Pension Legislation of Ukraine: Current State and Development Prospects

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Nowadays the pension legislation is being discussed actively. The main goal of the pension reform is restoring fairness of assignment of the pension payments. Based on the example of Head Department of Pension Fund of Ukraine in Kyiv Region, author discusses in the article the present situation and how it can further evolve in the pension sphere. The analyzed issues include implementation of the European standards of operation of the bodies of Pension Fund of Ukraine, peculiarities of securing pensions for citizens that live in rural areas, solidary pension system model, financial discipline of employers etc.

Keywords: pension legislation of Ukraine, pensioners, pension payments, Pension Fund of Ukraine, Kyiv region, "E-pension", solidary pension system model, financial discipline

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Introduction

Nowadays the pension legislation is being discussed actively. The main goal of the pension reform is restoring fairness of assignment of the pension payments — for the present day as well as for the future. In the article author analyzes the following issues:

- a) the situation as it is shaped and can further evolve in the pension sphere;
- b) peculiarities of the Pension Fund of Ukraine's organization, shown based on the example of its Head Department in Kyiv Region;
- c) implementation of the European standards of operation of the bodies of Pension Fund of Ukraine;
- d) peculiarities of securing pensions for citizens that live in rural areas;
- e) solidary pension system model;

- f) financial discipline of Kyiv region employers;
- g) state regulation of employment.

Key idea of the pension reform in Ukraine

Key idea of the pension reform is simple: if a person worked honestly all his or her life, then he/she should be guaranteed a decent pension.

During 2019, the undertaken revisions targeted certain social groups and primarily those pensioners that made pension contributions over a lengthy insurance period: 30 years for women and 35 years for men. For such individuals the following minimum pension payments were established:

1. Starting from January 2019 — in amount of 40% of the minimum wage set by the Law of Ukraine on State Budget for the respective year. Since the minimum wage makes UAH 4 173, the minimum pension payment stands at UAH 1 669.20. Such revisions were granted only to those individuals who reached the age of 65 years (relevant provision is contained in article 28 of Law of Ukraine “On compulsory state pension insurance”). In Kyiv region such revision was performed for 85 000 of individuals, average amount of the increase made UAH 172.20.
2. Starting from July 2019 — in the amount of UAH 2 000. Such revision was performed for 111 000 of individuals, average amount of the increase made UAH 280.

The largest-scale revision was the one performed starting from March 1, 2019. Scale of the revision was characterized not only by the number of individuals affected, but also by the amount of the increase itself. Besides that, during the revision certain individuals (those who were making pension contributions over a lengthy insurance period and the pension amount of whom did not exceed UAH 1 669.20), in addition to their pensions, were granted a one-off extra payment. The total number of individuals that received pension increase over the period makes 430 000 people (in Kyiv region there are 527 000 of registered civil pensioners) while almost 90 000 individuals received a one-off extra payment. Average amount of the increase made UAH 558.

As a result of adoption by Cabinet of Ministers of Ukraine of a decree No. 543, dated 26 June 2019 pension payments significantly increased for such a special social group as individuals with disabilities acquired due to war.

Starting from July 1 2019 depending on the degree of disability, the mentioned individuals were assigned the following minimum pension payments:

1. Individuals with war-cause disabilities of degree I — 650% of subsistence level for disabled persons (UAH 10 166).
2. Individuals with war-cause disabilities of degree II — 525% of subsistence level for disabled persons (UAH 8 211).
3. Individuals with war-cause disabilities of degree III — 360% of subsistence level for disabled persons (UAH 5 630.40).

The mentioned persons (and there is almost 8 000) received the revised pensions already in July 2019.

Military servicemen were not left without attention as well — particularly the individuals subject to military service that were called for the military camps, that participate in liquidation

of the consequences of the Chornobyl disaster, other nuclear incidents and tests, military exercises with the use of nuclear weapons during military service (military camps) and that as a result became individuals with disabilities. For such individuals starting from July 2019 the disability-related pensions started being accrued in amount of five minimum wages set by the law as of January 1 of respective year. Previously the right for such accrual was available only to the military servants that participated in liquidation of the consequences of the Chornobyl disaster, other nuclear incidents and tests, military exercises with the use of nuclear weapons during active (i.e. non-camp call-ups) military service and that as a result became individuals with disabilities. Therefore, the number of article 59 of the Law of Ukraine “On status and social security of the citizens that suffered from the Chornobyl disaster” started covering a broader number of individuals.

Finally, it should be added that Law of Ukraine “On state budget for 2019” from 1 July 2019 raises the subsistence level for disabled individuals from UAH 1 497 to UAH 1 564 that gave ground for following revisions:

- a) minimum and maximum amounts of pension payments;
- b) additional payments for exceeding the normal insurance period, foreseen by article 28 of the Law of Ukraine “On compulsory state pension insurance” (except for pensioners that continue working);
- c) add-on payments and increases provided for by the Laws of Ukraine “On the status of war veterans, guarantees of their social security” and “On victims of Nazi prosecutions”;
- d) monthly state targeted aid to the individuals that became disabled as a result of war and participants of the war fighting, and state social aid for caring after individuals that became disabled as a result of war;
- e) minimum pension payments to the disabled individuals regarding which there is an established cause and effect relation with the Chornobyl disaster and to the individuals that participated in liquidation of consequences of the Chornobyl disaster.

The next revision related to the increase of the subsistence level for disabled individuals is expected to take start from December 1, 2019.

The Government cares about improving the pension system. In addition, implementation of the capital-accumulation pension system and development of the voluntary system of public (non-state) pension insurance — will be the next step towards improvement of well-being of the future pensioners.

Peculiarities of the Pension Fund of Ukraine’s organization (based on the example of its Head Department in Kyiv Region)

Peculiarities of the Pension Fund of Ukraine’s organization are studied based on the example of its Head Department in Kyiv Region.

To be eligible to work at Head Department in Kyiv Region of the Pension Fund of Ukraine a person needs to have Ukrainian citizenship and to hold a highest education degree in Economics, Law, Technology or Humanitarian Studies.

What makes working for Pension of Ukraine special is communicating with a special group of people — pensioners, and being responsible for timely financing and paying out the pensions to them.

Obviously, there is certain staff turnover and currently it exceeds 15%. At the same, it is worth noting that the turnover is due to moving of Kyiv region-based personnel of the Pension Fund of Ukraine to the other state agencies, to higher-ranking and management positions.

Over January-November 2019 115 employees have been appointed to positions at Pension Fund of Ukraine's Head Department in Kyiv Region. Kyiv region district employment centers are the main suppliers of candidates for positions at Head Department.

Positions at the Pension Fund of Ukraine's Head Department in Kyiv Region are predominately occupied by employees with education in Economics (over 65%) and Law (over 15%).

Mentors play a special role in the work of young employees for whom Pension Fund of Ukraine is the first job. Mentor is an experienced employee that is attached to a young employee and during certain period provides assistance in establishing him/her in the new position. Mentor empowers and creates the conditions for the young employee so that he/she can comfortably work in the collective.

Implementation of the European standards of operation of the bodies of Pension Fund of Ukraine

An integral part of the pension reform is implementation of European standards of functioning of the bodies of Pension Fund of Ukraine. Use of modern information and management technologies, unified client servicing quality standards should make servicing efficient and comfortable for Ukrainian citizens. Peculiarities of implementation of the mentioned standards at the Head Department in Kyiv Region of the Pension Fund of Ukraine are considered further.

In order to put into practice the innovative ideas, and using the opportunities provided by the latest technologies, Kyiv region bodies of the Pension Fund strive to change the technological, infrastructure and personnel-related approaches to servicing citizens. A new step into this direction is providing remote services in electronic form.

It should be emphasized that as of today there is a fully functioning web-portal of electronic services of the Pension Fund of Ukraine that provides a number of services for pensioners, insured individuals and insurers. Particularly, they are:

- a) setting of free SMS notification — informing regarding assignment/revision of pension; conducting of insurance payments by employer and individual's de facto insurance contribution period);
- b) receiving references validity of which is confirmed by QR-code — regarding the amount of paid contributions (the OK-5 form), extract from the register of insured individuals, reference regarding pension amount;
- c) obtaining by insured individuals through personal account of information regarding the insurance contributions period and monthly payments of the single social contribution by employer;
- d) insurer's account through which it is possible to get information regarding payment of the single social contribution, including regarding the enterprise's overdue payment of this contribution, as well as the electronic "References on the work and insurance period" of employees for the purpose of calculation of amounts to be paid for the time of temporary disability.

The number of users of the Fund's online service in Kyiv region is constantly growing and already makes over 384 000. Quite unexpected, but one can find among the users not only young persons, but also citizens that are well beyond 60 years of age. Since we are obviously living at the times of rapid progress, most of the users already possess rather advanced connection devices. Even if not exactly the case, there are knowledgeable children and grandchildren. Therefore, the service is accessible to representatives of various age groups.

In 2019, Pension Fund launched in Kyiv region a new automated system for "single-click" assignment of pensions ("E-pension"). Previously, in order that the pension is assigned the person had to make several visits to the Pension Fund. The "single-click" service implies only one visit to the institution, for the purpose of submitting the originals of documents and obtaining the pension ID card. Introduction of such system ensures the most comfortable conditions for being serviced without leaving home. In order to use the service one needs to meet just three preconditions:

- a) an adequate communication device (e.g. laptop) with access to Internet;
- b) authorization with the personal account at the Pension Fund of Ukraine's web-portal via electronic digital signature;
- c) availability of the necessary scanned documents.

To use the "E-pension" service one should firstly authorize with personal account at the web-portal of the Pension Fund of Ukraine via the electronic digital signature; then in the personal account's section "Request for assignment of pension" to up-load the whole package of scanned documents required for assignment of pension; then to sign the application with the electronic digital signature and send it to the "Request" sub-system. So, in order to register application for pension online, it's necessary to have an electronic digital signature — since it is essential for confirming identity of the person submitting an online application.

The request should be considered within 10 days. During this period, the portal user can check at which stage his/her request is currently processed. In case that the person does not have either the possibility or the willingness to use the new resource, he/she may, as earlier, apply to the pension institution.

During the period 25 July–05 November 2019 the "single-click" request for assignment of pension was submitted by 26 individuals from Kyiv region. There is a visible trend for increase in such submissions.

Peculiarities of securing pensions for citizens that live in rural areas

Further are analyzed the peculiarities of securing pensions for citizens that live in rural areas. In most cases, citizens of this category not only lack access to the Internet, but also suffer certain difficulties visiting the pension institution offices.

Pension Fund cases of all social groups. Therefore, in Kyiv region, in addition to the 34 reception centers (that receive visitors every day) there are also 63 client reception outlets that receive visitors in accordance with approved schedules. Location of the outlets is as close as possible to the places of residence of clients. And as early as 2017 the visitors were contacted at reception centers only. There were long queues; it was uncomfortable for both the visitors and the employees of the Pension Fund of Ukraine to work.

At the reception outlets (remote workstations), including Chornobyl, it is rendered the full range of services approved by the Management Board of the Pension Fund of Ukraine's decree No. 13-1, dated 30 July 2015, particularly:

- a) consulting regarding application of legislation on compulsory state pensions insurance, pension security, accounting of individuals that are subject to compulsory state social insurance;
- b) accepting applications for issuing of notes, references, certificates, other documents regarding pension security, conducting of mandatory payments that are administered by the bodies of the Pension Fund, accounting of individuals that are subject to compulsory state social insurance, as well as issuing of respective certificates;
- c) providing assistance on filling out and receiving of the application documents for issuing of the pension ID card, as well as their issuing;
- d) accepting documents for preliminary analysis with the purpose of establishing the individual's eligibility for assignment or revision of pension;
- e) accepting request for providing of documents necessary for confirmation of the insurance contributions period, salary for assignment/revision of pension;
- f) ensuring access to the Pension Fund's electronic services, providing assistance in using them.

Besides that, introduction of mobile check-points (working with secure eToken keys) allows from the remote workstations to receive documents for assignment and revision of pensions.

Analysis of the number of individuals that applied to the reception outlets, particularly the 4 391 persons in the III quarter of 2019, allows making a conclusion that the Pension Fund in Kyiv region has chosen the right path. The Fund plans to continue expanding its network of outlets in the localities where the people are awaiting.

One indication that the right path was chosen is the numerous positive written feedbacks of citizens.

Solidary pension system model

Further is analyzed the functioning of the solidary pension system, particularly the mechanism that maintains this system in Ukraine.

On 8 July 2010 was adopted and on 1 January 2011 came into force the Law of Ukraine "On collecting and accounting the compulsory state social insurance single contribution". The law's aim was to reform the system of administrating system of compulsory state social insurance through creating a single system for collecting and accounting the insurance contributions, introduction of the single contribution for compulsory state social insurance and avoiding duplicating of the social insurance funds' functions related to accumulation of insurance payments. At the same time the lion's share of total proceeds, particularly 86.43%, is used for financing budget of the Pension Fund of Ukraine. The remainder is distributed among the social insurance funds.

Nowadays the employer is obliged to pay for the employee 22% of accrued salary (for employees with disabilities — 8.41%). In accordance with Law of Ukraine "On changes to the Tax Code of Ukraine and certain legislative acts of Ukraine regarding ensuring balance of budget proceeds in 2016" this percentage is the same for all employers. Provision of the

mentioned law cancelled payment of the single contribution depending on the enterprises' risk class. Purpose of the amendment was reducing the pressure on the salaries budget of employers and increasing of proceeds as a result of taking enterprises' activities out of the shadow. Worth noting though that the almost 50% reduction of the tax burden of the salary budget in the part of single contribution in 2016 did not result into significant changes, i.e. the expected increase in salaries level did not happen. This had a negative impact on the amount of proceeds of the Pension fund. Having analyzed the single contribution proceeds on the example of Kyiv region it is possible to conclude that the only driver of increase in proceeds is raising the minimum salary.

**Information regarding proceeds of funds to the Head department
of Pension Fund of Ukraine in Kyiv region, UAH tsd.**

Diagram 1: Proceeds on additional rates: fee on real estate sale-purchase transactions, fee on acquisition of ownership on passenger cars. Proceeds of own funds: insurance contributions for compulsory state pension insurance (Law of Ukraine No. 1058 “On compulsory state pension insurance”); actual expenses on payment and delivery of preferential pensions; share of PFU’s funds in proceeds of the single contribution on compulsory state social insurance (Law of Ukraine “On collecting and accounting the compulsory state social insurance single contribution”).

So, implementation of the reduced rate of the single contribution without implementation of the control measures hasn’t produced expected result, namely legalizing of the salaries.

By the way, in most of the countries with developed economies the low-income citizens are exempt from payment of income tax. So, the main burden of filling the budget is incurred by the rich population.

In Australia the employment/corporate (compulsory) pension in effect since 1992 forms the basis of Australian pension system. Its core is making obligatory contributions by employer to the employee’s pension fund (private pension plan). The mandatory rate of contribution was:

- 9% of employee’s average income during period 1 July 2002–30 June 2013;
- 9.25% starting from 1 July 2013;
- 9.5% during 1 July 2014–30 June 2021;
- 12% starting from July 2025

In October 2012, Government of the United Kingdom launched the labor (workplace) scheme of pension security. Starting from February 2018 all employers are obliged to register all qualified employees (aged 22 years to the age of eligibility for state pension and that received above GBP 10 000 in 2014-2015). Minimum contribution — 8%.

Status of financial discipline of Kyiv region employers

Further is analyzed to which extent employers adhere to financial discipline and how timely they make payments of the single social contribution.

Irrespective of reduction of the rate of the single social contribution, every month it is observed mounting of the overdues. Employers that violate legislation on single social contribution are charged with financial sanctions. Fines in amount of 20% of the untimely paid amounts and penalties. However, this does not stop certain employers of Kyiv region.

Structure of overdues of legal entities and individuals-entrepreneurs of Kyiv region in respect of payment of single social contribution for compulsory state social insurance (Diagram 2)

In certain ways, employers create for employees the problem of accruing a pension — the qualifying contributions period of an insured individual is calculated based on the insured individuals' personified accounting data from the State register of compulsory state social insurance. The periods that are included in the register as those for which contributions have not been paid for will not be taken into account when estimating that contributions period when calculating a pension.

Shadow economy makes a negative impact over the pension system of Ukraine.

The term “shadow economy” derives from the English expressions “black economy”, “ghost economy” and “shadow economy”. In the literature, there is no precise definition of what the shadow economy is. Lawyers consider shadow economy as economic activity forbidden by

Ukrainian legislation. In addition, the shadow economy is interpreted as all economic activity that for certain reasons is not included in official statistics and respectively in the gross domestic product (GDP). In 2018, shadow economy stood at the level of 32%. It primarily causes reduction of tax proceeds from income affecting in such a way the state's financial capacity. Due to that, state spends less on infrastructure and social services to its citizens.

One of elements of "shadow economy" is paying salaries in "envelopes".

Based on analysis, out of 422 000 of insured individuals in Kyiv region as of 01.01.2019 79 000 individuals received salary in amount equal or below the level of minimum salary. As a result of measures focused on promotion of legal employment among the population of the Kyiv region the mentioned measure improved by 20 000 individuals as of 1 September 2019. At the same time during 2019 6 307 individuals were legalized that ensured additional inflows to the budget in amount of UAH 6 million.

State regulation of employment

Finally, it is analyzed how population's employment is regulated by state.

On 5 July 2012 was adopted and on 1 January 2013 came into force the new Law of Ukraine "On employment of population" that foresees compensation to employers of the single social contribution for compulsory state social insurance. In accordance with law, the employer that during 12 calendar months ensured creation of new workplaces, employed employees and during that period paid them a monthly salary in amount of not less than three minimum salaries per capita, during the next 12 calendar months, in case of maintaining the salary level, is eligible to compensation of 50% of actual amount of expenses on single social contribution accrued for each person. In case of decreasing the number of employees or the salaries budget employer loses the right to receive such compensation.

Besides that, currently there is a draft law registered at Verkhovna Rada that proposes exempting the employer from payment of the single social contribution in respect of employees that have not reached the age of 27 years. In 2019, such innovation was introduced in Poland. At the same time, while considering the document it should be taken into account the issue of accounting the contribution period for those years. Thus in respect of those insured persons in the future there may be raised an issue regarding the insurance period until reaching the age of 27 years. Resolving of such issues as collecting of single social contribution, legalizing salaries, liquidating mechanisms of avoidance of paying the single social contribution are relevant contemporary problems since pensions and other social benefits are paid out of those proceeds.

Conclusions

Summarizing the abovementioned, it is possible to conclude that personnel of the Pension Fund at Kyiv region continuously perform activities regarding improvement of the quality of servicing clients via implementation of new technologies, moving rendering of services as close as possible to the recipients as well as the timely assignment, revision and payment of pensions.

At the same time, the issue of increasing the amount of pension payments to the contemporary sufficient level remains relevant.

Unfortunately, it is only possible in case of acceleration of the economy's growth rate and respectively the growth of salaries, official employment as well as avoiding payment of salaries in "envelopes".

The demographic perspectives and the volatile economic environment give ground to the conclusion that the pension reform is a continuous process that never loses relevance rather than a one-off measure.