**International Journal of Economics, Commerce and Management**
United Kingdom ISSN 2348 0386 Vol. VII, Issue 6, June 2019

***http://ijecm.co.uk/***

# REFORMING THE STATE PENSION SYSTEM IN THE REPUBLIC OF UZBEKISTAN

**Tashmuradova Buvsara**
Professor, Tashkent Institute of Finance, Uzbekistan
ms.buvsara@mail.ru

**Abstract**

*As population aging becomes a worldwide issue, the financial crises of existing pension plans have received extensive attention from government officials, academic scholars, and individuals. Therefore, many countries have implemented several reforms pension system. Uzbekistan also is planning to implement pension reforms. This paper studies the concept of reforms as well as learns the international experience in pension reforms. The paper shows that creation of appropriate pension system is the great contribution to the improvement of the social system of the country. Adequate reforms guarantee increased revenue of the state budget and improvement in the living standards of the population.*

*Keywords: pension, pension reforms, age pension, Uzbekistan*

## INTRODUCTION

Pension benefits are an important part of the social security system in the Republic of Uzbekistan. This system provides for the implementation of a set of economic, legal, social and organizational measures aimed at ensuring and maintaining the living standard of the disabled population.

Pension formula is used to calculate the amount of pension and is characterized by the composition of the elements taken as basic when calculating pensions. For example, the amount of pension depends on the size of the insured person's salary and the length of periods calculated for the calculation of the salary for calculating the pension.

The retirement age is set at 60 years for men and 55 years for women, and for certain categories of workers who perform particularly difficult and especially harmful works (according to lists No. 1, No. 2 and No. 3, approved by the resolution of the Cabinet of Ministers No. 250 dated May 12, 1994), this level ranges from 45 to 55 years. The second main criteria for granting retirement is the required work experience, which should reach 25 years for men and 20 years for women upon reaching the retirement age.

In determining the average monthly earnings for the calculation of a pension, any five years in a row are taken (at the option of applying for a pension) from the last 10 years of work before the appointment of a pension. Such earnings include all types of remuneration for which insurance premiums are charged.

Disability pensions due to a general illness are assigned when there is a certain length of service and age on the day the disability occurs, groups I and II. Disability pensions due to employment injury or occupational disease are assigned regardless of length of service. Medical labor expert commissions (VTEK) establish the causes, groups and time of onset of disability.

The conditions for granting a survivor’s pension are identical to the conditions for granting a disability pension and depend on the cause of the death of the breadwinner. If the death is due to a general illness, the pension is granted on condition that the breadwinner on the day of death had the work experience necessary for the purpose of disability pension. If the death occurred because of employment injury or occupational disease, the survivor’s pension is granted regardless of his seniority.

Citizens (except disabled since childhood) who do not have (sufficient) seniority for retirement are granted and paid social benefits in fixed amounts.

## THE MAIN FACTORS THAT DETERMINE THE NEED FOR REFORM OF THE STATE PENSION SYSTEM

Since the adoption of the Law of the Republic of Uzbekistan "On State Pension Security of Citizens", the pension legislation has undergone significant changes. This is primarily due to the economic situation of the country, including the state of its financial system. The main factors determining the need to reform the pension system are:

(Demographics) As of January 1, 2019, the population of the Republic exceeded 33 million people, including 19.9 million people of working age., ((or 60 % of the population), children under the age of 16 -10 million people (30%), persons of retirement age– 3.3 million people (10%).

In the structure of the working-age population, the economically active population is 14.6 million people (74%), the economically inactive population is 4.6 million people (1.8 million students, 1.8 million women on maternity leave, 0.9 million Housewives).

Despite the increase in the number of economically active population (by 9% over the last 5 years), the number of payers of social payments (contributions)to the off-budget Pension Fund under the Ministry of Finance of the Republic of Uzbekistan (hereinafter – the Pension Fund) remains unchanged, at the level of about 5 million people (about 34% of the economically active population) at the expense of employed, mainly in the public sector, large and small enterprises, as well as in public organizations and micro-firms.

The analysis shows that the proportion of people of retirement age will increase in 2030 from the current 10 per cent to 14 per cent, and their ratio in the number of people of working age – from 16 per cent to 22 per cent.

The retirement age in Uzbekistan (60 years for men and 55 years for women) has not been revised since 1956. This age limit was introduced

according to the Law "On pension provision of citizens of the USSR", when the average life expectancy was 43 years, while experts estimate that by the end of 2025 the average life expectancy in the Republic of Uzbekistan will exceed an average of 75 years.

## LITERATURE REVIEW

Sustainable pension development is of fundamental importance to socioeconomic development, as it has a close relationship with the stimulation of local economies and government income at a macroeconomic level, as well as changing household saving behaviors, fertility decisions and informal transfer at a microeconomic level. Encouraging an increase in the fertility rate and delaying retirement are policy measures that are commonly adopted in countries across the globe to mitigate the adverse impacts of population aging process. Previous studies have investigated the impact of delaying retirement on the sustainability of the pension system, but they have not reached a consensus. Some studies found that retirement delay offers a little help in relieving pension payment pressure. For example, by applying a general equilibrium model, Fehr et al. examined the impact of an increased normal retirement age on Germany's pension scheme. They concluded that delaying retirement by 9 to 12 months, would achieve a 1.5% decrease in the contribution rate. Some studies showed that increasing retirement age could solve the financial crisis of pension schemes. Using Spain as an example, Díaz-Giménez and Díaz-Saavedra simulated a delayed retirement situation by employing a multiperiod, general equilibrium, overlapping model economy. They argued that delaying retirement by three years would be sufficient to cope with the pension sustainability problem and keep the pension system sustainable until 2050. However, using a lifecycle framework included the utility from leisure, Lachance found that longer working is incapable of reducing the negative impact of the pension reduction. Existing studies primarily focus on the sole impact of retirement delay on the pension system, and the results of these studies are often conflicting.

## THE MAIN DIRECTIONS OF REFORMING THE STATE PENSION SYSTEM

The pension system should be transformed from a unified, impersonal and equalization into a branched, individualized, built on the principles of insurance. In this regard, a risk assessment of the pension system will be made, and a review of the existing pension system will be organized on this basis and identified potential options for its reform. Based on the targets and priorities in the field of state pension provision, in the coming years it is planned to actively implement measures in the following areas:

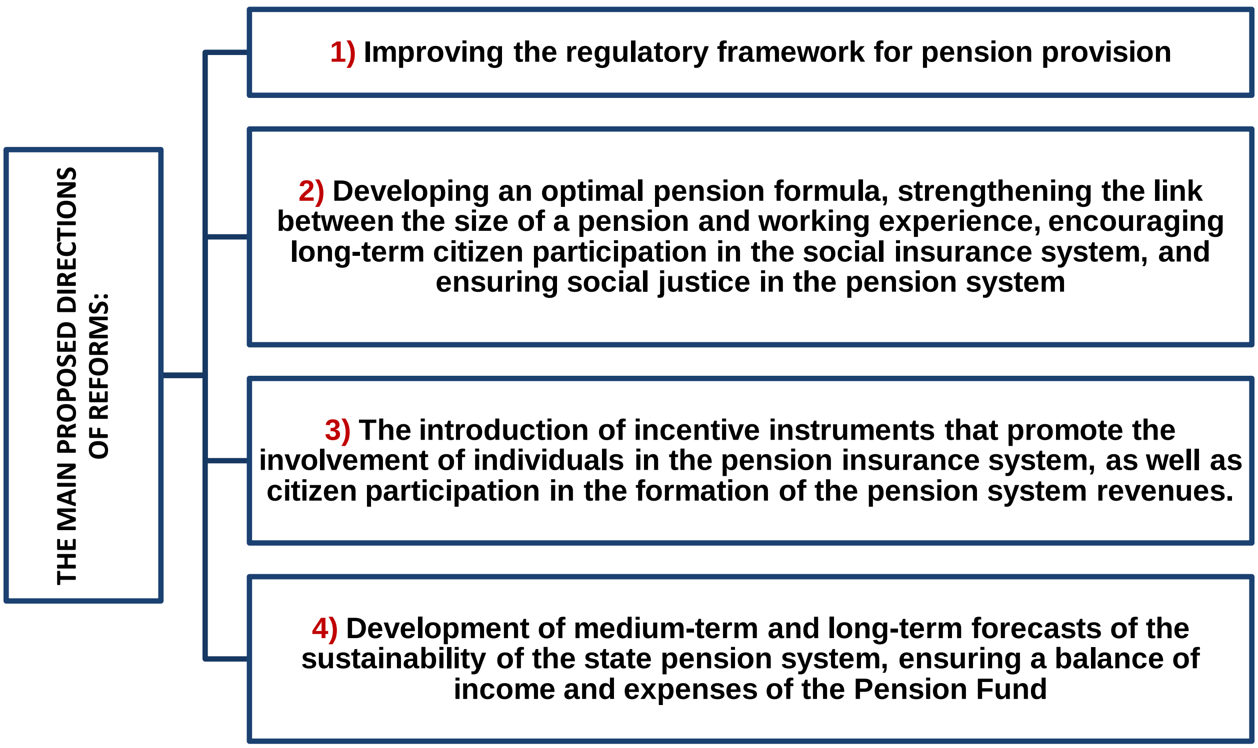


Figure 1. The main proposed directions of reforms

*1. Improving the regulatory framework in the field of pensions for citizens, including the development of the draft Law of the Republic of Uzbekistan "On State Pension Security for Citizens" in a new edition, aimed at improving the efficiency of the state pension system and ensuring social justice by:*

- Inventory and analysis of legislation in the field of state pensions and social support of the population in order to identify gaps and norms that contribute to the manifestation of corruption and other offenses;
- A critical study of the current procedure for applying preferential pensions, unjustified allowances and supplements to pensions for certain categories of persons;
- Preparation of proposals for the introduction of a simplified procedure for calculating pensions and social benefits, improving their organizational and legal forms, taking into account the study of current practice and advanced foreign experience.

The implementation of the above measures will make it possible to work out a set of measures to further improve legislation and law enforcement practice, and to unify the legislative norms of direct action.

*2. Development of an optimal pension formula, strengthening the link between the size of a pension and work experience, encouraging continued participation of citizens in the social insurance system, as well as ensuring social justice of the state pension system, by:*

a) removal of existing restrictions on receiving a pension by single pensioners living in boarding schools (boarding houses) for the elderly and disabled.

Currently, these categories of pensioners are paid the pension as the difference between the pension and the cost of maintenance, but not less than 10 percent, and war invalids not less than 20 percent of the assigned pension.

b) the payment of social benefits in fixed amounts to persons with disability group III.

c) revision of requirements for work experience and retirement age for the acquisition of retirement rights:

Table 1. Working years by age to be retired and have pension welfare in Uzbekistan

| Men | | Women | |
|---|---|---|---|
| **Age** | **Required working years** | **Age** | **Required working years** |
| 59 | 35 | 54 | 25 |
| 60 | 30 | 55 | 20 |
| 61 | 25 | 56 | 17 |
| 62 | 20 | 57 | 14 |
| 63 | 15 | 58 | 12 |
| 64 | 10 | 59 | 10 |
| 65 | In case of absence of working years | 60 | In case of absence of working years |

This measure will ensure social justice in calculating the size of pensions depending on the insurance experience accumulated over the years of work and the contribution of citizens in the formation of pension income.

*3. The introduction of incentive instruments that promote the involvement of individuals in the pension insurance system, as well as citizen participation in the formation of the pension system income, in particular*

a) granting the right to pay additional social payments (contributions) to the Pension Fund on a monthly basis (in the amount of 50 percent minimum wage) for non-working family members on a voluntary basis in order to cover their guaranteed pension benefits in the future;

This mechanism will allow to pay voluntarily social payments (contributions) to the Pension Fund for non-working family members for taking into account when assigning state pensions. For example,

At present, there are about 6.3 million families in the republic, of which about 950 thousand wives (husbands) do not work because of family or other circumstances. The system of payment of voluntary insurance contributions by spouses for wives (husbands) is provided in many countries of the world, for example, in Japan this system is mandatory. A similar system is provided in Sweden and the UK.

b) granting the right to citizens who have reached retirement age, but who do not have the necessary work experience, to pay in a single order the amount of insurance contributions to the Pension Fund for each missing month of experience in calculating state pensions, but not more than 5 years.

This proposal will provide citizens with the opportunity to voluntarily make social payments (contributions) to the Pension Fund for past periods in order to increase pensions, including to bring pensions to decent levels.

*4. Development of medium-term and long-term forecasts of the sustainability of the state pension system, ensuring a balance of income and expenses of the Pension Fund, including:*

a) the introduction of a new mechanism for financing state pensions, in which a fixed part of pensions in the amount of social benefits paid to citizens of working age who do not have the necessary work experience will be financed from the state budget, and the insurance part will be financed by the Pension Fund.

State pensions will be divided into two parts - fixed and insurance, while the fixed part of the pension will be considered a pension in the amount of social benefits paid to citizens of working age who do not have the necessary work experience (as of 01.01.2019 is 243,300 soums), and exceeding this amount part of the insurance. At the same time, the size of the insurance part of the pension will depend on the length of the work experience and earnings, from which social payments were paid (contributions).

In many countries, including Denmark, Sweden, Turkey and other uninsured periods of service (for example, child care periods, military service, study, stay on sick leave, etc.) when calculating pensions are reimbursed by state budget.

This measure will allow delimiting the zone of financial responsibility between the state and the pension institution.

b) introducing a mechanism for personalized registration of compulsory payment by all persons employed in the informal sector of the economy of social payments (contributions) to the Pension Fund.

In accordance with the current legislation, every citizen, regardless of participation in the formation of incomes of the pension system, is a potential recipient of certain social benefits spent from the Pension Fund and the State budget, including social benefits, which do not have sufficient seniority for pensions, benefits for burials, compensation payments for certain categories of persons etc.

Mandatory involvement of people employed in the informal sector in the pension insurance system will provide citizens with social insurance from possible risks.

The consistent implementation of the insurance principles in the pension system will exclude any privileges for certain segments of the population or groups of insured persons.

## EXPERIENCE OF SOME COUNTRIES IN PENSION REFORMS

### Portugal

At the end of 2011, the newly elected Portuguese government began the nationalization of citizens' pension savings. The savings were withdrawn, which the Portuguese transferred to the four largest banks in the country. Even those assets of banks that affected pension payments in 2011 were nationalized. The government explained its actions by the need to keep the budget deficit at a level no higher than 5.9% of GDP. In total, the government seized € 6 billion, while in 2011 only 3.3 billion were withdrawn, and the rest in June 2012. In total, the reform has affected about 30 thousand pensioners.

In 2013, the retirement age, which at the time was 65 years old, was tied to the average life expectancy. As a result, by 2018, the retirement age in the country was 66 years and four months. Since 2007, early retirement has been provided for - the conditions for it were at least 55 years old and the payment of pension contributions over 30 years. In 2012, this rule was suspended, and in 2015 it was re-launched, changing the conditions: now people aged at least 60 years can expect an early retirement condition on payment of contributions over 40 years.

**Poland**

In 2013, the Polish government decided to transfer the assets of private pension funds to the state treasury. In this way, the government solves the problem of public debt. Only those assets of the Poles that they invested in bonds, that is, about half of the savings, are nationalized. The Polish government has calculated that from such a maneuver the national debt will be reduced by 8%.

Until 2013, the retirement age for men and women in Poland differed and was, respectively, 65 and 60 years. In 2013, despite the opposition of the trade unions, the age was raised to 67 years and equalized for both sexes, but two years later, the presidential candidate Andrzej Duda offered to lower the retirement age again and return to gender differentiation - in 2016, the parliament passed the relevant law. It was expected that in 2018, reducing the retirement age would cost the country an additional € 2.3 billion.

To date, the government of Mateusz Moravetsky is discussing a new reform of the pension system, which can be implemented in 2019. In accordance with it, it is planned to significantly increase the role in the system of corporate pension programs.

**Hungary**

In 2011, the Hungarian government decided to abandon the multi-level pension system in place since 1998. The reason for this decision was a sharp — from 8 to 11% of GDP — increase in government spending on pensions from 2000 to 2010. The national debt of Hungary at that time was 60% of GDP, and the government needed to improve budget figures in order for the European Union to extend the loans already issued to the country.

The main requirement of the EU was to improve the performance of the distributive pension system. To get out of the situation, the government of Hungary made the funded part of pensions voluntary. The state has put citizens before a choice: it is possible to participate either in the savings or distribution system. This led to the fact that part of the Hungarians had to abandon the previously guaranteed state pensions, and the other part lost their accumulated savings (about 10% of GDP). As a result, the majority of citizens made a choice in favor of a distributive pension system.

The retirement age in the country has gradually increased since 2010, and by 2022 it should reach 65 years for those born in 1957 and later.

**Argentina**

In November 2008, the Argentine parliament approved a government plan to nationalize private retirement savings. The government explained that in this way it is trying to protect pension savings from the global financial crisis. A month earlier, Argentine President Cristina Fernandez proposed to nationalize $ 30 billion of private pension savings. Such a proposal raised a wave of criticism, opponents blamed Fernandez for not trying to save people's savings, but to fill the state treasury. As a result, private pension savings were transferred to the National Social Security Administration (Anses) and sent to a special stabilization fund.

In 2017, the Argentine authorities, despite riots and protests, adopted a law to change the formula for calculating pensions, according to which an increase in its size will depend on inflation, and not on the growth of salaries in the country. The government then promised pensioners lump-sum payments in compensation for a possible reduction in pensions in the first stage.

## CONCLUSION

The study explored the concept of reforms as well as learns the international experience in pension reforms. The study showed that creation of appropriate pension system is the great contribution to the improvement of the social system of the country. Based on the findings, it is suggested that reforms of the state pension system shall be carried out by bringing to the wide strata of the population its purpose and essence. During the preparatory period, a full range of legal acts will be developed and adopted that support reforms of the state pension system and protect the interests of citizens. Creating a pension system adequate to a market economy is an urgent task of real protection of the disabled population in the context of liberalization of the country's economy.

## REFERENCES

Chen, T.; Turner, J.A. Social Security Individual Accounts in China: Toward Sustainability in Individual Account Financing. Sustainability 2014, 6, 5049–5064.

Curtis, C.; Lugauer, S.; Mark, N.; Curtis, C.C.; Mark, N.C. Demographic Patterns and Household Saving in China Demographic Patterns and Household Saving in China. Am. Econ. J. Macroecon. 2015, 7, 58–94.

Curtis, C.C.; Lugauer, S.; Mark, N.C. Demographics and Aggregate Household Saving in Japan, China and India. J. Macroecon. 2017, 51, 175–191.

Díaz-Giménez, J.; Díaz-Saavedra, J. Delaying Retirement in Spain. Rev. Econ. Dyn. 2009, 12, 147–167

Fehr, H.; Kallweit, M.; Kindermann, F. Pension Reform with Variable Retirement Age: A Simulation Analysis for Germany. J. Pension Econ. Financ. 2012, 11, 389–417.

Lachance, M.E. Pension Reductions: Can Welfare be Preserved by Delaying Retirement? J. Pension Econ. Financ. 2008, 7, 157–177.

Liu, X.; Zhang, Y.; Fang, L.; Li, Y.; Pan, W. Reforming China's Pension Scheme for Urban Workers: Liquidity Gap and Policies' Effects Forecasting. Sustainability 2015, 7, 10876–10894.

Lugauer, S.; Ni, J.; Yin, Z. Chinese Household Saving and Dependent Children: Theory and Evidence. China Econ. Rev. 2017

Mourao, P.R.; Vilela, C. "No country for old men"? The Multiplier Effects of Pensions in Portuguese Municipalities. J. Pension Econ. Financ. 2018, 1–35.

Wang, L.; Béland, D. Assessing the Financial Sustainability of China's Rural Pension System. Sustainability 2014, 6, 3271–3290.

Zheng, B. China Pension Report 2016, 1st ed.; Economic & Management Press: Beijing, China, 2016; pp. 48–64, ISBN 9787509647141.