 1/1/04 using new wage base
    - ☺ will increase on average by 25%
  - Indexation of pensions
    - ☺ inflation plus 20% of movement in average wage
  - Minimum pension
    - ☺ 20% of national average wage (not own average salary)

# 2<sup>nd</sup> Pillar

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- Mandatory accumulation scheme
  - ☺ Compulsory > 20 years to retirement
  - ☺ voluntary >10 < 20, others stay put
  
- ☹ Probably won't start till 2007 –likely to be 7% of wages
  
- Singapore model –
  - ☺ PFU will be administrator
  - ☺ Private sector asset managers

# 3<sup>rd</sup> Pillar

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- ☺ Only funded defined contribution schemes
- ☹ (Privileged pensions might be unfunded)
- ☺ EET model – some debate on level of tax-free contributions – either 15 or 25% - no s.i
- ☺ Overseas investment allowed

# The Challenge for the PFU

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- Pension payments –
  - ☹ Recalculation (not indexation) of 14 million pensions – pensioners choose existing pension or new pension if higher
  - ☹ Most recalculations will not be able to use personified data – will need paper records
  - ☹ Law says recalculations to be paid on 1/1/04



# The Challenge for the PFU

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## 😊 Contribution collection

- 😊 Won't be a problem

- 😊 Existing system is personified and working well

- 😊 May be some problem with self-employed as rely upon information from tax authority

- 😞 Privileged pensions – will PFU have role?

# The Challenge for the PFU

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- ☺ Accumulation scheme
  - ☹ Totally new concept
  - ☹ Needs new software and procedures
  - ☺ Shouldn't be a problem all contributors on PFU database and PFU will also collect solidarity contributions
  - ☺ Enough time to get it right

# What About the Future?

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- ☺ Some are thinking about new social insurance body
- ☹ Duplication of resources in existing 4 social funds - 5<sup>th</sup> (medical insurance) to start before 2004 Presidential election
- ☹ Create a collection agency like REGOS in Croatia, can tax office do it or status quo?

# Is the Strategy Being Put Into Practice?

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## ■ Basically

- ☺ Will be 3 pillar system
- ☺ Solidarity benefit reduced
- ☺ Mandatory accumulation scheme legislated for but when will it start?
- ☺ Private schemes are getting ready to start
- ☺ PFU is certainly best run government body but still a bit to do to be world class

# Is the Policy Being Put Into Practice?

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☹ Very debatable

- ☹ System might be financially sustainable
- ☹ System is inequitable – huge cross-subsidy from young to old
- ☹ No change in the contribution rate – some chance if unified collection agency created

# More Information

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☺ [www.pension.kiev.ua](http://www.pension.kiev.ua)  
(sorry no Russian but English)

☺ [mctaggart@padco.kiev.ua](mailto:mctaggart@padco.kiev.ua)