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## FOREIGN EXPERIENCE OF PRIVATE PENSION PROVISION

**Fedorovych Iryna. Foreign experience of private pension provision.** The problems of development of the domestic pension system and models of such systems in economically developed European countries are analysed. It is argued that the main reasons for the low level of development of non-state pension provision (NSPP) in Ukraine are inefficient legislative and operational regulation of financial entities, as well as insufficient transparency in asset management, which accumulates distrust among the population. The expediency of using foreign experience to improve the system of non-state pension provision in Ukraine is substantiated. For further development of the domestic system of NGPP Ukraine it is proposed to develop a clear, ramified mechanism for monitoring and regulating the activities of the main actors in this process. Based on the implementation of foreign experience, approaches to improving the system of state regulation and supervision of non-state pension fund (NSPF) are proposed: rating and monitoring of activities of NSPF and their financial resources, regulation and supervision of investment activities, information disclosure system.

**Key words:** private pension provision, pension system, pension reform, private pension funds, banks, insurance companies.

**Федорович І.М. Зарубежний опыт негосударственного пенсионного обеспечения.** Проанализированы проблемы развития отечественной системы пенсионного обеспечения и модели таких систем в экономически развитых европейских странах. Аргументировано, что основными причинами низкого уровня развития негосударственного пенсионного обеспечения в Украине является неэффективное законодательное и оперативное регули-

рование деятельности субъектов финансовой сферы, а также недостаточная прозрачность по управлению активами, недоверие со стороны населения. Обоснована целесообразность применения зарубежного опыта с целью совершенствования системы негосударственного пенсионного обеспечения в Украине. Для дальнейшего развития отечественной системы НПО Украины предложено разработать механизм контроля и регулирования за деятельностью главных субъектов этого процесса. На основе имплементации зарубежного опыта предложены подходы к совершенствованию системы государственного регулирования и надзора за НПФ: рейтингования и мониторинг деятельности НПФ и их финансовых ресурсов, регулирование и надзор инвестиционной деятельности, система раскрытия информации.

**Ключевые слова:** негосударственное пенсионное обеспечение, пенсионная система, пенсионная реформа, негосударственные пенсионные фонды, банки, страховые компании.

**Федорович І.М. Зарубіжний досвід недержавного пенсійного забезпечення.** В даній статті обґрунтовано проблеми розвитку вітчизняної системи пенсійного забезпечення. Розглянуто особливості російсько-польської солідарно-накопичувальної моделі, американської, німецької, японської накопичувально-солідарної, чилійської та казахської накопичувальної моделі. Встановлено, що основними проблемами та недоліками недержавного пенсійного забезпечення є: недостатній досвід регулювання недержавних пенсійних фондів; низький рівень інформації серед населення та роботодавців; низькі доходи, що не дають можливості заощаджувати на майбутнє; недовіра населення до ринку фінансових послуг, особливо до нових інститутів, зокрема недержавних пенсійних фондів. Встановлено, що основними особливостями недержавного пенсійного забезпечення зарубіжних країн є: співіснування державної та недержавної систем пенсійного страхування, які доповнюють одна одну та забезпечують достатній рівень виплат громадянам після виходу на пенсію; контроль за діяльністю недержавних пенсійних фондів з боку держави; низькі ставки з управління активами для керуючих компаній. Обґрунтовано позитивний вплив фінансових стимулів на участь громадян у приватній пенсійній системі. Аргументовано доцільність застосування зарубіжного досвіду з метою вдосконалення системи недержавного пенсійного забезпечення в Україні, зокрема активізація приватної участі громадян у пенсійному забезпеченні: автоматичне включення, надання фінансових стимулів, фінансово-освітні програми, спрощення системи надання послуг, можливості вилучення пенсійних накопичень. Для подальшого розвитку вітчизняної системи НПЗ України запропоновано розробити чіткий механізм контролю та регулювання за діяльністю головних суб'єктів цього процесу. На основі імплементації зарубіжного досвіду запропоновано підходи до вдосконалення системи державного регулювання і нагляду за НПФ: рейтингування та моніторинг діяльності НПФ та їх фінансових ресурсів, регулювання і нагляд інвестиційної діяльності, участь НПФ в обов'язковій накопичувальній та професійній пенсійних системах, обов'язковий характер пенсійних внесків та розмежування джерел їх сплати, розвиток дрібного і середнього бізнесу, збільшення рівня зайнятого населення.

**Ключові слова:** недержавне пенсійне забезпечення, пенсійна система, пенсійна реформа, недержавні пенсійні фонди, банки, страхові компанії.

**Formulation of the problem.** In the process of solving social problems, the problems of pension provision of the population require more and more attention. However, the quality and efficiency of their solution depends directly on a scientific approach to the management of the pension system in the country, the ability to study the problems and identify them. Under such conditions, it is necessary to study the theoretical

foundations of the system of non-state pension provision in financial science, its necessity in the market economy, as well as similar aids. This highlights the issue of reliability and efficiency of the system of non-state pension provision.

**Analysis of previous researches and publications.** Theoretical and practical aspects of the pension system reform, in particular non-state pension provision, are reflected in

the works of many Russian scholars, including: V.I. Hrushko, O.P. Kyrylenko, O.P. Koval, E.M. Libanova, D.A. Leonov, A.V. Mykhailov, H.V. Nazarova, S.V. Naumenkova, O.Y. Tkach, V.S. Tolubiak, V.A. Fedorenko, S.I. Yurii. Given the wide range of problems studied, it should be noted that further research is needed to improve the system of non-state pension provision.

**The purpose of the article.** The purpose of the research is to identify priority areas for the development of non-state pension provision in foreign countries and provide suggestions for ways to improve it in Ukraine.

**Statement of basic materials of the research.**

In foreign countries, the systems of non-state pension provision began to develop actively in the 80s of the twentieth century after the implementation of pension reforms, the essence of which was to optimize the functions of the state in the field of pensions. Functioning of foreign non-state pension provision systems is based on the following principles: the pension is provided by the insurance company by repurchasing the insurance policy from the pension insurance company in the form of annual fixed-amount payments; the employer pays the pension directly to the employee, so it is also not necessary to create non-state pension funds; pensions are paid by non-state pension funds, which are based on the capitalization of depositors' savings.

The main features of non-state pension provision in foreign countries are the coexistence of state and non-state pension insurance systems that complement each other and provide a sufficient level of payments to citizens after retirement; control of non-state pension funds by the state; most countries have established tax incentives for voluntary investment of own funds in non-state pension funds; low asset management rates for asset management companies [3, p. 120].

Pension systems in developed countries were formed a long time ago, but at the present stage pension systems are regularly revised, supplemented and improved in accordance with socio-economic conditions. Due to the increase in pension benefits and the aging of the population, the existing pay-as-you-go support systems for the elderly were revised and the state pension system was reformed, adding funded principles and involving non-state financial mechanisms for pension provision.

Today, most countries around the world have recognized the need for non-state pension provision systems, and many have begun to

consider the introduction of non-state pension provision systems as a mandatory component of state pension policy.

The experience of pension systems shows that any pay-as-you-go (PAYG) pension system depends on demographic risks. The aging process in most countries is accompanied by an increase in life expectancy, a decrease in mortality and a decrease in the birth rate. Under such conditions, systems, built on the principles of solidarity, proved incapable, i.e. unable to provide a sufficient level of pension benefits for citizens of retirement age. This led to the reform of the existing pension systems and the introduction of various mandatory pension schemes and supplementing them with voluntary and mandatory funded schemes.

Global experience of pension provision of the population shows that the implementation of compulsory pension provision at the expense of the state mainly guarantees only a living wage. A higher level can only provide additional pension provision. The main difficulties in the operation of non-state pension funds arise with the investment of the funded part of pension.

The main strategies and models of pension provision in the world include: Russian-Polish PAYG and funded, American, German, Japanese funded and PAYG and Chilean and Kazakh funded models [8, p. 513].

On January 1, 2002, Russia switched to a three-level pension system. The Russian-Polish PAYG and funded pension model is a classic example of a mixed strategy. By the way, this model is taken as a basis for the formation of its own pension system, which will have all three levels – PAYG, insurance and funded.

According to the American savings model and the PAYG model, the average American can provide himself with three pensions: state, private corporate and private individual. In the process of implementing second level of pension programs, participants (natural persons and legal entities) can independently choose investment projects in which funds will be required to send their pension contributions. In the USA, only 60% of employees are covered by non-state insurance, which indicates that it is impossible to fully replace with the non-state pension system of the mandatory state.

The German funded and PAYG (production) model has the same three levels. The first level is mandatory pension insurance, the second is the so-called “corporate pensions”, and the third

level is taking care of your old age in a non-state way. The peculiarity of the German model is that the company creates a self-governing division, which deals with corporate and personal pension programs for employees. Germany's pension system is the world's leading pension provider and is considered the most efficient in Europe. It has a significant impact on the formation and development of pension systems in other countries. This model operates in France, Belgium, Austria, Sweden, Greece and other countries [9, p. 420].

In Norway and Sweden, state and non-state support is not only about financing of minimum pensions, but also about supporting low-income people. High- and middle-income workers create their own lifestyle when they reach retirement age. Their pension systems include three levels: distribution system, funded system and voluntary pension provision.

The Japanese funded and PAYG model is very unique, as it has absorbed the long-standing traditions of Japanese society. The pension system in Japan is based on state social security, which is financed from the budget, but provided by the pension contributions of employers and employees themselves. Due to the aging of population and, accordingly, the growing number of retirees in Japan, there is a two-level model. The foundation of the basic pension is made up of pension contributions from insured citizens, entrepreneurs, and government subsidies (about one-third of the basic pension). The amount of the basic pension is set annually in the legislative form in a fixed amount and is sufficient to meet the main needs. Contributions from employees and employers are the source of financing the second tier of supplementary pensions, but they take the form of supplementary pensions: state and corporate. This model is also characteristic of Australia, Great Britain and some Northern European countries.

The UK pension system is one of the most advanced in the world. This three-level system consists of basic state pensions, state long-service pensions and non-state pensions. In the United Kingdom, employees, who regularly pay statutory contributions to one of the non-state pension systems, are entitled to withdraw from the mandatory state pension system. Insurance companies, which provide a range of pension services, play an important role in the UK pension system. They have concentrated all pension provision in their hands and provide more than

50% of turnover with this type of business. The non-state pension system in this state is the most popular, because it allows you to receive a fairly high amount of pension, the amount of which, according to his contributions, the employee regulates independently.

The Chilean funded model is based on a full accumulation of resources. In their case, it is not a voluntary private provision, but a mandatory, standardized and regulated provision determined by the state. The model is a two-level. The first level is a mandatory contribution of 10% of the employee's salary to one of the non-state pension funds, which are strictly controlled by the state. The second level is insurance in case of disability or loss of a breadwinner (3% of salary).

One of the main problems that remains relevant is that the new legislation contains virtually no provisions to guarantee a certain level of pension contributions. As international experience shows, such guarantees exist in most developed countries. In the European Union, such minimum income guarantees are available to the elderly, for which previous contributions are required [12, p. 154]:

1. Equal pension – paid to all pensioners provided there are enough contributions. In Ireland and Great Britain they exist as separate pension schemes, in which the amount of pension depends on the number of weeks (years) during which a person has paid contributions. In other countries, the same pension is calculated on the basis of a general formula that takes into account the amount of contributions paid from wages.

2. Minimum pensions supplement the retirement income, which is determined by wages, to a set level. They are an integral part of salary schemes that take into account the amount of salaries, and, like some pensions, the right to receive them depends on the minimum length of the contribution payment period.

3. Pension benefits supplement retirement income by a fixed amount or up to a certain level. Unlike the minimum pension, eligibility depends not only on the contribution period, but also on the amount of pension received.

The experience of the analysed countries shows the positive influence of financial incentives on the participation of citizens in the non-state pension system. In addition, financial education programs also contribute to the involvement of citizens in non-state pension provision. Workplace retirement seminars help increase coverage and contributions among low-

income workers. Some of the most effective programs are those that use effective advertising and marketing communications to explain and justify the need for savings. The goal of such programs is to motivate employees and remove identified barriers to their participation in retirement programs, as well as to help them make decisions and choices.

The uneven development of non-state pension provision in different countries can be explained by different conditions of access of employees to non-state pension funds, as well as differences in the set of incentives and alternatives offered to them. Given the small scale of development of non-state pension funds in many countries, including Ukraine, the world practice has developed the following mechanisms to increase private participation of citizens in pensions: automatic inclusion, financial incentives, financial and educational programs, simplification of services, opportunities to withdraw pension's accumulations.

Therefore, the reform of the pension system of Ukraine and the development of non-state pension provision are priority areas of state policy in the field of improving social protection. The world practice shows that the main subjects that are able to accumulate significant amounts of financial resources and convert them into investment capital and multiply are non-state pension funds. The level of development of non-state pension provision is an indicator of the economic and social situation of the country's population.

Beginning in 2004, a new pension system began to take shape, which should provide citizens of the state with a sufficient level of social security after employment. It is the reform of the pension system that should make it possible to establish a direct dependence of the amount of future pension benefits directly on each working person, and not only on the state. That is, it provides an opportunity for every working person to provide an acceptable level of income after retirement. The essence of the pension reform is the transition to a three-level pension system, where the third level is the system of non-state pension provision.

Today, the system of non-state pension provision does not play a sufficient role in the pension protection of citizens of Ukraine. In our opinion, the insufficient development of non-state pension provision in Ukraine can be explained by three groups of factors. Firstly, the low level

of financial capacity of the majority of the population to participate in the non-state pension provision system. Secondly, the insufficient level of motivation of citizens, which in turn is caused by their lack of awareness of the principles and results of non-state pension funds and the financial system, distrust of these institutions. Thirdly, the slow pace of development of non-state pension provision is influenced by the problems of the financial market, in particular its underdevelopment, limited choice of reliable financial instruments protected from inflation.

By eliminating these reasons, as well as implementing a number of regulatory and organizational measures, it is possible to significantly stimulate the further development of the market of non-state pension provision. If we consider corporate issues, although the service market is just emerging, and at the same time the space for action is wide enough for all and the interests of all seem to be common, but there is not enough unity among its participants. World practice shows that there is no other way to win investors' trust except for transparency and openness of information and a clear system of fund performance evaluation.

It is worth paying attention to increasing the supply of quality investment instruments for pension funds. As their assets are long-term and the shares are more resistant to inflation than debt instruments, an increase in the part of shares in the portfolio of non-state pension funds should be allowed. In recent years, instead of comprehensively reforming the entire pension system, only a one-sided increase in the resources of the Pension Fund has been carried out, but the fund lacks money. By setting the pension fund's revenues at almost 80% of the state budget revenues and directing current tax revenues to finance the deficit, the state distorts the proportions of the already weak economy. Macro-financial imbalances have a negative impact on society as a whole. It follows that pension policy should focus on a gradual increase in the state pension at a faster rate of growth of pensions from the funded pension system and, especially – from its private component.

PAYG pension system today forms the main pension resources at the expense of mandatory contributions of citizens and their employers. Due to high contribution rates, the latter are forced to hide the actual wage fund, thereby reducing revenues to the budget of the Pension Fund, which makes it deficient. Thus, there is a need to

compensate for the lack of funds for the payment of pensions to modern retirees through the State Budget of Ukraine. The introduction of the second and third levels is expected to solve the problem of low pensions and provide retirees with the opportunity to receive pensions corresponding to their earnings during employment [11, p. 98].

The construction of effectively functioning non-state pension funds in Ukraine is the creation of a new pension mechanism. The importance of these funds depends on their ability to be an important source of support for social standards and at the same time a means of accumulating domestic investment resources to increase the rate of development of the national economy. It is essential for heads of enterprises to conduct special explanatory events about the system of non-state pension provision, to hold specialized seminars, and to publish specialized publications.

Therefore, the system of non-state pension provision today has the following main problems and shortcomings: insufficient experience in regulating non-state pension funds; low level of information among the population and employers; low incomes that do not allow to save for the future; distrust of the population in the market of financial services, especially in new institutions, in particular non-state pension funds; unwillingness of the population to take care of their own pension.

**Conclusions.** The main features of non-state pension provision of foreign countries are: coexistence of state and non-state pension insurance systems, which complement each

other and provide a sufficient level of benefits to citizens after retirement; control over the activities of non-state pension funds by the state; tax benefits are established in the case of voluntary investment of own funds in non-state pension funds in most countries; low asset management rates for management companies.

The uneven development of non-state pension provision in different countries can be explained by different conditions of employees' access to non-state pension funds, as well as by differences in the set of incentives and alternatives offered to them. Given the small scale of NSPF development in many countries, including Ukraine, the world practice has developed the following mechanisms to increase private participation in pensions: automatic inclusion, financial incentives, financial and educational programs, simplification of services, opportunities to withdraw pension's accumulations.

A significant impetus for the development of non-state pension provision in the context of pension reform will be the participation of the NSPF in the mandatory funded and occupational pension systems. Mandatory nature of pension contributions and delimitation of sources of their payment, as well as the maximum coincidence of the number of participants within both systems allow the introduction of an occupational pension system within the funded and simultaneously with it. At the same time, the development of small and medium-sized businesses and an increase in the level of the employed population can play an important role in improving the system of non-state pension provision in our country.

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