Retirement savings adequacy in DC plans (Contributions and Coverage). Experience of Ukraine

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Ukraine: on a map of the world
The bridge between Europe and Asia

Ukraine
603.5 thousand sq km
46.1 mln population
13.7 mln Quantity of retirees
Capital: Kiev
Local currency: Hryvnya (UAH)
8.0 UAH/USD
2009F GDP:
USD 118bn
USD 2,570 per capita
Real GDP
YoY change:
+2.1% in 2008
–13.8% in 2009F
Key exports:
Steel and food products
Key trading partners:
The countries of CIS and EU
Member of WTO, CIS
It has been bidding for EU
Implementation of Non-state Pension Provision System in Ukraine

Non-state Pension System in Ukraine has begun operating in 2004.
Non-state pension funds in Ukraine work according to DC scheme ("defined contributions")

Legal framework for implementation of non-state pension provision system in Ukraine

1. Law of Ukraine
   “About Non-State Pension Provision”
   09.07.2003, came into effect 01.01.2004.

2. Law of Ukraine
   “About Obligatory State Pension Insurance”
   09.07.2003, came into effect 01.01.2004.

3. Law of Ukraine
   “About Financial Services and State Regulation of Financial Services Markets“
   12.07.2001

4. Other regulatory legal acts
SYSTEM of Pension Provision of Ukraine

MIXED SYSTEM

OBLIGATORY STATE PENSION INSURANCE

FIRST LEVEL

Obligatory solidary system by the Pension Fund of Ukraine financing

SECOND LEVEL

Obligatory accumulation system of pension insurance.
It is planned to implement in 2010-2011 after structuring of necessary conditions.

THIRD LEVEL

System of Non-State Pension Provision that is based on a voluntary basis.
Came into effect in 2004.
PRINCIPLES
of non-state pension provision

1. Legislative stipulation of conditions of non-state pension provision.
2. Voluntary participation of citizens in non-state pension provision system and choice of a kind of pension payout (one-time, defined term).
3. Impossibility of not well-founded employer refusal to pay contributions to the non-state pension provision system in favour of employees if employer has begun such paying over.
4. Definition of pension payouts rate depending on amount of pension assets posted to an individual pension account of a fund participant or assured.
5. Proper and effective use of non-state pension provision funds.
6. State regulation of tariff rates for services that are provided in a non-state pension provision system.
7. Liability of non-state pension provision subjects for norms violation as required by the law.
8. State regulation of non-state pension provision activities and supervision over its realization.
Non-State Pension Provision is realized by:

- **Non-state pension funds**
  - By way of pension contracting between pension fund administrator and investors of such funds

- **Insurance organizations**
  - By way of contracting on insurance of life pension, insurance of risk of time of onset of disability or death of a fund participant

- **Banks**
  - By way of contracting of opening of an pension deposit accounts for pension savings within amount defined for compensation for contributions by Deposit Insurance Fund
SCHEME

of interaction between subjects within the NSPP system

Founders – legal entities

Board of the fund
The only managerial body

Participants – individuals in favour of which are paying contributions

Administrator – legal entity that provides pension fund administration services

Insurance companies that provide life insurance and will contract on insurance of pensions with them

Bank – depository

Pension fund – legal entity, status-non-profit institution

Pension asset management company

Legal entities and individuals – contributions payers (investors)
Position of Ukrainian Non-state PF system development

- As of 30.06.2009 there are 108 registered non-state pension funds in Ukraine, objectively 74 have begun working.
- Quantity of administrators of non-state pension funds - 36.

<table>
<thead>
<tr>
<th>Year</th>
<th>NPF participants, people</th>
<th>NPF assets, mln. $</th>
<th>Pension contributions, mln. $</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>88,363</td>
<td>9.2</td>
<td>27.5</td>
</tr>
<tr>
<td>2006</td>
<td>193,335</td>
<td>7.3</td>
<td>23.0</td>
</tr>
<tr>
<td>2007</td>
<td>278,687</td>
<td>23.0</td>
<td>46.9</td>
</tr>
<tr>
<td>2008</td>
<td>482,511</td>
<td>56.1</td>
<td>79.5</td>
</tr>
<tr>
<td>6 m 2009</td>
<td>492,155</td>
<td>74.9</td>
<td>74.9</td>
</tr>
</tbody>
</table>

Topic: Retirement savings adequacy in DC plans (Contributions and Coverage). Experience of Ukraine. Speaker: Deputy Head of the State Commission for Regulation of Financial Services Markets of Ukraine Yuriy PROZOROV
Structure of supervision on the pension market

State Commission for Regulation of Financial Services Markets of Ukraine

Securities and Stock Market State Commission

National Bank of Ukraine

NPF

APF

AM

Custodian Banks
Therefore, it should be noted that one of the main problem in Ukraine is the gap of supervision functions between 3 state agencies that conduct of regulation and supervision of the Non-State Pension Funds.
The specifics of the system NPF: protection mechanisms of pension savings

- Activities with NPF - is an exceptional activity.
- NPF - a non-profit organization. All profits earned by NPF should be distributed among its members.
- The impossibility of NPF bankruptcy (the amount of obligations for the participants is always the value of its assets).
- Contributions to NPF are the property of its members, inheritance of contributions. Legislatively defined areas, the ways of pension assets using (investment diversification of pension assets).
- The pension assets can not be recovered for the obligations of the Pension Fund founders, employers-payers and providers of NPF.
- Three levels of control: the state control of "market" (custodian, asset management company, an administrator of NPF), internal (founders, board, investors, members).
- Legal control of a tariff on services providers.
- Availability of NPF reporting system refinery in a committee of fund, then before the fund shareholders of pension fund and NSPF before regulators.
- Mandatory inform the participants about their retirement savings;
- Informing the public about the activities of NPF by means of publication.
Solutions to problems in the Ukrainian NPF system

- Problem 1. Suspension of pension reform in the part of accumulated mandatory funded system (2-level) in a fall of GDP and high inflation.

In August 2009 Government has created a Commission on the implementation of pension reform - has developed a new concept of pension reform, which is discussing publicly now

- Problem 2. Reconsider quantity of government supervisors and dispersion of responsibility in the supervision of non-state pension funds and the necessity of widening financial markets regulator powers, in part of setting directions and limits of investment assets, as well as requirements for their placement

The initiative of State Commission for Regulation of Financial Services Markets of Ukraine to establish Ukrainian common supervisor

- Problem 3. Shortage of financial instruments, especially investment plan for investing pension funds

The development of the stock market, overcoming the banking crisis - the return of deposits

- Problem 4. Lack of economic incentives to employers for creating their own pension programmes and pension funds

Tax incentives, but the economic crisis still hinders opportunities