

Actual Interview.

Natalia Goryuk: *«The majority of Ukrainians think that the retirement provision is a joint responsibility between the individual and the state».*

Pension reform remains a key priority for Ukraine. The Government of Ukraine (GOU) initiated reform of the current pension system in 2003, and is now contemplating additional reform measures aimed at improving the living standards for the elderly. This issue has been discussed by government policymakers, academic specialists, legislators, capital market participants, employers and union representatives.

International institutions having a positive experience in the pension reform implementation in other countries are pleased to contribute to this debate.

Results of the pension reform public survey carried out recently in Ukraine with the support of the USAID Capital Markets Project have also become significant. About them and other issues the UKRINFORM correspondent talked to Natalia Goryuk, Honoured Lawyer of Ukraine, and USAID Capital Markets Project Pension Expert.

- Ms. Natalia, you have been actively involved in the pension reform framework laws development in Ukraine. Why do you think there is still very little progress on the reform?

- The need for changes in the pension reform was driven by the combination of factors. Among them are unfavorable demographic trends, abundance of early retirement opportunities and privileged pensions as well as tax evasion. All together these factors have led to fiscally unsustainable situation in the Pension Fund of Ukraine which may fail to ensure adequate pensions at retirement.

The current Ukrainian three pillar pension system actually consists of the solidarity system (Pillar I) and a private voluntary pension system (Pillar III). However, the Law of 2003 also provides for the Mandatory Accumulation System (Pillar II) which is alas not yet operational.

In short, the pension reform still remains an important issue. In 2009 the pension expenditures as a percentage of GDP were 18% which is one of the highest rates in the world; while the retirement ages for men and women (60 and 55 years old respectively) remain unchanged and are low compared to retirement ages in most Western countries.

Non-state pension funds (NPFs) or the voluntary pension system develops very reluctantly. At the end of 2009, there were 497,100 participants in 109 NPFs, with UAH 857,900,000 of funds under management which is considered to be low. To cut a long story short after economic and financial recession that the country experienced the public confidence in financial institutions fell very low.

- What did the survey results show?

- The level of public awareness of the pension reform is very low. Nearly half of the survey respondents said that they couldn't remember any changes to the pension system. Only 2% of the respondents cited Pillar II and Pillar III structural reforms. Moreover, of those remembering changes the most frequent response was to refer to changes in the size of the pension payment. This was indeed a noteworthy change of the last 5 years, with the amount of the average pension benefit increasing from UAH 407 in January 2006 to UAH 999 in January 2010.

Ukrainians are about evenly divided in their support of pension reform in general. 51% of respondents said they were neutral towards pension reform, 23% disapproved of it, and only 26% were in favor.

The majority was strongly in favour of eliminating special pensions for state officials, members of the Rada, the judiciary and other special categories. Respondents also supported the introduction of personified records to determine pension benefits.

- What do people think about the retirement age increase?

- There is no unanimous public support of the retirement age in Ukraine. Indeed, more respondents are in favour of lowering the retirement age for men to 55 than are in favour of increasing the retirement age for women. However, there were other opinions as well. Some have suggested, for example, that the government should progressively increase the female retirement age to 60 and then, once equal, slowly increase both male and female retirement age to European levels (at least 62).

About a quarter of the respondents indicated that they might support an increase in the retirement age if it meant that the pension benefit would also increase.

With regard to solving the shortfall in financing pension benefits, the most frequent response (66%) was to cut state expenditures in other areas and redirect the funds to pay pensioners. The second most frequent response was to raise corporate payments to the Pension Fund of Ukraine (23%), followed by an increase in individual contributions to the PFU (14%).

- Currently there is a lot of debate around working pensioners. Some call this option to be an advantage; others think that the working pensioners stand on the young people's way.

- In some countries there are limitations on earned income of those who receive pensions. It is known that in Ukraine some lawmakers have suggested that a ceiling could be placed on pensions paid to persons who, upon reaching retirement age, claim a pension but continue to work.

Well, three in four respondents were opposed to this idea, saying that pensioners who continue to work after retirement age should receive their full pension. Only 10% suggested that working pensioners should not be paid their benefit.

This finding can be explained, in part, by the fact that approximately one-third of the survey respondents said that working after retirement would be a source of income for them. Say, seven out of ten people living in the South said they would continue to work for as long as their health allowed it.

Interestingly, although a majority of respondents said that they viewed securing an adequate retirement as a joint responsibility between the individual and the state, on average 76% of all respondents said that a government pension would be their main source of retirement income. This opinion was consistent across all age groups and educational levels. Approximately 30% considered earnings to be the main source of income at retirement, and about 14% expected help in retirement from their family. 3% said that payments from a non-state pension fund would be a source of income for them in retirement.

- Such views can most likely be explained by the low living standards in our country.

- This is true. Many Ukrainians are struggling financially. 1 in 10 has to economize in order to buy food. 25% indicated they had enough money to purchase food, but had to save or borrow for other essentials such as shoes or clothing. Only 0.2% of respondents considered themselves wealthy.

In short, most respondents are pessimistic about their ability to have a secure retirement.

What is disappointing is that the public awareness of the financial markets is very low. The public has a relatively low opinion of private sector financial services organisations. This is probably a reflection of the current banking crisis, and the legacy of a state-dominated economy.

Ukrainians have more trust in government financial institutions than in private ones, but even these institutions receive low approval ratings. The most trusted financial institution is the Pension Fund of Ukraine, followed by state-owned banks. Private banks are trusted by about 15% of Ukrainians, while non-state pension funds are trusted by only 5% of the respondents. However, the younger generation is relatively more positive about private sector financial institutions than are the older respondents.

- The Government declares immediate implementation of Pillar II.

- It is possible that Pillar II might be introduced in 2012. This would be an important event for the pension system and the development of Ukraine's capital markets. However, so far based on our survey results the majority of Ukrainians do not know whether the theory of Pillar II would work in practice and are rather skeptical that Pillar II will have a positive impact on their retirement income. About 1 in 4 thinks Pillar II will lead to a better retirement outcome.

- So, what in your opinion is critical for expediting the pension reform in Ukraine?

- I think that the survey conducted by the Project is very important for the experts dealing with the pension reform issues in our country. Since public opinion in a democracy informs and influences public policy as well as it shapes the "art of the possible" in the political sphere, we have to take into account that most Ukrainians know little about the changes to the pension system introduced since 2004, hence, support for the reform is lukewarm at best.

There is strong opposition to an increase in the retirement age, and little support for limiting the payment of benefits to pensioners. Most Ukrainians believe that providing for a secure retirement is the joint responsibility of the government and the individual, and yet the overwhelming majority intends to rely on a solidarity (state) pension for financing retirement. Furthermore, most Ukrainians do not believe that they will have sufficient income to finance their "golden years."

Therefore, I am sure that as it moves forward with pension reform, the Government of Ukraine should consider initiating a public information program. This campaign should be developed in tandem with many institutions. It should be aimed in the first place at educating the Ukrainians about retirement and pension issues as well as at enhancement of the public financial literacy.

Interviewed by

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