OECD Conference on Pension Reform in Russia: From Legislation to Implementation, Moscow, 24-26 September 2003

(Room Document N°2, Session 8)

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Pension Reform In Ukraine

Strategy, Policy, Politics And Practice
Pension Strategy

- 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

😊 New system to be

😊 Financially sustainable

😊 Equitable

😊 Reduce cost burden
Pension Politics (1)

😊 Prepare for October 2000 Presidential Election

😊 Pensioners come first

😊 Adhere to constitution
  Minimum pension = minimum subsistence level
What Happened?

- 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)

😊 Prepare for March 2002 Rada Election

😊 Pensioners come first

😊 Adhere to constitution
   Minimum pension = minimum subsistence level
What Happened?

- 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)

😄 Prepare for October 2004 Presidential Election

😄 Pensioners come first

😢 Adhere to constitution
   Minimum pension = minimum subsistence level
What Is Happening?

😊 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?

😊 1st pillar – reduced solidarity benefit

😊 2nd pillar – mandatory accumulation scheme

😊 3rd pillar – voluntary, supplementary funds
1st Pillar

-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 3rd pillar
1st Pillar

- 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)
2nd Pillar

- 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
3rd Pillar

- 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

- 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

😊 Contribution collection

😊 Won’t be a problem

😊 Existing system is personified and working well

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

😊 Privileged pensions – will PFU have role?
The Challenge for the PFU

😊 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?

😊 Some are thinking about new social insurance body

😊 Duplication of resources in existing 4 social funds - 5th (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?

- 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?

😊 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

😊 www.pension.kiev.ua
(sorry no Russian but English)

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