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The monograph describes the theoretical and practical aspects of development of the European research area. The general issues of the world economy and international economic relations, economics and business management, innovation and investment activity, accounting, analysis and audit, marketing, etc. are considered. The publication is intended for scholars, teachers, postgraduate students, and students of economic specialties, as well as a wide readership interested in economics.

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# CHAPTER «ECONOMIC SCIENCES»

## ANALYSIS OF THE FORMATION AND DEVELOPMENT OF THE PENSION INSURANCE SYSTEM IN UKRAINE

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**Abstract**. *The purpose* of the study is to analyze the development and formation of the pension insurance system in Ukraine in comparison with foreign countries during its existence and present in comparison with foreign countries. *Methodology*. To achieve this goal, we use general scientific and special methods of research: a combination of historical and logical methods when studying the stages of formation of pension insurance; theoretical generalization is used when formulating scientific provisions, clarifying the conceptual apparatus of pension insurance; economic and statistical methods, statistical analysis, identification of factors of its development, research of foreign experience of functioning of multi-level pension systems; comparison is used when comparing actual indicators of the pension insurance system; systematic and integrated approaches are used to develop and substantiate proposals for the feasibility of introducing a mandatory funded pension system to ensure the integrity of the national pension system. *Results*. According to the results of the research, it is necessary to pay in-depth attention to the analysis of the management of the

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solidarity level of the national pension model, the payment of mandatory insurance contributions in the solidarity pension system, the state control over the payment of contributions by employers, and the mechanism of determining the amounts of pensions, which will become a mandatory condition for reforming the modern pension system in Ukraine. *Practical implications.* At present, the pension system in Ukraine is undergoing reform. The transition to a market economy has shown an inability to provide sufficient and reliable payments to retirees using a one-tier model of state pension insurance. *Value / originality.* At the present stage of development, pension provision in Ukraine is based on the principle of solidarity of generations, that is, in the way of interaction between economically active and incapacitated population, in which the former, while deducting a certain amount of income, support and provide the latter. Its main characteristics are the demographic dynamism of the population, the general obligation and the right to receive a pension for every citizen of the state. The system is financially sound, reflected by the ratio of pension contributors to the number of pensioners, and it provides the basis for the formation of pension systems in many countries in the world.

## 1. Introduction

Retirement provision is an essential part of the social protection system of the population. The share of pensioners is 28.6 percent of the total population of the country. Share of retirement benefits is reached 43 percent in total social transfers (social assistance and benefits from all sources of funding) and 21 percent in total household incomes. The pension reform, which began in 2004, provides for the replacement of the existing pension system with a modern three-tier pension insurance system and aims at: changing the balance of economic and social interests in the country; a significant increase in the level of income of pensioners; ensuring maximum dependence of pension payments on personalized contributions of insured persons; increased incentives for work and the legalization of wages; encouraging savings for the insured's old age; diversification of pension funding sources through contributions to mandatory state pension insurance and mandatory and voluntary savings.

However, the high level of demographic burden on the able-bodied population, the presence of a large part of working privileges on payment of contributions to the Pension Fund of Ukraine and low wages, which at one third of the workers are not higher than the subsistence minimum, are currently causing unbalance of the solidarity system, hampering pension insurance and the development of non-state pension insurance. Raising the minimum retirement age to the minimum subsistence level, which is inconsistent with the increase in wages and the real financial capabilities of the Pension Fund of Ukraine, could lead to a financial crisis in the pension system.

In order to better understand and critically evaluate the current state of the national pension insurance system in Ukraine as well as to determine the prospects for its further development, it is necessary to consider this phenomenon in historical aspect. Because taking into account the evolutionary aspect of the formation of the pension system, its advantages and disadvantages at certain stages of its formation should be a prerequisite for reforming the country's modern pension system. As you know pension policy has always been linked to the political and economic processes that have taken place in society. According to research conducted by scientists on the formation and development of insurance in the historical past, its first types emerged in trade carried out by land and sea [2].

In ancient times the principle of mutual distribution of losses, there were agreements that have been concluded between persons who agreed to indemnify the losses caused to the property of a particular participant. Given the historical facts it is important to emphasize that such insurance agreements existed in Asia, Palestine, Syria, Ancient Greece, and Phenicia but no special insurance organizations existed at that time. The insurance funds that were created were not provided with prior contributions from participants but obligations to provide financial assistance in the event of an insured event.

A further stage in the development of insurance concerns ancient Rome. Its main feature is that along with property there is personal insurance. After all, in this historical period the craft began to develop intensively. Under these conditions insurance becomes one of the activities of craft organizations, insurance contracts for which began to be concluded between artisans and merchants through insurance contributions to insurance funds. In view of this it should be noted that in the days of ancient Rome personal insurance existed, which included accident and property insurance, namely: marine, land, merchants, artisans, and fire insurance [3].

## 2. Economic crisis effects on consumer behavior

As V. Raiher observed, after the collapse of Ancient Rome most insurance contracts became invalid. The next stage of insurance development is in the Middle Ages. At this time the need for insurance is growing significantly. In particular, in the 10th-12th centuries in England and Denmark maritime insurance agreements were concluded and guilds were in Iceland which concluded fire insurance contracts. In addition, in the Middle Ages insurance relations became public and legal which forced the state to legally regulate and take them under control.

During the late Middle Ages, insurance became commercial in nature. The development of insurance relations demand for insurance services contributed to the attraction of trade capital. The mutual benefit of the mutual assistance principle is transformed into a product that can be sold to different entities. Profit is the main feature of commercial insurance. This makes it possible to assert that the formation of two relationships of independent branches of insurance, which later turned into modern commercial and modern social insurance. Commercial insurance started operating with marine insurance contracts. In the second half of the XVII century in Western Europe insurance has taken a prominent place in the social relations system of society. With the development of industry and market relations in Europe, a further emergence of social insurance [4].

For the 19th century the rapid development of market relations, the industrial and transport industries was characteristic and social protection was sporadic and based on the principles of self-help, charity and family welfare while the rural population wasn't covered by social protection programs.

Consequently, as the historical experience showed, the foundations of retirement insurance have been formed in the past in parallel with the practical use of social insurance. As a system, it began to take shape in the second half of the 19th century when the need for society to protect the underprivileged arose. It was the state that initiated the creation of the first financial institutions that would form the financial potential in the field of pension provision and make pension payments to the relevant categories of citizen.

Among the first countries in the world to introduce a solidarity pension system with the separation of national pension systems from the social insurance system in the late 19th – early 20th centuries, there were

Germany, Denmark, the United Kingdom, France and Sweden should be named, followed by Romania and Czechoslovakia.

Most modern-day researchers associate the emergence of retirement and social security in the world with the activities of German Chancellor Otto von Bismark, who formed the first legislative framework that governed financial relations in the field of social and pension insurance and testified to the creation of a national social and pension system. At that time namely in 1883, laws were passed in Germany on «Workers' Social Security» and «Old-age pensions». For the first time, a compulsory retirement benefit system has been introduced in the world.

Otto von Bismark's biggest contribution was to introduce the social security system at the legislative level through the adoption of a number of laws: «On sickness insurance», «On accident insurance», «On pension insurance and disability».

The law «On sickness insurance» enacted in 1883 as Otto von Bismark thought, was the least politically problematic, the primary purpose of which was to provide medical care to German workers. Employers were required to pay a ⅓ contribution to the medical service and workers to pay ⅔ a fixed contribution.

According to the Law on Accident Insurance adopted in 1884 year the employer was required to pay the full insurance premium for the employees. A «sectoral employers' organization» was created to pay for medical expenses and to pay up to ⅔ of the salary in the event of full incapacity for work and for rural workers, the program was extended only in 1886.

The Law «On Pension Insurance and Disability» adopted in 1889, offered a profitable system that met individual social needs and at the same time passed social management into the hands of contributors, that is employers and workers to secure their own pensions. It was this law that shaped the scope of pension insurance and reflected the fundamental principles of the system's operation.

Therefore, it would be justified to conclude that the adoption of the laws in question in Germany testified to the emergence of the national social and pension system in that country and by which the formation of a system of compensation for loss of earnings was secured for the first time in history.

In particular a fundamental innovation of Otto von Bismark was the mandatory social insurance provision, which was based on the contributions of workers and employers and was mandatory. In the first stage of compulsory pension insurance, the right to receive a state pension was granted to insured persons in the event of long-term disability or when they reached the retirement age of 70 years [4].

With respect to the Bismark system the following fundamental principles are laid down: security is based solely on work and is therefore restricted only to persons who have been able to assert for themselves this right through their work; compulsory insurance covers only those employees whose wages are lower than the specified minimum amount, that is for those who cannot benefit from individual insurance; security based on an insurance methodology that establishes a parity between the contributions of employees and employers, as well as between payments and contributions; provision that is managed by the employers and employees themselves.

In 1891, Denmark and later in 1898, New Zealand introduced a pension system aimed at helping the poor. Unlike Germany where the amount of future retirement benefits was clearly contingent on insurance premiums, the Danish pension system was oriented towards the payment of equal pensions, financed by general income. This model has been implemented in Northern Europe and Anglo-Saxon countries. In particular pension insurance policies were further developed and enhanced by the English Lord William Henry Beverage, who in 1942 held the post of Minister of Labor in the United Kingdom and proposed a set of anti-poverty measures and new approaches to social security policies that were reflected in legislation England.

According to William Henry Beverage, three basic principles should be based on social security organization:

1) the principle of universality has ensured that all cases of social risk are assured for the whole population;

2) the principle of unity in provision means an adequate nature of contributions and payments, the same nature of the organization of a system based on a single contribution to the unified system of national insurance with the exception of social insurance against industrial accidents as well as family assistance financed from public funds of the state budget;

3) the principle of integration took into account the possibility of using various forms of security: social insurance, social assistance and savings. Together, their use should have helped to overcome social insecurity in society.

From the above consideration of the pension patterns of Otto von Bismark and William Henry Beverage. we can distinguish the main differences between them:

– at the heart of organizing the social security system, according to the logic of the Otto von Bismark system, social security was guaranteed only to the working population and William Henry Beverage's system guaranteed full social security for all social risk situations for the whole population;

– the Bismark's system linked contributions and payments to wages, that is social assistance was directly dependent on wages or disability rates. Regarding Beverage's social security system it was determined on the basis of its ability to combat poverty, as well as to ensure that assistance was taken into account and based on a person's normal needs in a particular situation.

Thus, in summarizing the foregoing features of retirement models it can be generally noted that the Beverage's model was based on the effects of the tax and budgetary mechanism and fulfilled its main function: preventing poverty in reaching the elderly, in the event of disability or the loss of a breadwinner. In particular pensions were provided within a certain subsistence level and their size was not related to the previous wage level. Regarding the Bismark's model, it was based mainly on the effect of the insurance mechanism, the main purpose of which is full or partial compensation for the loss of employment, the amount of which depended on the length of service and wages of the insured persons [5].

With regard to Ukraine the first mention of compensation for damage to human life dates back to the ninth and tenth centuries. Such data are preserved in the ancient Russian chronicles, as well as in the collection of laws of ancient Russian feudal law «Russkaya Pravda» by Yaroslav Mudryi which enshrines certain provisions similar to the social program.

However, in the Middle Ages, their relatives, as well as an institution, to which a person belonged, provided for the disabled, the sick, the elderly, the poor, as well as an institution to which a person belonged: merchant guilds, craft shops, peasant communities, charitable organizations, churches, etc.

## 3. Survey methodology

At that time, the emergence and development of pension relations in the territory of Ukraine were under the influence of those socio-political events that unfolded in the second half of the 19th and early 20th centuries.

The development of the pension system of Ukraine was influenced by the fact that the country was under the control of such countries as Austria, the Russian Empire, Poland, Romania and Czechoslovakia for a long time [3].

During Ukraine's stay in Austria, the first laws were introduced to protect workers in the mining industry, as well as to protect children and women. Compulsory accident insurance at work was introduced in 1887 and mandatory pension and disability insurance for employees since 1906. Insurance did not cover the rural population and rural workers.

Instead, the Russian Empire was a backward country in social security. Social insurance which included some elements of retirement provision started functioning in the early 20th century. It was targeted and provided for protection of citizens in case of disability or disability. Only in 1912, compulsory hospital insurance was introduced for working citizens who had to pay for the cash registers.

Laws of 1927 and 1933 in Poland, which included some territory of Ukraine, introduced pension and disability insurance for employees and workers.

The Romanian social legislation has been in force in the Ukrainian lands under Romanian rule since 1912. Only in 1933, unified social security law was issued.

The most developed was considered social legislation in Czechoslovakia. In 1907 a law on compulsory social insurance for workers against illness, disability and old age was passed. In 1924 unified law was introduced for the whole of Czechoslovakia and in 1929 a law on pensions for employees was introduced.

Thus, the main impetus for the introduction of the pension system in Ukraine was the experience of other countries, under whose authority it had been for a long time. The birth of insurance in Ukraine is considered in 1899 when the Society for the Mutual Insurance of manufacturers and artisans against accidents with their workers and employees was first established in Odesa. A striking example was the opening of the «Dnister» cooperative insurance company, which conducted insurance operations. In Halychyna there was a pension insurance for education and science workers, in Boryslav at that time fraternal cash registers were created, which dealt with the miners. In 1911, a similar society was created by the professor of the Chernivtsi University Stepan Smal-Stotskyi under the name «Carpathia». The Carpathian Mutual Insurance and Life Society offered insurance services to all sections of the population regardless of their status [3].

In addition, more widespread in Ukraine in the 19th century acquired voluntary insurance through pension and emergency funds. The pension funds dealt with pension insurance by collecting and redistributing the premiums of their clients and in particular insuring the lives of railway employees and official. Emergency funds were a type of pension funds and covered public servants, highly paid persons whose benefits were dependent on length of service. The first Emergency Office of the Military Land Office was organized in 1859. In the following year, the emergency cashier of the engineers of railways began operating, which in the beginning of 1917 united all Ukrainian roadways and had the same number of users as today Ukrainian Railways. Subsequently, cash desks were created for teachers, employees of the Dnipro shipping Company and its tributaries. In particular it is known that at the end of the 19th century on the territory of Ukraine there were more than 200 emergency, pension and insurance funds, moreover none of them failed due to their own activities. However, more benefits were provided by pension funds which compared to the emergency ones, made it possible for participants to voluntarily move from one fund to another in order to increase their pensions.

Thus, the 90s of the 19th century are considered to be the period when a new system of social protection of the population was established in many countries of the world where pension insurance or pension provision of the population was actively formed as the main type of social protection. During this period, there was no retirement provision for rural residents in all countries of the world, so self-help and family principles continued to prevail in rural areas.

Describing the pensions of agricultural workers we note that they were provided through a centralized Union social security fund, to which all collective farms made some deductions from their gross income. Since payments to collective farms, even at a time when the demographic situation was better could not cover the costs, therefore the central union fund of social security for collective farmers was replenished with significant allocations from the state budget and agricultural workers did not make any payments to this fund.

Considering the development of administrative and legal regulation in the field of pensions, it is quite appropriate to divide it into several stages.

The first stage of pension provision in Ukraine lasted from 1917 to 1933. It is known that the formation of a new Soviet pension system in Ukraine began after the political events of 1917 and after the end of the civil war. On November 13, 1917, the «Governmental Notice on Social Insurance» came into effect, under which insurance companies and organizations of all kinds were abolished and insurance became a monopoly of the state.

From April 3, 1918, state support for the needy began to be granted and in October 1918, the Regulation on the Social Security of the Workers was adopted according to which all the working population should have social security.

Afterwards, the People's Commissariat of Labor was created, which was responsible for organizing state influence on social insurance. In June 1918, the 1st Congress of Social Security Commissioners was held, which approved the organizational structure of social security management. Since 1920, the establishment of general pension rates has been attributed to the functions of the People's Commissariat of Labor. According to the suggestion of the scientist E. Astrakhan, the first actor of the USSR, something clearly showed a clear retirement age – 60 years, became the statement of the People's Commissariat of Labor on May 13, 1919. The regulation introduced a record of employees who have lost working capacity by age. During the I-th promotion of the USSR, 100 passages were received, respectively and also a passport.

The first official document certifying the beginning of the creation of a new pension system was adopted in 1919 by the decree of the RNA of the USSR "On regulation of the pension business", which completely abolished the current structure of pension institutions.

During 1919-1922, Ukraine became part of the USSR whose pension was in the development. All forms and types of pensions issued by pre-revolutionary institutions were abolished by the Soviet authorities.

By resolution of the All-Ukrainian Central Election Commission in 1923, social insurance cases were transferred from the People's Commissariat of Social Security to the jurisdiction of the Office of the Authorized People's Commissar of the USSR. For example, teachers at higher education institutions have been covered by old-age pensions since 1924 when they reached the age of 65 and workers in the textile and transport industries since 1929. Thus, old-age pensions were not comprehensive at the time. Only in 1932 after a survey of workers who retired due to disability, it was extended to workers in all sectors of the economy.

Regarding the pension provision of peasants it was carried out at the expense of peasant organizations which acted in accordance with the adopted Regulations «On Peasant Relief Societies» of September 28, 1924. As a result of collectivization, new forms of provision for collective farmers have emerged and funds have been created to help the elderly and the disabled.

Over time, the level of pension provision in Ukraine increased: in 1924, pensions were increased for disabled people due to labor injury and the following year pensions for teachers for years of service were introduced and in 1926, the process of differentiation of pensions depending on earnings began.

Summarizing the results of the study on the development of pension provision in Ukraine during 1917-1933 it should be noted that only in 1928 retirement pensions began to be defined as a special type of social security pension, which extended to the workers of metallurgical, mining, water, railway transport, education, medicine, agronomists and some other categories of workers. In addition, February 11, 1930 the People's Commissar of Labor of the USSR approved the basic rules for the provision of population in old age. Retirement for women is provided for 55 years, for men – 60 years, the total length of service was 25 years for men, for women – 20 years. In the course of the study of the development of pension relations in the Soviet period one should take into account the remarks made by scientists B. Nadtochyi and V. Yatsenko, who stated that only in 1932 pension coverage covered all workers employed in various sectors of the economy. In particular the data of Table 1, which reflects the main achievements of the first stage of administrative and legal development in the field of pensions in the USSR.

Therefore this stage also called «the initial stage» is characterized by the introduction of the principles of administrative and legal regulation in the field of pensions.

The second stage of the formation of the pension provision in Ukraine lasted from 1933 to 1955. It was then that the People's Commissariat of Labor, whose functions were transferred to the All-Union Council of Trade Unions (VTsSPS) was abolished.

The resolutions of the USSR CEC of the Soviet People's Commissar of the USSR and the VTsSPS of June 23, 1933 gave the sanatoriums

Table 1

**Establishment of the pension system in Ukraine during 1917-1933**

| Date, period | Event |
|---|---|
| 1917 | Until 1917 retirement social security was built not on the basis of age but on the basis of disability |
| 1918 | Purposeful state support for the poor |
| October 31, 1918 | Adoption of the Regulation «On Social Security for Workers» |
| 1919 | Social insurance contributions for state-owned enterprises have been abolished |
| 1923 | By decision of the All-Ukrainian CEC the case of social insurance was transferred to the Office of the authorized USSR |
| 1924-1929 | Since 1924 university teachers have been provided with a retirement pension of 65 years, workers in the textile industry – since 1928, transport workers and leading industries of heavy industry – since 1929. |
| 1932 | The statutory retirement age for women is 55, for men – 60 which is extended to workers in all sectors of the economy |

*Source: Generalized by author using national pension law*

and rest homes of the Soviet People's Commissar of the USSR and the VTsSPS of September 10, 1933. Already in 1933 social insurance began to turn into social security, which was engaged in the Social Security Fund, the formation of which occurred due to deductions from the profits of organizations, enterprises in the statutory size amounting to 19.5%. From this fund pensions were paid: for old age, disability, in case of loss of a breadwinner and financial assistance for pregnant and disabled persons. While exploring the stages of the development of pension provision it is necessary to emphasize the importance of such an event in Ukraine as the adoption on December 5, 1936 of the first legislative document – the Constitution of the USSR, which legally enshrined the right to financial support for old age workers of all sectors of the national economy and employees, nevertheless the peasantry, the collective farmers and the workers of the agrarian sector were not covered by the pension provision, which had been expected to receive pensions for more than 30 years.

In particular, in 1937-1938 the trade union was exempted from the payment of pensions. In Ukraine, the imperfect model of formation of social insurance funds on the principle of «single boiler» without taking into account social risks was applied.

Subsequently, on December 28, 1938, pensions for the disabled and the families of the deceased workers, in accordance with the provisions of the Decree «On Measures for the Ordering of Labor Discipline» were improved for continuous work experience and the practice of state social insurance and combating abuse in this case improved. The pension payments were made out of social insurance funds. In 1939–1940 the lands of western Ukraine were included in the USSR, the population of which was covered by the Soviet pension legislation. In the years of the Great Patriotic War in spite of the considerable costs involved, it was envisaged to pay pensions without taking into account the amount of earnings. Compared to the pre-war 1940s, the number of pension recipients in Ukraine has increased more than 5-fold and the number of people registered is 7.4-fold. It should be noted that only after the end of the war in the USSR began to work regularly to improve the legislation in the field of pension insurance, resulting in 1949 adopted the Regulation «On pensions for workers» according to which increased the amount of pensions for teachers and doctors.

Consider the main achievements in the development of pension provision of Ukraine in the second stage of its development (Table 2).

Table 2

**Establishment of the pension system in Ukraine during 1933-1955**

| Date, period | Event |
|---|---|
| June 1933 | Transfer of functions of the People's Commissariat of Labor to the All-Union Central Council of Trade Unions |
| December 1936 | Adoption of the Constitution of the USSR which proclaimed the right of all citizens to financial support in old age. Pensions not regulated by law but by adopting resolutions of the Central Committee of the CPSU (b), the USSR RNA and the VCRRS |
| 1937–1938 | Exemption of trade unions from payment of pensions. This function was transferred to the state budget and later to the local budget |
| December 28 1938 | Pension allowances for disabled persons, families of deceased workers, for continuous work experience have been established. |
| April 9 1948 | The Council of Ministers of the USSR adopted the Regulations on the Ministry and Local Social Security Authorities |
| 1949 | The Regulation on Employee Pensions was adopted, the planned work on improving the legislation in the field of pensions |

*Source: Generalized by author using national pension law*

The conducted research gives grounds to claim that the second stage of the formation of pension insurance in Ukraine was characterized by the activity of the state in the sphere of pension insurance which started to work on the development and improvement of legislation in the field of pension insurance.

The third stage (1955–1991) marked the beginning of the creation of a unified pension system. The impetus for this was the adoption in 1956 of the Law “On State Pensions”, which cemented the existing inequality in the social security of workers and employees, on the one hand, and collective farmers – on the other. The law separated the pension from the state social insurance, the pensions were financed by a fund that was part of the state budget. This law improved the well-being of the elderly and disabled, families who lost a breadwinner and issued a number of by-laws.

It is important to emphasize the main feature of this law which was that the financing of pensions to citizens came from the state budget, the source of which were taxes. This meant that the pension payments in the Soviet Union at that time were not made on the basis of pension insurance but were paid out of the state budget of the country which was being replenished from financial sources. This basic feature of the Soviet Union’s existing pension model at that time was different from functioning pension models in market economy countries.

The new stage in the construction of the pension system in the USSR was the adoption of the Law «On Pensions and Assistance to Members of the collective farms» on July 15, 1964. At the same time it should be noted that the social security of the people who worked in the collective farm until 1964 was not provided, only after the passing of the mentioned Law a system of financial support for the peasants was introduced, the financing of which was carried out from the centralized Union social security funds formed by deductions from the profits of the collective farms.

Thus, with the adoption of the Law «On Pensions and Assistance to Collective Farmers» in the USSR a social security system was formed, which included: state social insurance for workers; social security of collective farmers, social security at the expense of allocations from the state budget and providing at the expense of funds of public organizations. It wasn’t until 1968 that farmers could retire by the age of employees and workers, that is the retirement age was reduced by five years.

Instead, in the USSR pension funds were formed centrally in accordance with the USSR Law on State Pensions of September 14, 1967. This law provided for the payment of a pension by the state through the allocation of funds from the state budget of the USSR as well as from the budget of the state social insurance fund.

September 26, 1967 adopted by the Resolution of the Central Committee of the CPSU and the Council of Ministers of the USSR «On measures to further improve the welfare of the soviet people», it was assumed that regardless of social status of citizen retirement age men 60 years and women – 55 years [4].

Over time the pension system was refined through reform. For example in November 1973, a reform was implemented in the area of pensions for disabled and survivors. In 1974 assistance was introduced for children from low-income families. Since 1988 in accordance with the resolution of the Council of Ministers of the USSR, the ICTRC has begun supplementary pension insurance in Ukraine. Insurance conditions were governed by the rules approved by the USSR Ministry of Finance in agreement with the USSR State Committee for Labor and the VTsSPS. The source for the payment of the additional pension was the insurance fund of State Committee for Labor which was formed at the expense of the contributions of the insured and the state budget.

Further changes in pension provision occurred in 1990 when most scientists believed that a single comprehensive pension system of the USSR was formed. It was during this period that the legislative framework was adopted which regulated the pension relations between the entities under uniform conditions and norms. Laws «On pension provision of citizens in the USSR» and «On pension provision for servicemen» which completed the process of creating a single comprehensive pension system, combined the principles of social insurance and social assistance and separated the pension system from the state budget [4].

The main source of funding for pensions was the Pension Fund, which was formed by insurance premiums. In addition each employee at the place of work was filled in annually with a tab in the workbook with the amount of paid premiums in the amount of one percent of accrued earnings. It was a kind of transitional form to the introduction of personalized accounting of length of service and contributions paid to the Pension Fund which was designed to create a fairer pension system in the future.

Pursuant to Article 10 of the Law "On the provision of pensions for servicemen", it was stipulated that the functions of the pension provision of servicemen and their families shall be vested in the commissions for appointing pensions of social security bodies. The main bodies of pension provision of military personnel were the Ministry of Defense, the Ministry of Internal Affairs and the KGB of the USSR.

Completion of the process of creating a single comprehensive pension system, according to the leading scientist B. Nadtochyi occurred with the adoption in 1990 of the Law «On pension provision of citizens in the USSR».

Thus, characterizing the results of the research conducted on the development of the pension system in the 1990s in Ukraine, it should be noted that the main source of funds for the payment of pensions was the Pension Fund, which was administered in the manner determined by the Council of Ministers of the USSR. Commissions formed by local councils

Table 3

**Establishment of the pension system in Ukraine during 1955-1991**

| Date, period | Event |
|---|---|
| 1956 | The Law on State Pensions was adopted which enshrined inequality in social security for workers and collective farmers |
| July 15, 1964 | The Law on Pensions and Assistance to Members of the Collective Farm has been approved. The provision of collective farms began, the main condition of which was the availability of collective farm experience |
| September 14, 1967 | The USSR Law on State Pensions was adopted. From that time on pensions were paid by the state at the expense of the state budget of the USSR |
| 1968 | The retirement age for farmers is reduced by 5 years |
| November 21, 1973 | Decree of the Presidium of the Supreme Soviet of the USSR «On Further Increasing the amount of Pensions for disabled and disadvantaged families» |
| 1974 | Assistance for children from low-income families was introduced |
| 1988 | Resolution of the Council of Ministers of the USSR and VCRSP on the introduction of supplementary pension insurance in Ukraine |
| 1990 | Adoption of the Law «On pension provision for servicemen» and the Law of the USSR «On pension provision for citizens of the USSR». Separation from the state budget of the Pension Fund which became the main source of funds for payment of pensions |

*Source: Generalized by author using national pension law* of people's deputies performed the function of providing pensions and the trade unions exercised control over the pension provision [4].

Summarizing the results of the study it should be noted the main achievements of the third stage in the development of pension provision of Ukraine (Table 3). According to the Table 3 it can be concluded that in the third stage of the establishment of the pension system in Ukraine the principle of combining social insurance and social assistance prevailed, the main feature of this stage was the separation of the pension system from the state budget.

The source of funds for the financing of pensions was the deductions of enterprises and organizations, as well as insurance contributions of citizens. However, it should be noted that this system was not adapted to the economic conditions of the country and therefore failed.

## 4. Findings

Only after the collapse of the USSR in 1991, Ukraine become an independent state. Having gained independence the government began to develop a new social protection strategy that would meet market conditions, provide better social protection for pensioners and formulate new national legislation in the field of pension provision. The Cabinet of Ministers of Ukraine has entrusted the preparation of new pension legislation to the Ministry of Social Welfare and the development of a new strategy to the Ministry of Labor. In addition, the demographic factor forced the search for ways to provide effective financial resources for the pension sector, it was necessary to introduce new pension programs to maintain a sufficient material standard of living for retirees.

On November 5, 1991 the Verhovna Rada of Ukraine approved the Law of Ukraine «On Retirement Provision», which provided benefits in retirement insurance for early retirement. As a result, the number of people who have not reached retirement age has increased significantly, mostly because of unemployment. To ensure the implementation of this Law, an independent financial structure was created – the Pension Fund of Ukraine, those funds of which were not included in the state budget and could not be used for other payments of pensions and benefits.

A significant drawback of the Law on Pension Insurance is that it did not take into account the demographic factor when creating the pension system. The existence of such a gap can be explained by the fact that at that time Ukrainian politicians were not yet aware that the process of population aging is an objective social phenomenon, which must be taken into account in the process of building the pension system.

For this reason due to the lack of consideration of demographic factors in the new legislation and the expansion of categories of preferential pensions, a budget deficit was created which made the pension system financially incapable of providing timely and full pension payments. The following legal document was approved by the Ministry of Labor of Ukraine at a national conference in December 1993 with the adoption of the «Concept of Social Security of the Population of Ukraine», which envisaged the development of non-state pension funds as well as funded pension programs. Certainly, assessing the pension system of the former Soviet Union, it should be noted that the main advantage was the universal coverage of the population of the country, since the pension was fully built on the principles of «solidarity of generations» and pension payments were funded by the able-bodied population. At the same time, the system had many disadvantages, as the autonomy of the state budget insurance budget was broken, which resulted in an imbalance of the income and expenditure part of the pension budget.

According to the majority of scientists and experts in the field of pension insurance the implementation of the pension reform in Ukraine began only with the adoption of the laws of Ukraine «On compulsory state pension insurance» and «On non-state pension provision» adopted on July 9, 2003. Pension reform in the second half the first decade of the XXI century started to gain practical implementation. Its characteristic features should be called: formation of the base of personalized accounting of pension contributions of working population, improvement of activity of the Pension Fund of Ukraine, revision of categories of privileges for receiving pension payments in the direction of reduction, strengthening of control over activity of non-state pension funds.

To further develop pension insurance in Ukraine in 2010, the Program of Economic Reforms “Wealthy Society, Competitive Economy, Effective State” for 2010–2014 was proposed by the Committee on Economic Reforms under the President of Ukraine and also adopted the Law Of Ukraine “On Collection and Accounting of the Single Contribution to Compulsory State

Social Insurance". In particular, in 2011, the Law of Ukraine "On measures for legislative support of pension system reform" was adopted.

The vector of the adopted new pension legislation in Ukraine is aimed at practical implementation of measures for the further effective improvement of the national pension system which envisages the development and functioning of all existing levels of the pension system, adherence to the uniform principle of calculation and payment of pensions by age, equalization of retirement age for women, review benefits in the field of pension insurance, formation of the newest type of pension relations based on insurance principles and formation of state insurance and control over their use by financial institutions and investment in the stock markets.

Thus, the study on the historical aspect of the development of the pension system makes it possible to state that the government has been searching for the implementation of pension funds in the last decade with the aim of forming an effective domestic pension mainly public in nature, which could not meet the needs of society were periodic and could not in principle be of a mandatory nature.

Investigating the organizational principles of the emergence of pension insurance in our opinion it is necessary to pay in-depth attention to the analysis of management of the solidarity level of the national pension model, payment of mandatory insurance contributions in the solidarity pension system, state control over the payment of contributions by employers and the mechanism of determining the size of pensions a prerequisite for reforming the country's modern pension system. After all pension reform whatever its structure, requires a concrete, systematic approach to its development and implementation.

## 5. Conclusions

In its development pension insurance has undergone several stages which are conditionally divided into specific periods. The first – the initial stage – was characterized by the introduction of the principles of administrative and legal regulation in the field of pension provision, that is the distribution of material goods began to depend on the volume of the product, regulation of the measure of needs was taken over by the state. The second stage was characterized by total state intervention in the field of pension insurance, which systematically began to work on the development and improvement of legislation in the field of pension provision. With regard to the third stage, the main achievement in the field of pension development in Ukraine was the combination of the principles of social insurance and social assistance. The main feature of this stage is the separation of the pension system from the state budget and the source of funds for the financing of pensions is the insurance contributions of citizens.

For Ukraine in the process of reforming the national pension system, it is advisable to take into account the following elements of best practices of foreign countries:

– many countries' pension systems are multilevel structures with mixed funding, which organically combine the elements of cumulative, redistributive and state (budgetary) payments of pensions;

– stability, the achieved level of economic development and its growth rate, which enable the state to allocate the necessary part of budgetary resources for financing the national pension provision, are positively influencing factors on the mechanisms of functioning of pension systems and the level of pension provision of citizens;

– only the achievement of a certain level of development of a market economy will create the necessary material prerequisites for the formation of a welfare state, creation of a more decent level of provision for pensioners;

– the transition to self-financing of pension systems is accompanied by legislatively regulated requirements for ensuring the reliability of pension savings of pension funds and administrators, which are complemented by clear requirements for maintaining a certain level of return on investments, linked to the compliance of the minimum level of return with the annual inflation rate, investment loan;

– the costs of the transition from solidarity financing to cumulative are higher than projected at the expense of high transition costs;

– the political and economic conditions, under which most pension systems in the world have been reformed, are unstable due to underdeveloped financial markets and frequent changes in government;

– many workers today cannot opt for the private pension system because the problems associated with the structure of private pension benefits have not yet been resolved;

– the measures taken to implement the reform are constantly diversifying. Some countries are undergoing radical reforms, while others are pursuing parametric reforms without introducing a mandatory private level;

– social dialogue on pension reform is limited in most countries, and tripartite consensus is often not achieved due to the lack of tradition of conducting this dialogue, the lack of recognition by some governments of its needs, and the lack of experience of the parties in fulfilling their role.

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