

UKRAINE



DEMOGRAPHICS AND MACROECONOMICS

RATE as of 31.12.09 100 USD= 798,5 UAH

Nominal GDP (millions of national currency)	914,720
GDP per capita (USD)	6,400
Population (000s)	45,962
Labour force (000s)	22,397
Employment rate	91.20
Population over 65 (%)	19,00
Dependency ratio ¹ (millions)	2,8

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Mandatory state pension insurance system for persons employed under labour agreements and self-employed
- Privileged pension regimes exist for specific categories of employees

Private pensions: occupational (mandatory)

- Mandatory occupational funded pension programme is not yet functioning.
- Basic legislative framework for introduction of mandatory accumulation pension scheme has been already established, enabling regulations are currently under elaboration

Private pensions: occupational/personal (voluntary)

- Occupational/personal pension plans: defined contribution

Source: OECD Global Pension Statistic

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Assets									
Total investments (National currency millions)	ND	612,20	857,94						
Total investments, as a % of GDP	ND	0,06	0,09						
Of which Assets overseas, as a % of Total investment:									
• Issued by entities located abroad	ND	ND							
• Issued in foreign currencies	ND	ND							
By financing vehicle (as a % of Total investments)									
• Pension funds	ND	100	100						
• Book reserves	ND	ND							
• Pension insurance contracts	ND	ND							
• Other financing vehicle	ND	ND							
By pension plan type									
• Occupational assets	ND	289	441,97						
• % of DB assets	ND	0	0						
• % of DC (protected and unprotected) assets	ND	100	100						
• Personal assets	ND	323,30	415,97						
Structure of Assets (as a % of Total investments)									
Cash and Deposits	ND	56,26	42,8						
Fixed Income	ND	27,36	36,23						
Of which:									
• Bills and Bonds issued by the public and private sector	ND	27,3	36,23						
• Loans	ND	0,07	0						
Shares	ND	9,05	8,80						
Land and Buildings	ND	0,95	2,10						
Other Investments	ND	6,39	10,07						
Contributions and Benefits									
Total Contributions, as a % of GDP	ND	0,06	0,08						
• Employer Contributions, as a % of Total contributions	ND	95,52	95,77						
• Employee Contributions, as a % of Total contributions	ND	4,48	4,23						
Total Benefits, as a % of GDP	ND	0,00	0,01						
• % of benefits paid as a Lump sum	ND	96,34	98,64						
• % of benefits paid as a Pension	ND	3,66	1,36						
Membership (in thousands of persons)									
Total membership	ND	482,51	497,07						

• % of Total active membership	ND	96,83	ND						
Of which: % of Deferred membership	ND	ND							
• % of Passive membership	ND	3,17	ND						
Other beneficiaries	ND	ND							
Number of Pension Funds/Plans									
Total number of funds	ND	110	108						
Total number of plans	ND	ND							

UKRAINE: PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

In Ukraine, the main source of retirement income is provided by state solidarity pension insurance system, financed on a pay-as you go basis and administrated by the Pension Fund of Ukraine. As a part of state pension insurance system, special privileged (occupational) pension schemes exist for different categories of worker (civil servants, armed forces/military personnel, judges, and principally workers involved in hazardous or difficult work environment) covering around 20 per cent of retirees.

The participation in the state pension system is mandatory for all citizens, enterprises (public or private), foreigners, and stateless persons employed under labour agreements or agreements in civil law as well as self-employed persons.

Migrant workers (currently about 1.5 mln of Ukrainians are working abroad) can participate on a voluntary basis in the state solidarity pension system.

Contributions

The state pension programme is financed through mandatory contributions by employers and employees as well as payments from the state budget, social insurance funds and other sources. Insurance contributions of employers are set at 33.2 per cent of the total wage and those of employees at 2 per cent of the total wage. The same contribution rate is applied almost through all sectors with exception of self-employed, agricultural workers, etc. Self-employed contributions are set to 33,2 per cent of the minimum wage.

Benefits

Three types of benefits are provided under mandatory state pension system: old-age, disability due to general disease and survivor pensions. The individuals are entitled to receive pension benefits upon reaching the retirement age, which is currently set at 60 years for men and 55 years for women, and after having performed at least 5 years of service. Pension benefits are paid through bank and post offices.

A partial pension is paid in case if insured person has less than 25 years (for men) and 20 years (for women) of covered employment.

The government provides a minimum pension which represents 20 per cent of the average wage (for 25 years of service for men and 20 years of service for women) and equals the amount of subsistence level prescribed by law for those incapable of work. The minimum pension was 601 hryvnya (UAH) (2009). There is no cap on maximum pension benefit.

In addition to pension benefits, other types of social governmental benefits (e.g. housing subsidies) are provided to senior citizens, disabled persons and families with children.

Pension benefits are indexed every year from March 1 (beginning from March 1, 2005) to consumer price plus 20 per cent of wage growth.

According to retirement legislation in force, the replacement rate is set at 55 percent of the average individual wage for the best five or last two years for men and women (having accomplished the required length of service – 25 for men and 20 for women), with 1 percent increase for each year of additional work up to a maximum of 75 percent of the average individual wage. However, in reality the actual replacement rate is much lower (in 2005 average pension represented approximately one third of average wage).

OCCUPATIONAL/ PERSONAL VOLUNTARY

Overview

Private pension arrangements were introduced in Ukraine in 2004. Three type of non-state pension funds (NPF) can established on a voluntary basis– open, corporate and professional, providing pension services to Ukrainian citizens (in the country and working abroad (1.5 mln workers), and to foreigners. Open funds can be established by a single or several legal entities. Corporate pension funds can be established by one or several employers and professional pension funds by the association of legal entities (employers, association of physical persons, including trade unions (or their associations), or physical persons linked by their professional activity (occupation).

Voluntary non-state pension funds are organised as a separate legal entities with a status of non-profit institutions, licensed by the State Commission for Regulation of Financial Services Markets in Ukraine. Licensed administrators can be specialized entities, asset management companies or founders. Fund assets can be managed by licensed asset management company or a commercial bank. Pension funds assets are to be kept in the authorized custodian banks with which NPFs conclude an agreement. NPFs operate exclusively on defined contribution (DC) basis.

Coverage

Participants in non-state pension funds are voluntary for both employers and employees. NPFs accounted 492,155 participants in 2009 representing 3.23 per cent of the labour force (registering an increase in the number of participants of more than 5 times since 2005).

Contributions

The second Pillar of non-state pension provision system is not implemented.

Contributions to NPF are the property of its members which can be inherited by the member family. In 2009, pension contributions collected by NPFs amounted to 87.7 mln USD (growing of more than ten times since 2005). NPFs have an obligation to inform participants about the amount of their retirement savings.

Benefits

Participants are offered a choice with respect to payout options: retirement benefits can be paid in a form of lump sum or programmed withdrawals.

Fees

Fees charged by non-state pension funds are subject to statutory regulatory requirements. The pension legislation introduced a requirement for establishment of caps on management fees, asset management fees, stock exchange fees and custodian fees which are to be specified in enabling regulations.

Taxation

Voluntary pension plans follow EET tax rule - contributions are exempted from income taxation up to 15 percent of annual salary, investment return is exempted and pension payments are taxed up to 15 per cent threshold. The activity of asset management companies and custodians is not subject to VAT, however the administration services are subject to VAT.

MARKET INFORMATION

In 2009, 108 non-state pension funds were registered in Ukraine however about 74 are actually operating. 36 asset management companies were licensed to provide services as investment management for NPFs.

In 2009, NPFs accounted 492,511 participants, which numbers continue to grow steadily (since 2005, the number of participants grew almost in 5.5 times). Volume of assets accumulated in the NPFs amounted up to 96.0 million USD in 2009 (766,560,000 UAH) (registering an increase of assets in more than 10 times since 2005). 87.7 mln USD were paid in contributions for the same period. Most of the assets were accumulated by open-end funds.¹

POTENTIAL REFORM

As a part of the reform of occupation pensions, the government is considering introducing mandatory occupational fully funded individual accounts in 2010-2011 (upon realization of specific triggers (objectives²). In 2004, the Government established a mandatory occupational pension fund for all public servants including those who have been already benefited from participation in special privileged pension schemes (e.g. scientists, military personnel, police officers, civil servants).

In August 2009 the Government created a special commission in charge of elaboration and implementation of the reform programme, in particular focusing on its mandatory occupational component. Earlier reform plans to introduce funded mandatory occupation pension schemes were delayed due to the severe impact of the global financial crisis on the Ukraine economy.

One of the important reform proposals is to strengthen supervisory control over the financial/private pension sector through the establishment of a single consolidated supervisory (pension supervision is currently split between three governmental agencies).

Other recognised reform priorities are the necessity to further develop the internal stock market in Ukraine to remedy the current shortage of investment instruments (options) for pension funds; revitalizing the banking sector by making the return on bank deposits became more attractive and amend current tax

¹ Data from the presentation of Mr. Prozorov at the OECD/IOPS Global Forum, Rio de Janeiro, Brazil, 14-15 October 2009.

² Two consecutive years of economy growth above 2 percent; pensions of the solidarity system paid in amounts not lower than the minimum subsistence level; State pension fund budget balanced according to international accounting standards, etc.

legislation with a view to introduce new tax incentives favouring the creation of voluntary occupational pension schemes by single (multi)employers.

Reform of special privileged pension regimes (special pension programmes for different categories of population entitled to higher pensions: e.g. civil servants, prosecutor employees, military men, veterans of war, etc.) is another priority objective.

REFERENCE INFORMATION

KEY LEGISLATION

2007: Draft Law of Ukraine “On implementing accumulation system of mandatory state pension insurance and amending certain legislative acts of Ukraine” passed the first reading in the Parliament.

2005: Law of Ukraine “On state social benefit to persons not entitled to pension and disabled persons” converted social pensions into social benefits.

2004: Law of Ukraine “On non-state pension provision” provided framework for establishment and operation for voluntary supplementary pension schemes.

2004: Law of Ukraine “On mandatory state pension insurance” stipulated payment of benefits depending on work period and earnings from which insurance contributions are paid according to personified records. The law also defined sources of financing of different pension programmes separating budget of the Pension Fund of Ukraine and the state budget of Ukraine.

2001: Law of Ukraine “On financial services and state regulation of financial service markets” set the duty of state supervision and control over the activities and services provided by non-state pension funds.

1991: Law of Ukraine “On pension provision”, with subsequent amendments.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Ministry of Labour and Social Policy of Ukraine, (www.mlsp.gov.ua)

State Commission for Regulation of Financial Services Markets of Ukraine (www.dfp.gov.ua)

Securities and Stock Market State Commission (<http://www.ssmc.gov.ua>)

National Bank of Ukraine (<http://www.bank.gov.ua>)