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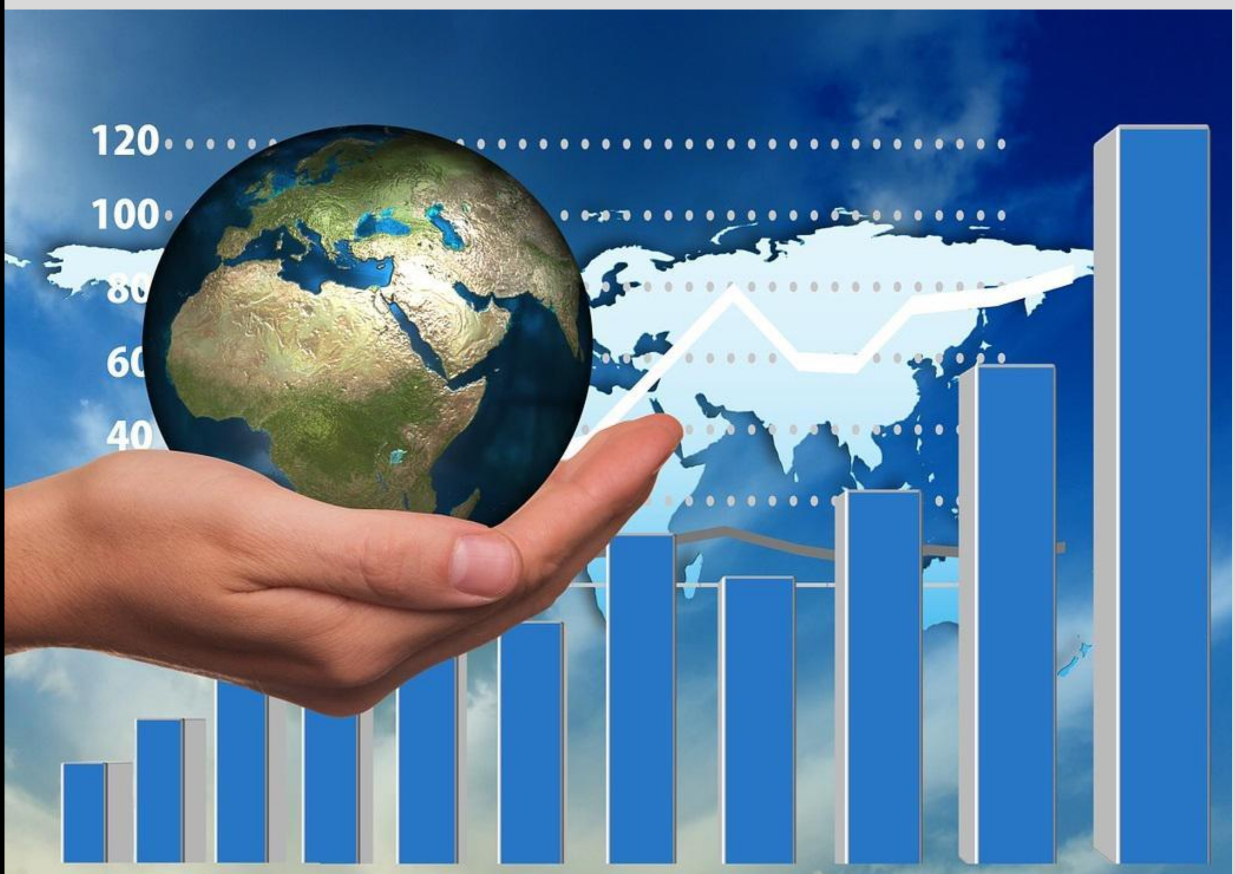

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The beautiful thing about learning is nobody can take it away from you—B. B. King

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STATE REGULATORY POLICY TO ENSURE INCLUSIVE VALUES IN THE FIELD OF NON-STATE PENSION INSURANCE IN UKRAINE

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ABSTRACT

One of the key tasks of the State and public administration is to prevent social tensions associated with poverty, property differentiation of the population, unemployment, etc. by increasing the level of social protection of the population, ensuring the inclusion of non-state pension insurance, including through an effective policy in the field of pensions. To achieve these objectives, it is necessary to create a pension system that would stimulate retirement savings, ensure a significant increase in the level of income of pensioners, maximize the dependence of pension payments on personalized contributions of insured persons, motivate work and legalize wages, etc. The problem of introducing such a pension system is particularly relevant given the current demographic situation - low birth rates, the outflow of Ukraine's economically active population abroad, and the aggressor's military actions aimed at destroying Ukrainians. This emphasizes the relevance of the chosen research topic.
Keywords: pension provision, pension system, inclusion, inclusive values, financial control, non-state pension funds.

Analysis of recent publications

In the national economic science, the problem of non-state pension insurance has been covered by such scholars as V. Vygovska [1], M. Kravchenko, N. Kovaleva, M. Lazebnoi [2], D. Leonov, A. Fedorenko [6], N. Mrachkovska, L. Pavlovska [3], L. Pozdnyakova, L. Ptashchenko [4], M. Marich, A. Shuper [5] and others. Scientists analyze the regulatory framework for the establishment of non-state pension funds (hereinafter - NPF), the mechanism of their functioning, and study the foreign experience of non-state pension funds. However, a number of issues remain unresolved today to ensure the efficiency of NPFs in particular and the development of the financial market in general, as well as the transparency of funds' activities. It is also still relevant to develop a set of measures for the development of the NPF network, the involvement of active financial services market players, the State, and corporations in private pension insurance to stimulate growth in the number of NPF participants, i.e. inclusiveness.

The purpose of the article is to study the problems of the State policy in the regulation of non-state pension funds in Ukraine and, based on the study of international experience, to formulate proposals for ensuring inclusive values in the field of non-state pension insurance.

Main body

Inclusion or inclusiveness is the process of including all citizens in a society in a certain system (for example, pension insurance), regardless of their physical, physiological or other characteristics. Inclusive values are, above all, the recognition of diversity, equality, justice, cooperation, and participation [7].

Inclusive development aims to ensure that all citizens of society benefit from sustainable economic and social development. Many organizations implement this approach in the fight against poverty by supporting education and providing livelihoods for those in need. It is the inclusive approach that will help Ukrainians become more active in making decisions about the need to invest in a decent life after they leave the workforce.

At the same time, inclusive values are not working in the field of private pensions. The goals declared when the third pillar of the pension system was introduced have not been achieved.

1. Pension savings have not become an effective tool for ensuring a decent old age. As of June 30, 2021, pension payments (one-time and fixed-term) amounted to UAH 1,196.2 million, which is 16.2% more than in the same period in 2020, with one-time payments increasing by 9.4% and fixed-term pension payments by 26.4%. The analysis of the dynamics of the number of NPF participants leads to the conclusion that the system is developing not in an extensive way, but through simple replacement due to the natural attrition of the labor force, although it should be noted that the trend is positive as defined benefit pensions are increasing much faster.

2. Pension savings have not become a significant source of investment resources for the needs of the national economy. The total value of assets formed by non-state pension funds as of June 30, 2021 amounted to only UAH 3,712.9 million,

3. Non-state pension funds have not become an effective institution for attracting funds from individuals. As of the beginning of 2019, the amount of funds accumulated by NPFs amounted to UAH 2,745.2 million, which is an average of UAH 3,210 per system participant [8].

In our opinion, the main reason for the unsatisfactory pace of development of private pension provision is the conceptual error of the implemented model. The error is caused by two factors:

First, the formation of voluntary funded pension systems has historically occurred in developed societies. Since an individual decides whether to join a voluntary pension savings system, contributions to a future pension begin to compete with other expenditure items (food, clothing, durable goods, education, medical treatment, etc.) that may become more urgent at certain stages of the life cycle, which is what is happening in Ukraine. In general, it can be argued that voluntary pension savings are characteristic of developed countries, which, unfortunately, do not include Ukraine. In countries with weak economies, external motivational factors play a crucial role, but in Ukraine they are virtually absent.

Secondly, the development of voluntary funded pension systems in developed countries mostly occurred during the period of smooth economic growth, i.e., in the absence of significant financial and economic shocks.

The insufficient level of motivation of the population to participate in NPFs should be considered a consequence of the following factors.

1. Insufficient public awareness of the principles of functioning of the NPF institution.
2. Low level of public confidence in NPFs.
3. Insufficient awareness and low level of public trust in the financial system.
4. High level of paternalism in the public consciousness. In answering the question "Who should take care of decent provision for your old age?" the vast majority of respondents give the main role to the state, namely: "the state" - 41%, "both the state and myself" - 49%. Moreover, younger

respondents are most likely to believe that ensuring a decent old age is their personal responsibility, while more than half of those aged 60 and older believe that providing a pension is the responsibility of the state.
5. Significant transaction costs associated with making contributions to NPFs: insufficient benefits for NPF participants, complicated mechanism for refunding overpaid personal income tax.
6. Economic instability in the country due to COVID and the war. This, in turn, leads to such negative consequences as the outflow of economically active people abroad or their involvement in the defense of the country, loss-making enterprises and certain industries (due to destruction or inability to operate in emergency conditions).

In many countries, NPFs are one of the main instruments for improving the level of pension provision of the population. Among the types of NPFs, open funds prevail because of their versatility. After all, any citizen can become both a contributor to an open NPF and a participant without restrictions on professional or employment status. The functioning of these funds is not subject to restrictions established by law, for example, for corporate NPFs. An open NPF makes it possible to attract a wide range of interested businesses and individuals as depositors. Some experts believe that the advantage of this fund is a simpler procedure for concluding pension contracts by both individuals and legal entities with different numbers of employees. In addition, with the participation of depositors in an open fund, an enterprise can develop a more flexible corporate program than, for example, with a corporate NPF. A legal restriction for an open NPF is the prohibition to invest in securities of its own founders (corporate funds have the right to buy them).

Statistics show that although companies have already started pension insurance for their employees, people are in no hurry to save money for retirement on their own. As of today, just over 2% of the economically active population are members of non-state pension funds.

Participation in NPFs is voluntary for both individuals and employers. Over time, after the adoption of the relevant law, employers will be required to make mandatory pension contributions to NPFs for the benefit of employees working in hazardous and difficult working conditions. Such mandatory pension contributions will be paid to professional and corporate funds.

There is a problem of insufficient control over the activities of NPFs. There are negative trends in the financial performance of funds, which is caused by non-transparent relations between NPFs and their counterparties, in particular the high cost of services of AMCs, auditors and other NPF participants. This situation is typical for economic relations in the financial services market. At the same time, international experience shows that the role of the state in regulating the activities of non-state pension funds in countries with weak economies is significantly different from its role in countries with established market relations, stable legislative and legal framework, developed stock and insurance markets [2, p.50].

Non-state pension funds in developed countries play an extremely important role - they have taken over some of the functions of the state, in particular in relation to citizens who have reached retirement age. In order to ensure that non-state pension funds fulfill their obligations properly, a system of regulation and supervision is being created.

The International Social Security Association (ISSA), established in 1937, provides advice and a platform to its members (350 member organizations in 150 countries) to shape dynamic social security and its policies worldwide [9].

In 2004, the International Organization of Pension Supervisors (IOPS) was established to improve the quality and efficiency of supervisory activities for private pension funds around the world, thereby contributing to their development, increasing the efficiency of their operations and increasing the level of security of this source of income for pensioners [10].
The share of non-state pensions depends on the type of pension system that operates in a country.
There are three types of pension insurance systems (Table 1).
Only Bolivia has a purely funded pension insurance system, meaning that 100% of Bolivian pensioners' income comes from their own lifetime savings. In the United Kingdom, which has a two-pillar system, this figure is 25%, in the United States - 70% [2].

Table 1. Types of pension systems [Source: 4].

Type of pension system	Composition	Countries in which the system operates
One-pillar system	Solidarity	Germany, Sweden, Switzerland, Czechoslovakia, Romania
	Accumulative	Bolivia
Two-tier system	State (solidarity) and non-state (funded) systems operate in parallel	France, UK, Denmark, Netherlands, USA, Chile, Australia
Three-pillar system	The first pillar is a mandatory PAYG pension system; the second pillar is a mandatory funded pension system; the third pillar is a voluntary funded pension system	Latvia, Hungary, Kazakhstan, Poland, Croatia, Ukraine

The study of the organization of financial control in the system of non-state pension funds of the countries of the world made it possible to conclude that the greater the share of pensioners' income accounted for by non-state pension insurance, the better and more efficient the system of state regulation and supervision of such institutions should work.
In many countries, specially authorized bodies are created to regulate the activities of non-state pension funds (Table 2). The main purpose of the Pensions Regulator in the UK is to protect the interests and assets of members of non-state pension funds [12]. The Pension Regulator's powers can be grouped as follows:
- preventive - used for chronic risks;
- detective - used to study the causes of a particular problem;
- educational - used to increase the level of knowledge of trustees;
- corrective - used to return to the planned level of economic benefits;
- penalties - used to prevent the repetition of past offenses.

In most countries independent auditors play an auxiliary role in the control of non-state pension funds by state supervisory bodies, who are obliged to notify such bodies about any revealed violations (Belgium, Germany, Turkey and others). However, there are countries, Luxembourg in particular, where auditors are not obliged to communicate the information if: such information is a commercial secret; there are contractual restrictions on disclosure of information on the audited subject; disclosure of information would violate the principles of professional ethics [13].

Table 2. Supervisory bodies of NPFs in some countries of the world [11].

Country	Name of the supervisory authority
Australia	Australian Prudential Regulation Authority
Austria	Financial Market Authority
Belgium	Banking, Finance and Insurance Commission (CBFA)
Botswana	Non-Bank Financial Institutions Regulatory Authority
Brazil	Ministério da Previdência e Assistência Social
Bulgaria	Financial Supervision Commission
China	Chinese Insurance Regulatory Commission
Croatia	Croatian Financial Services Supervisory Agency (HANFA)
France	ACAM
Germany	Federal Financial Supervisory Authority (BaFin)
Spain	Ministry of Economy and Finance
Ireland	Pensions Board
Turkey	Pension Monitoring Center, Undersecretariat of the Treasury
Israel	Ministry of Finance
United Kingdom	The Pensions Regulator
Italy	Pension Funds Supervision Commission (COVIP)
Jamaica	Financial Services Commission
Kazakhstan	Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Institutions
Netherlands	De Nederlandsche Bank
Norway	Financial Supervisory Authority
South Africa	Financial Services Board

Despite the differences in legislation, the practice of setting normative requirements to the establishment of internal audit services in non-state pension funds is widely accepted in most countries of the world.

The Netherlands, Poland, Jamaica, Turkey, Germany, and Australia - this is not the whole list of countries where requirements to information disclosure by non-state pension funds are enshrined at the state level. An important feature of such disclosure is the publication of information on the financial condition of the fund in certain periodicals [11].

In studying the issues of pension insurance, attention should be paid to the problem of distribution of pension insurance premiums between the employer and employees. According to some foreign experts, in order to maintain and increase the competitiveness of enterprises in the world market, it would be advisable to redistribute pension insurance funding equally to all pension insurance payers. In particular, countries with a developed market economy, by introducing a cumulative pension system due to compulsory and voluntary pension insurance, relieved enterprises of part of the burden of financing pension payments to the population. The specified financing was transferred to the able-bodied population [6].

Ukraine at present is not yet able to make a radical transition to a compulsory funded system. For this purpose it is necessary: general development of national economy, growth of incomes of the population, formation of effective system of non-state pension funds, developed legislative base and preparation of society as a whole for practical introduction of such reforms.

Directions for solving problems of intensifying the implementation of the cumulative pension system in Ukraine are summarized in Figure 1. Insufficient awareness of the principles of functioning and the low level of confidence in the institute of NPF can be overcome mainly through appropriate explanatory and educational work.

DIRECTIONS FOR ENHANCING THE INCLUSIVENESS OF THE FUNDED PENSION SYSTEM IN UKRAINE

- Expanding the base of insurance contributions by legalizing and increasing the level of wages (for formalizing labor relations, strengthening the role of social dialogue in setting the level of income from which contributions to mandatory state pension insurance are collected, reducing underemployment and unemployment)
- Introduction of a single social contribution and creation of a state register of social insurance
- Gradual introduction of parity payment of insurance premiums by insurers and insured persons
- Strengthening control and responsibility for compliance with labor remuneration and insurance premiums
- Revision of the right to early retirement based on the results of job evaluation and retirement age in line with the increase in life expectancy.
- Eliminating the possibility of making decisions on revising pension amounts without taking into account the real capacities of the Pension Fund budget and relevant reasonable calculations

Figure 1. Priority directions of state policy for regulating the inclusiveness of the non-state funded pension system in Ukraine

Consequently, the government should consider creating appropriate public awareness programs to provide broader coverage of all aspects of the pension reform, in particular private pensions. The main emphasis should be focused on the following points:
- The potential possibility of obtaining an additional pension in old age through the NPF institution;
- The individual (personified nature) of pension accruals;
- Minimization of possible losses of own pension assets as a result of their diversification;
- regulation and supervision of the activity of NPF, administrators, AMC, custodians by the state regulators (National Securities Commission, National Commission on Financial Services) [14].

It is expedient to involve private financial institutions having experience of presence at the domestic financial market, enjoying faultless reputation and providing all complex or separate services on non-state pension provision to implementation of this program.
An effective factor in motivating individuals could be the co-financing of pension contributions by the employee and the employer at the initiative of the employee in the ratio, which should be calculated actuarially, taking into account the following initial conditions:
- the state loses part of its income tax due to the allocation of the amounts contributed to the NPF to gross expenses.

- the employer loses a part of profits, therefore the corresponding compensating mechanisms should be provided for;
- the employee voluntarily gives up part of his consumption in favor of saving for his old age.

A possible option could be the legally established right of a citizen (spouse) to educate their children at the expense of budgetary funds (if there is an amount of pension savings in the amount of payment on a commercial basis).

Conclusions

Given that inclusion aims to benefit all members of society from sustainable economic and social development, solving the problem of inclusion of pension insurance in Ukraine will overcome poverty among socially vulnerable and economically inactive members of society, inequality, social exclusion, etc. The inclusion of non-state pension insurance will help Ukrainians to become more active with decisions about the need to invest in a decent life after retirement.

However, inclusive values in the field of private pensions do not work in Ukraine. After all, the goals declared in the introduction of the third level of the pension system have not been achieved.

In conclusion, the presence of significant savings in the system of non-state pension provision may serve as a basis for an earlier retirement from the mandatory cumulative system (in case of its introduction) and even from the solidarity system. In our opinion, the definition of retirement age in all three components of the pension system should be connected in a certain way, i.e. represent a comprehensive motivational system.

The study of the world experience of non-state pension funds and regulatory support of non-state pension funds in Ukraine led us to the conclusion that they are quite reliable and promising actors in the financial services market, and their effective development will accelerate the pension reform in Ukraine and thereby enhance investment processes and improve the welfare of pensioners. In order to solve the problems it is necessary to refer to the positive world experience, to create an effective system of regulation and supervision of the activities of private pension funds.

As a compensating mechanism for employers may be offered access to loans at preferential rates in state banks in case of exceeding the amount of pension contributions of certain amounts. Such volumes could be differentiated according to established characteristics (e.g., by industry, taking into account the profitability of production).

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