



CURRENT STATE OF AGE PENSION SYSTEM AND ITS IMPROVEMENT IN UZBEKISTAN

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Abstract

The pension system of Uzbekistan that emerged at the time of independence of the republic (1991) was based on the principles of the pension system of the former USSR, the main drawbacks of which were a lot of unreasonable and unaddressed benefits (by age, by calculation of length of service and others), by equalizing the size of pensions salary accepted for the calculation of pensions. The equalization pension system limited the ability of people with high official earnings to receive high pensions corresponding to these earnings and, thus, created incentives for the delegation of income. The modern pension system of Uzbekistan largely inherited these shortcomings. It can be attributed to the type of two-pillar pension system, the main component of which is the pension solidarity component (Pay as you go), in which the working population pays pensions. This paper studies the current state of pension system of Uzbekistan, analysis the issues in it. In addition it includes the concept of reforming pension system.

Keywords: Pension, age pension, concept of reforming pension, Uzbekistan

INTRODUCTION

Pension system is considered to be one of the key factors that has positive impact to measure the living standards of a country. At present most countries are facing with the problem of aging population. In addition fertility rate is also going down year by year. Therefore most well of countries are using different incentives to increase the fertility rate. Moreover, because of advanced medical technologies, average life expectancy of people is now higher. Because of these indicators pension system especially age pension system of the country should always be

updated. Although in Uzbekistan the problem of disbalance of labor force and aging population is not actual as in developed countries, but still the number of aging population is growing. The indicator of the demographic factor in the aging of the country's population shows that there is a tendency of growth of people of retirement age (from 5.9% in 2010 to the total population to 7.4% in 2018). Forecast demographic calculations show that the number of citizens of the republic reaching the retirement age is growing annually. In 2035, almost 420 thousand people will retire, or 1.5 times more than in 2018. The total number of pensioners will be 7.2 million in 2035 against 2.7 million in 2018. Forecast the ratio of workers (payers of pension contributions) and pensioners under the current legislation will be 1.1: 1 in 2035 (payers of pension contributions 7.8 million people, pensioners, 7.2 million people). If the current pension system of citizens is maintained, starting from 2019, the Pension Fund deficit is expected to be about 3 trillion UZS, and from 2020 expenses will exceed revenues, which will require significant subsidies from the state budget. In addition, significant amounts are spent on the payment of preferential pensions. The share of pensions granted on preferential terms is 592.4 thousand or 19.5% of all types of pensions and 23.7% of the number of old-age pensions. Every year, on average, more than 39.8 thousand preferential pensions are granted.

FOREIGN EXPERIENCE IN TERMS OF AGE PENSION

The study showed that the average retirement age in the world for men and women is 62 years, while in the Republic of Uzbekistan this indicator is 57.5 years (for women 55 years and 60 years for men). In Central Asia, for example, in Kazakhstan, Kyrgyzstan and Tajikistan, the right to retire according to age is 63 years for men and 58 years for women. In Kazakhstan, the retirement age of women will be brought to 63 years, with a phased increase by 6 months each year. In Turkmenistan, the retirement age is 62 years for men and 57 years for women.

According to the recommendations of the International Labor Organization, the optimal ratio of the number of pensioners to the number of citizens who make pension contributions is 1: 4, while in Uzbekistan it is 1:1.5, which creates problems in the formation of the Pension Fund revenues. In the UK, pensioners receive both a basic pension from the state and a labor pension from the national insurance system, depending on earnings and length of service. The basic state pension is received by men over 65 and women over 60, its size depends on the length of service. At the same time, its level is limited and indexed by the state in accordance with inflation. The state guarantees it in the amount of 20% of the average salary of an employee. Labor pension is also formed from the contributions of the employee, but in half with the employer. It directly depends on the size of payments and makes up slightly more than 20% of the income.

The German pension system is based on the principle of the solidarity of generations - the workers pay for the maintenance of current pensioners to the state fund, then they receive their pension from it. The more contributions they pay now, the more pension rights they will receive later. The average contribution of a German citizen to the pension fund is about 20% of the monthly salary, with half paid by the employer. During the service of a citizen in the army or maternity leave from women, the state pays contributions. The pension formula itself is calculated taking into account individual coefficients accumulated over the entire working life. They depend on the retirement age, length of service, salary and type of pension itself. In addition to the state, there is a production pension from enterprises. In addition, many employees participate in non-state pension funds and have a personal pension plan.

In the US, there are both public and private pension systems. Therefore, Americans can secure not one, but three pensions: state, private collective at the place of work and private individual by opening a personal retirement account. In the distribution (state) system, pensioners receive money from those currently employed and paying contributions to the corresponding pension funds of citizens. Cumulative systems include both public and private pension programs. State savings programs are designed to provide citizens working for the government and local authorities.

ANALYSIS OF CURRENT STATE OF AGE PENSION IN UZBEKISTAN

In the Republic of Uzbekistan, over recent years, the burden on social contributions to the economically active population has been increasing. According to demographic forecasts, the proportion of retirement age population (by 1.2 million people) in 2018-2025 is expected, which, in turn, will increase proportionally the costs of the Pension Fund. Thus, starting from 2016, the number of annual appeals for retirement in the Republic of Uzbekistan (an average annual increase of 16,000 citizens) is expected to increase to 300,000 by 2025.

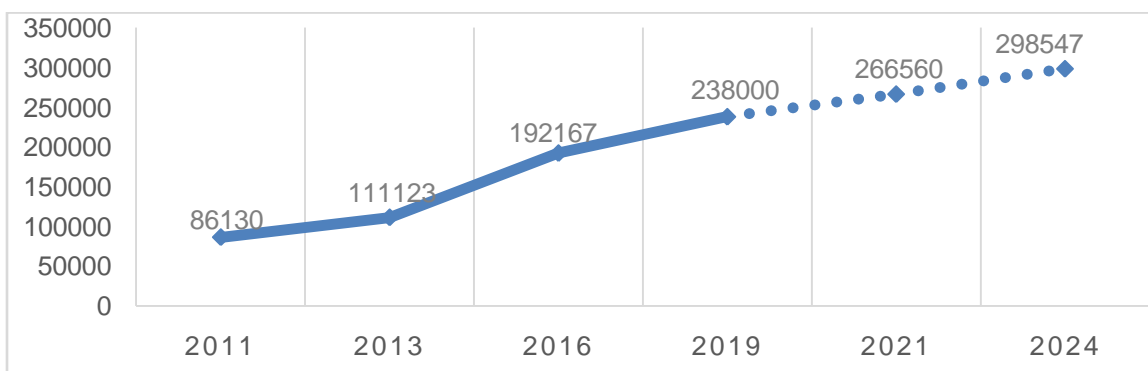


Figure 1. Dynamics of number of people that appeal for age pension

Source: www.pfru.uz

There is also a lack of interrelationship between the amount of pension and the share of working expectancy for retirement. The existing pension system implies the retirement of persons with no less than 7 years of experience. This policy allows people who have 7 year experience to get monthly age pension. In fact they have less contribution to the revenue of Pension Fund. In accordance with the International Labor Organization's Convention on Minimum Standards of Social Welfare # 102, the minimum required working experience is 15 years. Minimum work experience in many countries, including CIS, has been brought to 10-15 years. The existence of a minimum 7-year long-term job experience has a negative impact on the participation of citizens in state-owned social insurance.

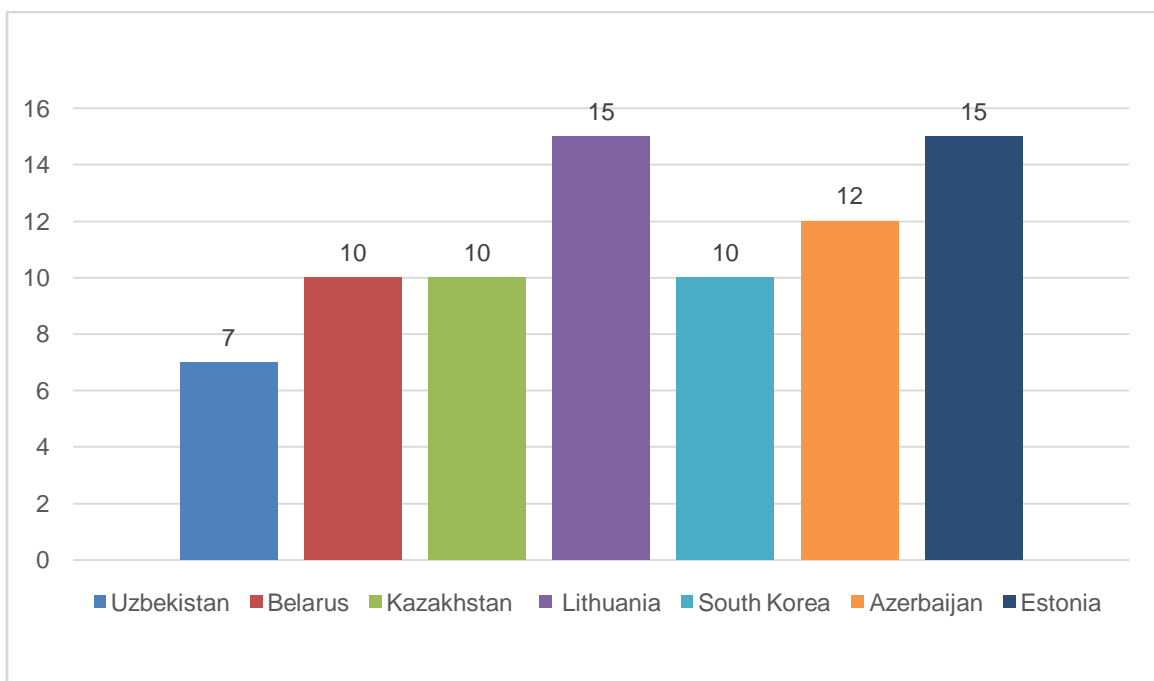


Figure 2. Minimum required years of working experience to get age pension

Source: www.pfru.uz

Impeccable mechanisms to encourage long term and continuing involvement of employees in social insurance make them look for new methods for not paying insurance premiums. All this requires a revision of the basic approaches to the social security system's pensions. The existing pension system can not fully meet the modern requirements and can not provide the most favorable conditions for social protection for elderly people, in case of loss of working capacity and loss of breadwinner.

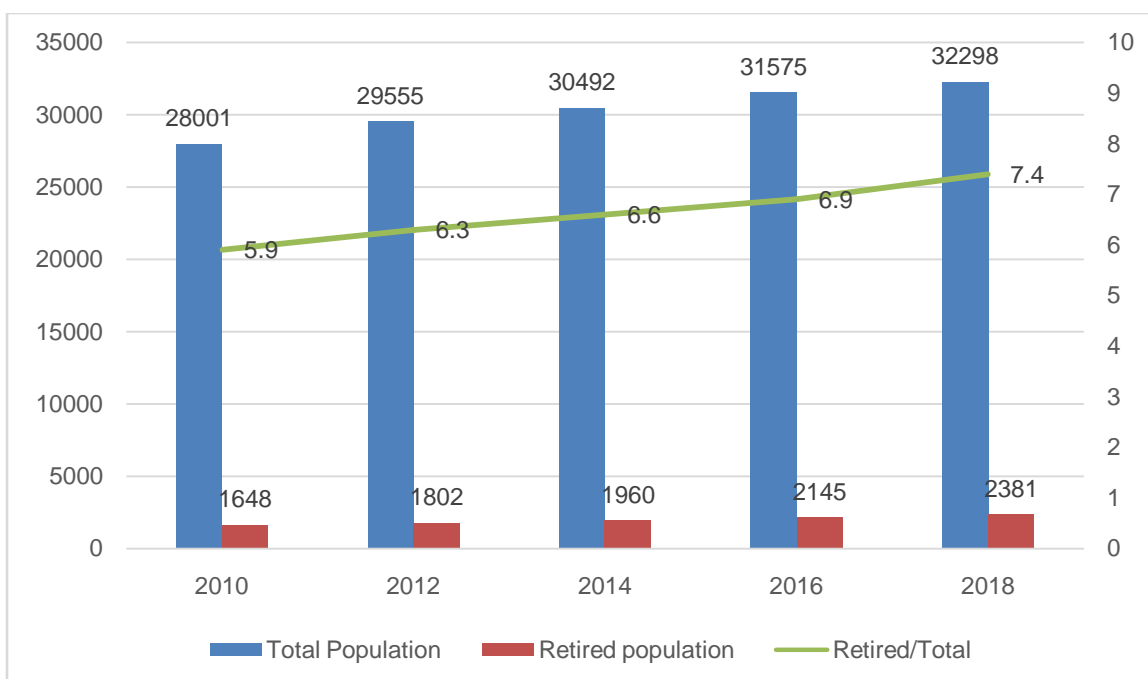


Figure 2. The share of retired people in total population from 2010 to 2018 (thousand people)

Source: www.pfru.uz

The indicator of the demographic factor in the aging of the country's population shows that there is a tendency of growth of people of retirement age (from 5.9% in 2010 to the total population to 7.4% in 2018). According to statistics, from 2019, the number of people of retirement age will exceed 9% and by 2025 will reach 11%

CONCEPT OF REFORMING THE STATE PENSION SYSTEM

The pension system provides for the implementation of a set of economic, legal, social and organizational measures aimed at ensuring and maintaining the living standards of the disabled population and poor citizens.

It covers more than 3.3 million citizens, or about 10% of the population. 2 502.6 thousand people receive pensions on age, 360.3 thousand on disability, 168.5 thousand on the occasion of the loss of the breadwinner, and 294.1 thousand social benefits.

The current pension system does not fully meet modern requirements, does not provide the most favorable conditions for social protection of citizens in old age, with disability and loss of the breadwinner. In particular:

The current Law of the Republic of Uzbekistan “On State Pension Benefits of Citizens” was approved in 1993, it lacks norms of direct action, many of the rules governing pensions and

social protection of the population, approved by decrees of the President of the Republic of Uzbekistan, Government decisions, which leads to interpretation;

- mechanisms for encouraging citizens in long-term and uninterrupted participation in the social insurance system remain complex and opaque, as a result, about 60% of the working-age population is not covered by state social insurance;

- there is a wide practice of applying preferential pensions, unjustified allowances and supplements to pensions for certain categories of persons, which today is not actually used in world practice;

- the relationship between the size of the pension and the labor contribution of the employee is weakened, the load on pension payments increases, in connection with which the imbalance of income and expenditure of the Pension Fund is expected in the future, which will adversely affect the financing of pensions and other social benefits;

- the pension system is impersonal and equalization; it does not comply with the principles: social insurance contributions should form the basis of the Pension Fund funds and have a strictly targeted purpose - payment of pensions to persons participating in pension insurance, and responsibility for making mandatory contributions to the Pension Fund between employer and employee.

The strategy of action in the five priority areas of development of the Republic of Uzbekistan in 2017–2021, one of the priority areas for the development of the social sphere, was the provision of mandatory social guarantees to the population, strengthening social protection for vulnerable groups of the population and state support for the elderly and persons with disabilities. In order to solve the set tasks, it is considered expedient to implement the following measures:

a) in the area of improving the regulatory framework of pension provision:

Develop and approve the Law of the Republic of Uzbekistan “On State Pension Provision of Citizens” in a new edition, providing for more direct-acting norms, simplified and transparent mechanisms for calculating pensions taking into account the use of modern information and communication technologies, as well as specific incentive mechanisms, including savings, termination of the practice of providing unreasonable benefits and co-payments.

b) in the field of the introduction of modern information and communication technologies in the pension system:

The active introduction of modern information and communication technologies in the field of pensions, the modernization of the “Pension” software package, which allows to eliminate stereotypes of paperwork that lead to queuing and, as a result, to the facts of corruption and

bureaucracy. When calculating the pension, the base will be taken information personalized accounting of the accrual of insurance contributions of citizens, formed from 2015.

c) in the field of improving social justice and the efficiency of the pension system:

Provide the right to receive full pensions for all working pensioners;

Increase the size of the pension paid to single pensioners living in boarding schools (boarding houses) for the elderly and disabled;

Introduce benefits in a fixed amount to persons with disability group III.

d) in the area of introducing incentive mechanisms and increasing the link between the size of the pension and the employee's labor contribution:

Provide for an increase in the size of the pension for each full year of work experience over 35 years by 2% of the average monthly salary;

To establish allowances to the pensions of women who have the right to retire at the age of 54, but who received a pension later than the generally established age;

To increase the amount of the average monthly salary accepted for calculating a pension from 8-fold to 12-fold minimum wage established by the legislation on the date from which the pension is granted;

e) in the field of application of incentive measures ensuring voluntary participation in the social insurance system:

Grant the right to citizens who have reached retirement age, but who do not have the required length of service, to pay in one-time payment the amount of insurance contributions to the Pension Fund for each missing month of experience in calculating state pensions (pensions with incomplete work experience);

f) in the field of ensuring the equivalence of the financial participation of generations:

Increase the minimum required length of service (7 years) for the appointment of an old-age pension. (Convention No. 102 "On Minimum Social Security Standards" has a minimum required length of service for a retirement pension of 15 years. In many countries of the world, including the CIS countries, the minimum required length of service is reduced to the level of 10–15 years).

CONCLUSION

Based on above, we have made some conclusions:

- The current pension system has to be reformed, because it relies on the Pay as you go system i.e. pension are pain by the contribution of present workers who are paying mandatory payments to the pension fund. Although there is a balance between them now,

after some years, because of the rising number of elderly population, the pension fund will face deficits. As a result, it will affect the economy of the country.

- In Uzbekistan there are not any private pension funds, therefore unlikely the pension funds in other countries, they can not invest their free capital to generate some profit. From our point of view there should be private pension funds.
- In order to increase the revenue of the State pension fund, the minimum working years should be prolonged time by time.

In the future research, authors should analyze the significance of macroeconomic factors to the living standards and immigration of population to the pension system of the country.

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