WAYS TO DEVELOP THE PENSION PROVISION SYSTEM

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ABSTRACT.
This scientific article is devoted to study of the public pension provision system in Uzbekistan. The article studies the stages of evolution of the national pension system, the current state and development trends of pension provision, and identifies problems in the pension system of Uzbekistan. Basing on the research results the authors have developed scientific proposals and practical recommendations.

Key words: pension, pension provision, old-age pension, salary, seniority, pension fund, pensioner, pension amount, funded pension system, demography, income, expenses, financial stability.

INTRODUCTION

Studies show that “globally, 68 percent of people of retirement age receives old-age pensions and this is associated with the development of both accumulative and insurance pension benefits in many middle and low income countries” [1], and is also the result of increased payments of both insurance and social pensions in many middle and low income countries of the world. Throughout work, when good health and the ability of working productively are the norm for the majority, people contribute to national development and progress. And it would be fair not to forget about them in old age, providing them with well-being and prosperity.

In the World Social Security Report 2017–2019, “retirement costs and other benefits for older people constitute average 6,9 percent of GDP, and this indicator varies significantly from region to region” [2]. The report notes that the level of benefits is often low and insufficient to save older people from poverty. To solve this problem, it is important to reform and further develop the public pension system.

The discussion on the reform of pension systems has gained international scope after the publication of the World Bank's report on “Preventing the Global Aging Crisis” in 1994. The main problem which is considered in the report, is the increase in the life expectancy of the population and, as a result, the predicted deficit of pension funds for payments. The report indicates that by 2030 the number of people over the age of 60 will increase by 900 million compared to 1990 and reach 1.4 billion [3]. In recent years, in Uzbekistan, in the context of increasing the average life expectancy of the population, ensuring the financial stability of the pension system, improving the pension system is an urgent task.

LITERATURE REVIEW

The first distributional pension system based on the principle of generational solidarity was introduced by O.Bismarck in 1889 in Germany. Then social insurance was occurred compulsory and pensions were provided at the expense of insurance

contributions of workers and employers. W. Beveridge created the foundation for social security in the UK in 1942. In his studies, the principle of the need for state guarantees for social protection of the population was pronounced, the provision of social insurance for hired workers by employers and workers should have additional private insurance [4]. The scientific work of the American scientist J. Peng investigated the issues of effective management of pension funds [5]. On the part of E. Palmer, a three-level pension system was studied, which includes a mandatory-distributive, mandatory-funded and individually voluntary funded pension systems [6]. F. William paid particular attention to the development of private pension funds [7]. The studies of E. Whitehouse reflect the development of a multi-level pension system [8].

Also, research on the development of the pension system was dealt with by scientists from neighboring countries. The scientific works of N. Borisenko reflect the features of the pension provision of citizens, demographics of the population, and foreign experience of the pension system [9]. V.Roik investigated the issues of social insurance, which form the basis of pension provision [10]. S.Brovchak comparatively analyzed the experience of pension provision in Russia and foreign countries [11].

As well as Uzbek scientists investigated the issues of reforming and improving the pension system. In particular, the theoretical foundations of the development of the pension system and non-state pension provision, as well as ensuring the financial sustainability of national pension system, were studied by A.Vakhabov and N.Mazhidov [12]. In the scientific works of T.Malikov, the essence, content, types and role of pensions in the system of social protection of the population were studied [13]. In the dissertation of M.Ziyadullaev, the pension system by age and its legal basis were improved [14]. In the monograph of D. Rustamov, the scientific and theoretical foundations of ensuring the financial stability of the Pension Fund of Uzbekistan were studied [15].

However, in Uzbekistan the stages of the development of the pension system, the directions of the Concept of reforming the state pension system, the introduction of a three-level pension system based on international best practices are not sufficiently disclosed.

RESEARCH METHODOLOGY

The basis of methodological research is the principles and patterns of the pension system of citizens. The study of the pension system of citizens is based on the collection, processing and analysis of information about the pension system, determining the factors that affect it. In the study there are used methods such as generalization, logical analysis, synthesis, induction and deduction, a systematic approach, correlation and regression analysis.

ANALYSIS AND RESULTS

The pension system is one of the main directions of the state policy of social protection and provides for a set of organizational, legal, social and economic measures aimed at providing material and social support to elderly people, disabilities and survivors.

Pension has a long history. The pension system as part of the social system originated during the Roman Empire (44-100 BC) at the head of J. Caesar. At the same time, “for the first time, servicemen were granted pensions at the expense of the

emperor's own funds (so that they could improve their social status in old age), which caused serious financial difficulties" [19]. It should be noted, "that in many sources it is alleged that pensions were invented by J. Caesar for the military" [20].

Today, the pension system of citizens in Uzbekistan is represented by two levels: the first is a "distribution" pension system based on generational solidarity, and the second is a funded pension system.

1. "Distribution" pension system based on generational solidarity. The essence of this system is that the social insurance pension system consists of "distribution" elements based on the principle of "generational solidarity". At the same time, employers and workers pay mandatory contributions and insurance contributions to the Pension Fund [18]. At the expense of the accumulated funds, pensions are paid to pensioners and this process continues continuously. For example, generation T retires, generation T + 1 pays for it, and for T + 1 pension will be paid by T + 2, and so on. Thus, no fund is created and no one pays for itself. Anyone who makes contributions to the Pension Fund means that it will be a source of pensions for previously retired citizens.

2. Accumulative pension system. In accordance with the Law of the Republic of Uzbekistan dated December 2, 2004 "On the funded pension provision of citizens", a funded pension system was introduced in the country. The goal is to create a source of income for retirees in addition to existing retirement benefits and increase their well-being. In this system, deductions of citizens are accumulated before retirement and paid after retirement. At the same time, citizens' savings are formed through mandatory and voluntary contributions. Thus, both pension systems in Uzbekistan are aimed at creating conditions for further improving the welfare of pensioners.

It should be noted that both the distribution and funded pension systems have advantages and disadvantages. The purpose of the distribution pension system is to implement a mechanism of protection against poverty, but at the same time it is not adapted to demographic changes. The purpose of the funded pension system is economic efficiency, which is characteristic of countries with market economies. However, a funded pension system cannot be instantly implemented and it is highly sensitive to changes in financial markets.

Persons who do not have sufficient work experience to receive pensions in Uzbekistan are assigned an old-age pension in proportion to their experience if they have at least 7 years of work experience. This means that in order to receive a pension, work experience must be at least 7 years. If the work experience of a citizen is absent or is less than 7 years, in these cases, women will receive the right to age benefits at the age of 60 years, and men at the age of 65 years.

It should be noted that persons who have worked for only 7 years and have made a minimum contribution to the formation of Pension Fund income over their entire working life, receive the right to receive a pension. The establishment of a minimum 7 years requirement for seniority affects the participation of citizens in state social insurance and does not encourage them to have more seniority in the future to increase pensions. For example, at present, the difference in the amount of a pension with an average level of earnings for a man with 30 years of experience (with the required 25 years of experience) and a man with 10 years of experience (with a minimum of 7 years) amount to only approximately 220-250 thousand sums [25]. This will require a step-by-step increase in

the minimum length of service required to assign an old-age pension and bring it closer to the standards established by the International Labor Organization Convention No. 102 “On Minimum Welfare Standards”.

At the same time, a small, although insignificant, low length of service will also lead to a proportional reduction in the size of pensions. This is due to the fact that the size of pensions depends mainly on the size of wages and length of service and consists of the following components:

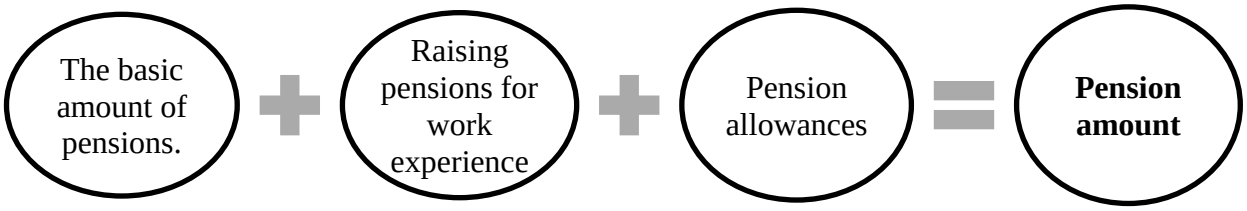


Figure №3. Formation of the amount of pension

1. The basic amount of pensions. Earnings for calculating a pension are taken for any five consecutive years (at the choice of the one applying for a pension) during the last ten years of work, regardless of any breaks in work. Earnings for calculating pensions are recalculated to bring the earnings of past years to the level of earnings on the day the pension is appointed in the manner determined by the Cabinet of Ministers of the Republic of Uzbekistan. The average monthly earnings for calculating the pension is determined by dividing the total amount of the recalculated earnings for sixty calendar months of work in a row by sixty. The basic amount of old-age pensions is 55 percent of the average monthly income accepted for calculating pensions, but not less than 100 percent of the officially established minimum age pension.

2. Raising pensions for work experience. For each full year of work in excess of the required (25 years for men and 20 years for women) for granting a pension, the basic amount of old-age pensions increases by 1 percent of the average monthly earnings accepted for calculating the pension.

3. Pension allowances. Disabled war group I - 150 percent of the base pension calculation; invalids of war of group II - 125 percent of the base value of calculating pensions; visually impaired group I - 100 percent of the base pension calculation; disabled people of group I - 75 percent of the basic amount of calculating pensions; for single disabled people of group II - 75 percent of the basic amount of calculating pensions; to participants in the war and persons equated with them - 50 percent of the basic amount of calculating pensions; to persons who worked and performed military duties in the rear during the war of 1941-1945 - 30 percent of the base pension calculation.

This means that the size of pensions mainly consists of the basic size of the pension and the increase in pensions for work experience. The basic amount of the pension is directly related to the size of the salary. In 2010, the average salary in Uzbekistan was 318,1, in 2015 – 478,7, and in 2016 – 590,5 US dollars, but since 2017 this indicator has significantly decreased due to a change in the national currency in relation to foreign exchange rate. In particular, in 2018, these indicators tended to

decrease: the average salary was $ 219,6, and the average pension was $ 75,7. In 2018, the average monthly salary and pensions in Uzbekistan are almost in last place compared to the CIS countries.

The change in the average monthly pension is actively affected by the average monthly salary of citizens. There is theoretical reason to believe that there is a correlation between these two factors:

– when indexing the wages of public sector workers in Uzbekistan, pensions are indexed at the same rates;

– in accordance with applicable law, the size of the pension for retirees is determined on the basis of wages received over the past decade;

– Pension fund income is generated from insurance premiums of employees and social contributions of employers.

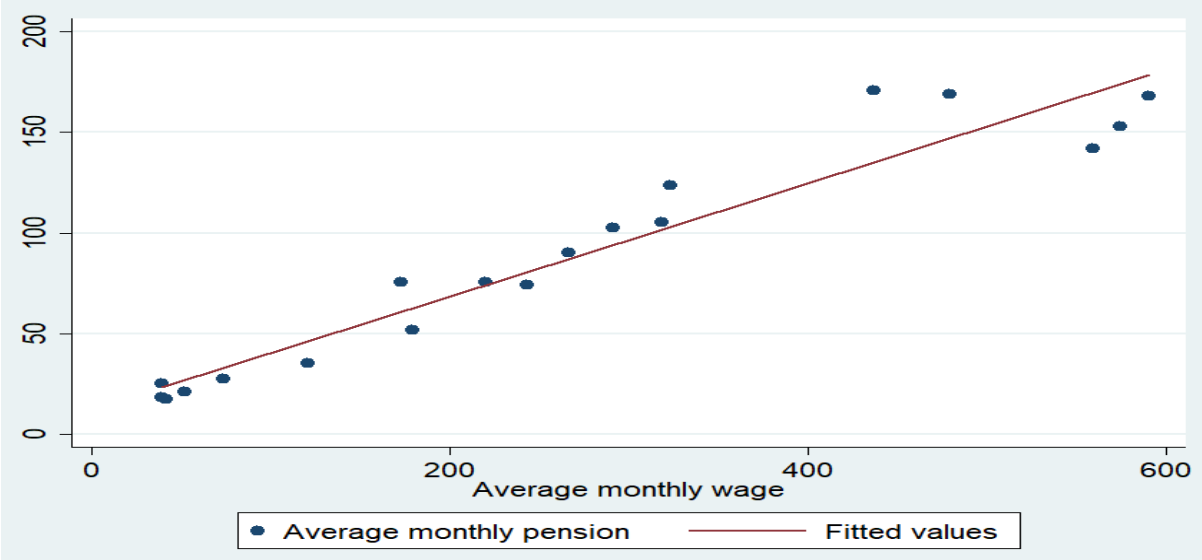


Figure 5. Average monthly salary and pension between points and line of correspondence

We are creating an econometric model of the ratio of average monthly wages to changes in average monthly pension. An inductive analysis of this model shows that the above model represents a statistical significance of less than 0.05 and is consequent, this model is statistically significant. The influence of an independent variable (average monthly wage) on the dependent variable is also less than 0.05 and is statistically significant (the calculations were calculated in the Stata software package).

Econometric model of average monthly pension and average monthly wage:

$$P = 12,4 + 0,28W + e$$

There: P – average monthly pension;
W –average monthly salary;
e – unaccounted factors

The coefficient of determination (the coefficient of determination is the fraction of the variance of the dependent variable, explained by the model of dependence under consideration, that is, explanatory variables. More precisely, this is a unit minus the share of unexplained variance in the variance of the dependent variable) of the compiled equation is 0,92, and the size of the average monthly wage can explain 92% of the change in the average monthly pension. Coefficient (0,28) W (monthly salary) - means a change in the average wage per unit, which leads to a change in the average pension by 0,28 units. The coefficient of the normal distribution of remains between the regression line and the coincidence points between the two factors is 0,38. For this reason, both residues are assumed to be normally distributed.

CONCLUSION

1. Pension provision is a priority area of the social protection system and the level of coverage of citizens with retirement benefits depends on economic development and the development of the pension system.

2. The formation and development stages of the pension system in Uzbekistan can be divided into five stages. At the same time, until 2004, the so-called “distribution” pension system was operating, based on the solidarity of generations, and since 2005, in addition to the state pension system, a funded pension system was introduced. Distribution and funded pension systems have certain advantages and disadvantages. The main purpose of the distribution pension system is to implement a mechanism to protect citizens from poverty, and this system is not adapted to demographic changes. The purpose of the funded pension system is economic efficiency, which is typical for countries with market economies. However, it is impossible to immediately introduce a funded pension system, and it is very sensitive to changes in financial markets. It is obvious that the structure of the pension system of Uzbekistan should be based on various levels of support, including mandatory, additional and personal savings of citizens in order to create favorable conditions for further social support of pensioners in Uzbekistan, increase the efficiency of the pension system and achieve a decent pension in the future.

7. Based on international experience, it is necessary to create a three-level pension system to increase the interest of the population in the payment of insurance premiums:

1) State minimum pension provision;

2) Pension coverage based on the forced transfer of a pension insurance contribution from a citizen’s salary to his personal account (payment of interest on pension accumulations accrued to the personal account must not be lower than the Central Bank refinancing rate);

3) Voluntary private pension provision (voluntary establishment and payment by the population of insurance contributions to the Pension Fund).

The introduction of a three-level pension system will allow citizens to receive a guaranteed state pension and, at their discretion, determine the amount of their own pension in the future.

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