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**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

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УДК 351

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**DEFINED CONTRIBUTIONS PENSION MAINTENANCE IN UKRAINE:  
ACTUAL STATUS AND DEVELOPMENT PROSPECTS**

*The actual status and problems in development of non-state pension maintenance were analyzed. The prospects of implementing defined contributions system of state pension insurance obligatory in Ukraine were considered.*

**Keywords:** non-state pension maintenance, defined contributions pension system, non-state pension funds.

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**НАКОПИЧУВАЛЬНЕ ПЕНСІЙНЕ ЗАБЕЗПЕЧЕННЯ В УКРАЇНІ:  
СУЧАСНИЙ СТАН ТА ПЕРСПЕКТИВИ РОЗВИТКУ**

*Проаналізовано сучасний стан та проблеми розвитку недержавного пенсійного забезпечення. Розглянуто перспективи впровадження накопичувальної системи загальнообов'язкового державного пенсійного страхування в Україні*

**Ключові слова:** недержавне пенсійне забезпечення, накопичувальна пенсійна система, недержавні пенсійні фонди.

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**НАКОПИТЕЛЬНОЕ ПЕНСИОННОЕ ОБЕСПЕЧЕНИЕ В УКРАИНЕ:  
СОВРЕМЕННОЕ СОСТОЯНИЕ И ПЕРСПЕКТИВЫ РАЗВИТИЯ**

*Проанализировано современное состояние и проблемы развития негосударственного пенсионного обеспечения. Рассмотрены перспективы внедрения накопительной системы общеобязательного государственного пенсионного страхования в Украине.*

**Ключевые слова:** негосударственное пенсионное обеспечение, накопительная пенсионная система, негосударственные пенсионные фонды.

**Problem statement.** Critical state of native pension system amidst increasing demand for pension income requires development of new institutions for social protection of citizens. Using possibilities of defined contributions pension system in this aspect is priority orientations for pension reform in Ukraine.

Important meaning of accumulative component of pension system under pension reform is determined by its wide resources either in economic or in social aspects. Unique social and economic facility of this system allows: at first, to create additional source of financial support for persons reached retirement; secondly, to form by means of the same resources powerful long-term internal investor, creating thereby grounds for economical growth in the state.

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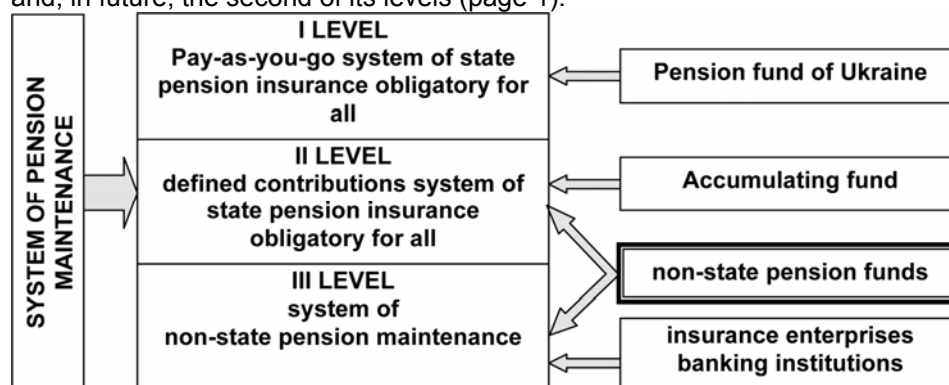
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**The analysis of the last researches and publications.** Problems of reforming pension system in Ukraine, including operating its accumulative component, are revealed in works of many researchers and practitioners, such as: O. Koval, D. Leonov, E. Libanova, G. Nazarova, L. Tkachenko, A. Fedorenko and others. However, operation of Defined Contribution Pension system as well as means of ensuring reliability and efficiency of its subject's work remain to be insufficiently researched.

The aim of the paper is analysis of the current status and assessment of prospects of the defined contributions pension maintenance in Ukraine in terms of second and third pillar pension system.

**Proving of scientific results.** Non-state pension funds take special place in institutional structure of national pension system. As institutions of defined contributions pension maintenance, they at the same time are the subjects of the third and, in future, the second of its levels (page 1).



Page 1. Structure of system of pension maintenance in Ukraine<sup>2</sup>

Notwithstanding that paternalistic mind of Ukrainian citizens and their distrust to the institutes of financial system restrain development of private pension maintenance, we can ascertain positive results of functioning non-state pension funds even today. As of the end of 2012 in Ukraine there were registered 94 NPF and 37 administrators of NPF, who have at their disposal 1660,1 mln. UAH of pension assets (table 1). Within eight years of functioning number of established NPF remains the largest, that is explained by more their accessibility for wide sections of the population.

During last years, system of non-state pension maintenance in Ukraine is developed quite dynamically, gradually showing its peculiarities. So, in 2012 number of investors into non-state pension funds increased up to 48 924, 46 528 investors of which (or 95,1% from total amount) – are physical entities. Herewith it can be said without prejudice that today NPF are developed specifically by virtue of corporate segment of investors, whose share in total amount of paid pension contributions exceeds 95%.

In the composition of NPF's members the most part immutably relates to the persons at the age of 25-50 years (64,8%) and 50-60 years (23,6%). At the same time young citizens, for whom possibilities of forming additional pension are the most attractive, don't want to use fund's services.

For the period of functioning NPF pension payments were received or are receiving 66,1 thousand persons, or 11,3% from total number of members. Here-

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<sup>2</sup> Made by authors

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with, in the structure of pension payments one-time payments prevail – 240,8 mln. UAH (96%), what considerably limits financial possibilities of funds.

Table 1

**Dynamics of key figures of NPF's activity [8]**

Index	Years:							
	2005	2006	2007	2008	2009	2010	2011	2012
Number of NPF	54	79	96	110	108	101	96	94
Number of participants (thousand persons)	88,3	193,3	279	482,5	497,1	569,2	594,6	584,8
Aggregate assets of NPF (mln. UAH)	46,2	137,4	281	612,2	857,9	1144,3	1387	1660,1
Pension contributions (mln. UAH)	36,5	119,7	234,4	582,9	754,6	925,4	1102	1313,7
Pension payments (mln. UAH)	1,7	4,0	9,1	27,3	90,1	158,2	208,9	251,9
Number of pension payments recipients (тис. осіб)	2,8	3,9	5,5	10,9	28,1	47,8	63,1	66,2
Amount of investment income (mln. UAH)	1,9	23,4	68,1	86,8	236,7	433	559,9	620,3
Amount of NPF's expenses (mln. UAH)	1,3	6,1	16,6	31,6	47,1	64,6	86,6	106,6

In NPF's investment portfolio the greatest part is funds (deposits) – 34,5%, debentures – 31,2% and shares of national enterprises – 15,5%, as well as securities, income on which is guaranteed by the Cabinet of Ministers of Ukraine – 11,9%, what shows advantage of reliable and liquid financial instruments [8].

Defining characteristics of national system of non-state pension maintenance today should be:

1) low level of citizen's participation (for the period of functioning system of only 1,28% of Ukrainian population are covered by non-state pension funds);

2) inconsistency of NPF's market, what is stipulated by their excessive number under small amounts of pension assets (herein corporative pension fund of National bank of Ukraine has fair share of market);

3) inequality in location on an area basis (about 70% of all funds are in Kyiv, at the same time in some regions there is not established any fund till now).

The main problems, arising today on the way of formation of national market of pension services involving NPF, are: low level of personal income, absence of effective motivational factors for participation in NFP, high level of citizen's distrust to new financial institutions, abeyance of some issues of NPF's functioning, absence of effective stock market and insufficiency of reliable financial instruments on it, dispersion of supervising and control functions between different state regulators etc.

As consequence, non-state pension funds don't yet become significant source neither of citizen's pension income nor of investment resources for economy's need. Implementation of accumulative system of state pension insurance obligatory for all in a certain way allows to resolve existing problems in non-state pension maintenance and to give incentives for intensification of its development.

The main reason for attraction of private sector to work of second level is in risk of adopting ineffective, politically motivated investment resolutions by the state.

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From other side high cost of administrative expenses of private institutions may mitigate their advantages in efficiency of assets administration. Under the results of the World Bank research, degree of damage, caused by inefficiency of state's resolutions in regard to assets administration, it is actually equivalent to their degree due to high administrative expenses of private sector [9, p. 6].

Then wide range of functions in the sphere of administration of accumulating pension system is differentiated between the state and private sector. Foreign experience practice proves that models of such collaboration may be different: from restricting state's role only by functions of regulatory and supervisory affairs, to performing complete cycle of functions by it: collection of contributions, administrating and accounting assets. Therefore, meaning of private pension funds and companies on assets administration also considerably differs. The most of countries, where schemes of second level function, in process of assets administration use services of private sector, at the same time functions of collecting contributions are entrusted to state institutions (Bulgaria, Estonia, Croatia, Hungary, Kazakhstan, Poland, Sweden). Alternative variant, used in Latvia and Russia, provides availability of so-called transitional period, over a period of which system is under complete administration of state, and private pension funds' participation is admitted only in future [9, p. 6-7].

Provisions of Law of Ukraine «On measures concerning legislative maintenance of restructuring pension system» № 3668-VI from 8.07.2011 [4] affirm that Ukrainian choice is directed toward precisely to such variant. So, within first two years from establishment of second level Pension Fund of Ukraine will be the administrator of all contribution payers, and asset management companies selected by tender will provide asset management. Starting from the third year of system functioning, members will be able to make payments to NPF as they determine, which will provide administration and management of assets for them.

The members of accumulating system of state pension insurance obligatory for all will be persons, who, as of the date of establishing payment of insurance fee, will be less than 35 years old. Amount of insurance contributions to Accumulating fund in the year of establishing system will amount to 2% of surcharge base for unified contribution with gradual increase (1% annually) by reaching the value of 7%.

To prevent reducing remuneration of hired employees due to making insurance contributions to Accumulating pension fund, enterprises, institutions and organizations will provide increasing the sum of actual expenses on remuneration of labor by means of reducing charges for mentioned amounts for employers and stage-by-stage increasing remuneration of all employees in rates adequate to payments of insurance contributions of second level.

We support specialist's opinion [6, 7], that proposed implementation mechanisms for the second level are too individualized and made dependent from will and actions of many subjects: insured persons, employers, employees of PFU's local branches and others. At the same time its simplicity and availability, readiness of all subjects for fulfilling their functions and ensuring control for system functioning allow to simplify attraction of citizens to Defined Contribution pension system.

We share with scientist's opinions that ensuring efficiency of the second level works is possible only subject to centralization of informational and monetary flows, accounting procedures and supervisory functions. Unification of uniform operations and their consolidation may be made on the basis of Pension fund as the main administrative center [7, p. 144].

Implementation of Defined Contribution pension system also determines redistribution of load from an employer to an employee. However, demand to increase remuneration for members of second level as a peculiar indemnification for amount

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of paid contributions in practice exclude control action for following it by employers. Though tendency to increase of pension contributions amount for employees coincide with world practice, it becomes clear the fact that participation in obligatory defined contribution system creates risk of reducing net-salary for employees.

National legislation determines severe conditions for subjects' access to participation in second level of pension system (table 2). Providers of services in obligatory defined contribution system must follow requirements as to capital stock, work experience, employees' qualification level etc. under restriction of administrative costs.

It should be noted that requirements to asset management company that will service Saving fund and NFP – subject of second level, differ slightly. Notwithstanding that first two years the second level will function only by means of Saving fund and, obviously, its assets will significantly exceed assets of all NPF for a long period, requirements to asset management company that will service Saving fund, undervalued a little. In future, such situation may lead to complications in selecting asset management company because of excessive number of bidders.

Table 2

**Requirements to providers of services  
in obligatory Defined Contribution pension system<sup>3</sup>**

Service provider	Requirements as to the capital	Amount of administrative costs	Other requirements
Guardian of Accumulating fund	Regulatory capital not less than 500 mln. UAH	Not more than 0,1% of amount of net value of pension assets	Daily check correctness of calculation of net asset value and net unit value
Asset management company of Accumulating fund	Owner capital – not less than 25 mln. UAH	Not more than 0,75% of average annual value of net asset value	Work experience not less than 3 years; proper qualification level and work experience of specialist; reserve fund in the amount not less than 25% of minimal amount of authorized capital; assets amount in administration follows conditions of the competition
NPF – subject of second level		Amount of administrative costs concerned with carrying out activity in defined contribution system cannot exceed 3,5% of average value of net pension asset of defined contribution system	Work experience not less than 3 years; concluded agreements on fund servicing; changing index of net value of pension assets unit for the last year – not less than determined by Financial Services Commission
Guardian of NPF	Regulatory capital not less than 500 mln. UAH		
Asset management company of NPF	Owner capital – not less than 25 mln. UAH		Work experience not less than 5 years, assets amount in administration follows conditions of Financial Services Commission, proper qualification level and work experience of specialist

Requirements, concerning access criteria for NFP to participate in second level, are fallible. So, NFP for obtaining license for rendering services in Defined

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<sup>3</sup> Prepared by authors on the basis of [4, 5]

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contribution pension system must have work experience on the market of non-state pension maintenance of not less than three years. Unfortunately today there is great amount of NPF registered by Financial Services Commission, but in fact don't have any participant or serve small amount of them. So, fund's national business practice dictates requirements as to addition of present criteria by other indices characterizing results of NFP's activity.

Considering world experience, non-state pension funds are differentiated by different criteria, in particular by type of investment strategy. For different categories of insured different combinations of profitableness and riskiness should be determined within concrete investment strategies. For example, NPF of Hungary implement three investment strategies, Estonia – four, Chile – five. In Russian Federation it is provided seven levels of differentiating investment strategy [6, p. 97].

National scientists considering development level of national financial market propose to distinguish three levels of differentiating investment strategy: increasing, balanced and conservative. Distinctions of investment strategy are to be insured by legislative setting limiting restrictions for investment into different types of financial instruments depending on correlation – profitableness-to-risk [6, p. 97].

In this aspect it will be useful to apply innovations of foreign countries in the form of so called «life cycle funds». Proportions of assets investment into such funds change depending on participant's age: for example, investment of large part of assets into shares, when participant is young yet, and reducing their part as far as participant reaches retirement. In such way some intermediary stages are formed in accordance with age of NPF's participants. In some countries (Hungary, Chile) changes in investment of assets are obligatory from the moment of reaching corresponding age by the participant. In others – each participant can select its own investment portfolio among what is proposed [2].

Advantage of life cycle funds is possibility of selecting different variants of investment strategies within one fund. Unlike the previous approach, under which participant's finances during labor activity flow from «increasing» (from the beginning of labor activity till reaching 35 years) via «balanced» (from 35 till 50 years) to «conservative» (from 50 till 60 years) NPF, this approach allows to correct investment strategy preserving finances in one fund.

Despite relative independence from population profile, defined contribution pension systems are the most vulnerable to influence of financial risks. In this regard, problem of preservation and increase of pension assets needs forming complex guarantee system within second level. Considering that active legislation does not regulate this question in any way, we should address to world practice. Different countries resolve this problem in different ways, in particular through determining: determined amount of economic viability (Hungary – 85% of government bond rate, Slovenia – 40%), fixed rate of minimum income (Switzerland – 1,5%, Singapore – 2,55%) or average income (Argentina, Chile, Poland), warranties for preserving nominal value of paid contributions (Slovakia, Czech Republic, Australia) [2].

Scholarly disputes in Ukraine are held about scope of liabilities which are subject to be guaranteed: 1) nominal value of contributions; 2) nominal value of contributions, indexed to the inflation rate; 3) nominal value of contributions and guaranteed minimum investment income in the amount exceeding rate of inflation; 4) nominal amount of contributions considering annual indexes of model portfolio's economic viability (average market economic viability of relevant assets) [6, p. 121].

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We believe the main purpose of protection system of pension accumulations should be:

- 1) provision by investment subjects of pension savings profitability not less than level insuring their purchase power;
- 2) provision of execution of citizen's right for amount of pension payments corresponding the amount of accumulated contributions and income from their investment.

Foreign specialists [10, 12] emphasize the need of using codified fiduciary duties for NPF's councils and subjects of their infrastructure, as the best protection of interests of funds' participants is available only if all subjects of the system are obliged to act exclusively in their favor. In addition, it is proposed to institute Ethics code for pension funds which they will follow during their activity.

As table 3 shows implementation of the second level of pension system in current year could allow to attract about 7 mln. participants, and in six years of its functioning to increase their number up to 8,6 mln. persons. At the same time, total amount of contributions even in 2018 would amount 25,5 milliard UAH.

Under expected estimates when all payers of contributions are included to the second level, annual payments will amount to 2,3% of GNP, and pension savings of employees by 2050 will amount to 2/3 of GNP [11].

Today budget imbalance of Pension Fund is considered almost the main reason of terminating implementation of obligatory defined contributions system. In addition, the question arises as to whether it is worth to expect surplus of Pension Fund, if after transferring contributions to Defined Contribution Fund there will arise deficiency at once. At the same time it is hardly reasonably to refuse from possibility to stabilize pension system in long-term prospect and to receive internal long-term investment resource.

Table 3

**Forecast of the main data of Defined Contribution pension system [1]**

Year	Con-tribution rate	Number of members	Average monthly salary	Total amount of contribu-tions per month (mlrd. UAH)	Total amount of contributions per year (mlrd. UAH)
2013	2%	7 031 057	2500	0,352	4,2
2014	3%	7 411 114	2675	0,595	7,1
2015	4%	7 791 171	2862	0,892	10,7
2016	5%	8 076 214	3063	1,236	14,8
2017	6%	8 361 257	3277	1,643	19,7
2018	7%	8 656 360	3506	2,124	25,5

As data from table 4 show replacement rate, warranted by defined contributions pension system conditional upon its implementing in previous year, would amount 18,3% for men and 11,9% women. So, in future pension payments by means of second level can be substantial support for Ukrainian citizens.

Table 4

**Replacement rate from second level (%) [7, p. 158]**

Amount of contribution	2037	2038	2039	2040	2041	2042	2043	2044	2045	2050
Men										
2-7%	9,5	10,2	10,8	11,5	12,1	12,8	13,4	14,1	14,8	18,3
Women										
2-7%	5,6	6,1	6,5	7,0	7,4	7,9	8,3	8,8	9,3	11,9

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**Conclusions.** Considering important social and economic meaning of defined contributions system of pension insurance the priority guidelines for the state within the context of its formation should become: procuring development of non-state pension maintenance; providing qualitative state supervision and control for system functioning; forming complex protection system of pension savings; activation of development and strengthening stability of national financial market etc.

Pension system integral to general economic mechanism by means of accumulating element not only reduces overhang of social costs but becomes the factor of national competitive ability in future.

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