

**“PENSION SYSTEM OF UZBEKISTAN: PROBLEMS
AND PERSPECTIVES”**

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Introduction

The purpose of the present report is the definition of perspective ways of the further development and perfection of pension system of Uzbekistan, based on an optimum combination of state pension maintenance system and non-state pension insurance.

From this point of view the analysis of the condition of current pension system, principles of its organization and functioning are carried out in this work.

Taking into account significant risks at formation of additional pension systems, their strong dependence on a concrete economic situation and economic behavior of the population, the proposals made in the report can be considered as important but complementary measures to upgrade social maintenance.

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Chapter 1. The Analysis of the Current Pension System of Uzbekistan

The Principles of Financing of the Social Sector in Uzbekistan.

Financing of the social sector is directly connected to the macroeconomic situation in the country. The state budget is the main tool of distribution and of redistribution of resources from the sphere of production to social sector, which is deemed as a priority direction of the state policies.

The state budget for 2000 has an expressed social direction. The expenses on the social sector and welfare of the population are estimated at 283.3 bln. of sums or 47.1% of the total expenses of the budget, 223.2 bln. of sums or 37.1% of them are directed at social sphere and 60.1 bln. of sums or 10% to the social protection of the population. The priority fields among them are Education and the Health Care system, the shares of which comprise 23.7% or 9.6% of the total expenses appropriately. The social expenses include money payments to families with children under 16 years of age, transfer payments for the care of under 2 years of age, material help to poor families, and subsidies to the housing and utilities sectors (see Appendix Table1).

As we have been engaged in this field for over 20 years, we can tell how the budget forecasting was done in the pre-reform period and now. To forecast the budget we used to analyze the situation of the previous 5 years, and this was done not only by each section of financing of education or health care, but by each types of expenses, i.e. separately by schools, by hospitals, by orphanages etc. Then the average percent of the growth of expenses for 5 years was calculated, which was used for the prognosis of the next year.

Each type of expenses had its norms, both in kind and in money terms. That is, there was rationing of nutrition, medicines, and different kinds of furniture. These norms were applied to general indicators: the number of students, patients etc. After the approval of the budget, each direction was financed strictly according to the plan.

Nowadays the in kind norms still exist, but the norms in the money terms are eliminated because of inflation, and, of course, we don't finance by the in kind norms with the exception of the food products. For the creation of the budget for 2003 the budget year 2002 was taken as the basis, and only the coefficients of growth of salaries and transfer payments were considered. In addition, all other expenses determined by the Cabinet of Ministers of the Republic of Uzbekistan were taken into account.

Financing of the expenses on social sector in 1999 were carried out in full only in priority fields such as salaries, payments to social insurance, transfer payments scholarships, etc. Other expenses are not financed fully. The expenses of the budget organizations for the internal operation was first carried out by hopeless accounting, i.e. creditor's debt for the utilities was seen as the debt of these enterprises supplying the service, on taxes. In august 1999 a Temporary Measure on financing of these expenses by the short-term credits of the Central Bank by the schemes of objective based financing was adopted. By this scheme, about 1 bln. of sums was transferred by the enterprises of the social sphere.

To deepen the economic reforms in the industries, which are financed by the state budget, a decree of the Cabinet of Ministers of September 3, 1999 " On improvement of the standards of financing of the budget organizations" was adopted. The main ideas of this decree are as follows:

- expansion of the independence and improvement of responsibilities of the managers of budget organizations for the efficient and careful use of budget allocations;
- facilitation of the financing mechanism;
- stimulating of the work of the workers in budget organizations.

Starting from 2000, financing of the enterprises has been done only by 4 groups, while in 1999 there were more than 100 subgroups. Main groups are as follows:

1. Salaries, scholarships and transfer payments.
2. Additional remuneration to the salary.
3. Capital investments.
4. Other expenses.

Budget organizations can have additional income from the sources, such as:

- production and realization of services in the specialized fields;
- leasing out of not used buildings and other state property to outside organizations;
- sponsors' contribution (unilateral aid) to them.

The budget organizations are exempted from all state taxes and other payments for 2 years on the mentioned sources of income, but with the condition that the money should be used on the strengthening of their material base and stimulation of their workers. This decree also enables them, if they are legal entities, to form the Development Funds, from the economized budget finances, their economic activities, leasing and sponsorship help. The Fund's resources can be directed at:

- the payment of the creditor's debt;
- strengthening of their material base;
- additional wages for their workers.

The ministry of finances elaborated a number of documents in accordance with this decree. The most prominent among them are as follows:

1. New classification of expenses and revenues, reduced by several positions. (Approved by the order of the Minister of finance on December 9, 1999). By this classification, the budget organizations will prepare reports.
2. The Norm on accounting of expenses and revenues of budget organizations. (registered in the Ministry of jurisprudence on December 23, 1999).
3. The Norm on registration of expenses and staff schedules of the budget organizations. (registered in the Ministry of jurisprudence on 13 December 1999).
4. Temporary standards of budget financing for 2000 on the organizations of social sphere (registered in the Ministry of jurisprudence on 13 December 1999).

These temporary standards include:

- o the equalization of disproportions by territories and organizations by the unit of contingent;
- o combination of budget financing with expansion of activities from other sources (which might include the closing of some inefficient enterprises)

Temporary standards were approved on 32 types of budget organizations.

5. The Order of the Ministry of Finance, education and health care "On budget organizations, which are granted the status of legal entities. (registered in the Ministry of jurisprudence on 28 December 1999)

In addition to organizations with the status of a legal entity, this Order gives this status to:

- professional colleges, academic lyceums, orphanages, boarding schools with more than 200 students, schools and gymnasiums with more than 400 students, kindergartens no less than 350 people.
- hospitals, policlinics, children sanatoriums, rural medical points.

This status is given if the organizations having the sufficient material base and accounting personnel.

In accordance with the order of the Cabinet of Ministers “ On the ordering of the sale of medicines and medical products”, The Ministry of Finance with the Ministry of Health Care, with the aim to prevent the negative effects, social protection of the population of the Republic, and the prevention of excessive price increase of medicines, the following documents were registered in the Ministry of Justice:

1. The order of giving, counting and control of the use medicines and medical products in the stationary hospitals;
2. The order of pricing in the sale of medicines
3. The order of financing of hospitals and a gradual transition to paid system of health care
4. The order of reimbursement of hospitals for their free medical service to the population and other documents.

With the aim of the social protection of the population, the list of medicines for free rendering to those patients afflicted with the illnesses, with privileged realization of recopies. According to the Decree of the cabinet of Ministers from 13 January “On investment program for 1999” following foreign investments on the state guarantee were attracted: for the creation of a radiological lab in Research Institute of Oncology and Radiology for the sum of 4.63 mln. USD. For the reconstruction of hospitals of Tashkent Pediatric Medical Institute and the creation of a pre-natal center- 3,2 mln. USD.

30 mln. USD credit contract with the World Bank was signed to reform the primary chain of health care in rural areas.

The financial help to physical culture enabled our sport teams to participate in the planned competitions in Uzbekistan and abroad, such as mountain skiing in Japan, The Asian Championship in chess in Uzbekistan, selective championship for the world championship in water polo among juniors in Tashkent.

1999 was proclaimed as the year of woman, for which the government adopted on 18 February “ State Program on measures on strengthening of the role of woman on the family...”, which takes into account additional expenses from different sources. Women can now retire 1 year earlier, at the age of 54. This measure cost 1.7 bln. sums to the Pension Fund, and the payment of pensions to junior medical personnel, provisors, and trainers in orphanages , and library keepers- about 600 mln. sums.

Every year the President honors the veterans of Second World War on the Victory Day. Thus, in 183 mln. sums were given to 68,5 thousand people on this occasion. (Appendix Table 2).

Social Protection

The Uniform system of state social support to families and children was accepted in 1994. Monthly payments to families with children under 16 years of age are carried out in percentage relation to the minimal rate of salary. Their amounts have increased many times and now make up:

- With 1 child – 50% of minimal salary
- 2 children – 100% of minimal salary
- 3 children- 140% of minimal salary
- 4 children – 175% of minimal salary

As the minimal salary increases, so do these payments.

To strengthen the direct social help to those families, this help is given to only needy families by local authorities. They are financed by the state budget (Appendix Table 3).

Help to mothers on maternity leave is also changed. If until 1994 the transfer payments were paid for 1,5 years, now it is during 2 years. Besides, the amount of this payment has also increased. And reached from 20% till 150% of minimal salary, i.e. 2625 sum. This led to the increase of nonworking mothers. Their number increased in the Republic by 2 and in certain regions (Bukhara, Fergana, and Karakalpakistan) by 4 (Appendix Table 4).

In the past there was considerable debt on the financing of these transfer payments, but since January 1, 2001, they don't exist according to the Hokimiyats (local authorities).

To increase the role of the local authorities, since March 1999 they can themselves carry out the payment of under 2 years transfers and supply the lonely citizens with the needed products.

All these measures are financed by the state budget regardless of the sources of income. However, the main form of social payments- pensions are financed within the limits of the current payments to the pension fund, to which all enterprises regardless of their form of business should allocate 37.3% of their income since August 1, 1999. Besides, each worker pays 2.5% of his salary to his fund (before it was 1%-1.5%-2%)

Besides, another source of income of the pension fund is 0.5% of their factual volume of sales.

Since 1997, the pension funds carries out the timely payment of pensions, the delay of payment can be explained only with the absence of cash. We gave example of monthly expenses on non-working retired people in January 2000 (Table 5), the monthly need is equal to 13.1 bln. of sums.

Besides, the Pension fund covers transfer payments on temporary unemployment, maternity leaves, birth and funeral transfers (2 and 3 minimal salaries respectively) (Appendix Table 6).

Principle of Organization of the Pension Maintenance in the Republic of Uzbekistan¹

The present pension system regulated by the Law of the Republic of Uzbekistan "About state pension maintenance of the citizens of the Republic of Uzbekistan" (is accepted by ÖII Session of the Supreme Council of the Republic of Uzbekistan, 1993) is provided with three kinds of pension maintenance: i) on age; ii) on physical inability; iii) in a case of loss of the supporter.

The pension system establishes 2 basic requirements for pension maintenance: i) presence of a condition giving the right on pension maintenance (achievement of pension age, approach of physical inability, loss of the supporter), ii) presence of the required experience of work according to the given conditions. In case of absence of one of the specified requirements the right on pension maintenance is lost.

The pension system serves about 11% of the population of the Republic. In comparison with other countries it is a good parameter positively influencing a condition of pension system. For example, in Russia it makes approximately 27%, and in many European countries exceeds 25%.

In 2001 annual average growth of number of the pensioners has made 1.5%, thus the gain of number of pensions on age has made about 1.3%, pensions on physical inability - 2.5%, pensions in a case of loss of the supporter - 1.1%.

Totally, according to main indicators, characterizing any kind of pension system, and particularly according to the coefficient of correlation (relation of number of pensioners to

¹ This and following chapters rely on CER (Center for Economic Research) materials printed in "Ekonomicheskoe obozrenie", # 10-11 (38-39), 2002. pages 4-7, 8-9

number of employees) and coefficient of substitution (relation of average volume of pension to average salary rate), defining level of pension's maintenance. The situation in Uzbekistan is rather better than in other countries with transition economy. For example, in Bulgaria coefficient of correlation is 1 and coefficient of substitution – 0.3, whereas in Uzbekistan these indicators equal to 0.3 and 0.52 respectively. It means that in Uzbekistan there are more than 3 employees for 1 pensioner, and average pension covers 52% of average salary rate.

Table 1. Main Pension Indicators in the CIS and Baltic Countries

CIS and Baltic countries	Coefficient of correlation	Coefficient of substitution
Azerbaijan	0.30	0.35
Armenia	0.43	0.21
Belarus	0.56	0.40
Georgia	0.48	0.23
Kazakhstan	0.40	0.30
Kyrgyzstan	0.30	0.41
Latvia	0.63	0.39
Lithuania	0.71	0.28
Moldova	0.45	0.22
Russia	0.59	0.36
Tajikistan	0.32	0.28
Uzbekistan	0.30	0.52
Ukraine	0.67	0.35
Estonia	0.63	0.32

Source: *Ekonomicheskoe obozrenie*”, # 10-11.2002, page 4.

The Basic Problems of Pension Fund of the Republic of Uzbekistan

Despite of the favorable characteristics, the national pension system has the separate latent problems, which will be gradually shown during time and render negative influence on stability of its financial condition.

First of all it is connected to presence of significant pension privileges not appropriate to character of the market relations and which was not adequate social validity. The specific feature of pension privileges consists of:

- their influence on a condition of pension system is shown after a while. For example, establishment of the reduced rates of payments in Pension Fund for separate categories of the workers will be shown at a stage of payment of their pensions;
- the presence of privileges worsens real factor of dependence. For example, the prescheduled exit on pension results in reduction of number of the workers, that are making payments and to the increase of the number of the pensioners, that worsens the factor of dependence and negatively influences a financial condition of pension system;
- privileges on making the payments for the separate enterprises and kinds of activity, and also the reduction of pension age for separate categories of the workers results in necessity of increase of the tariffs of payments for other enterprises, and, hence, to increase of the cost price and decrease of competitiveness of their production.

Secondly, the pension system of Uzbekistan, the stable functioning of which directly depends on pension payments, requires the realization of long-term and short-term forecasting calculations which are taking into account change of a demographic situation and a condition of development of economy. The realization of such forecasts is necessary for elaboration of anticipatory measures on maintenance of financial durability of pension system in the future. Unfortunately, despite of presence of specially developed actual model of pension system of Uzbekistan, such forecasts will be carried out not regularly, and the possible consequences of

the accepted decisions are not counted, that results to periodic pre-crisis phenomena connected to excess of a spending part of fund above a profitable part. For the sake of justice it is necessary to specify, that by efforts of government, last two to three years such situations have not occurred. However, there is no opportunity to create three or four monthly reserves of pension fund, for maintenance of its financial stability in a crisis situation either.

Thirdly, the present system of pension maintenance poorly provides attraction of payments from those, who are engaged on hiring, the number of which is estimated to be at a level of 4.5-5 million of people. However, in relation to those engaged in informal sector (by an estimation about 2.6 million of people), and also to the self-engaged, the pension system is sensitive only in its spending part, and practically is not sensitive concerning formation of a profitable part of pension fund. It is because of that the system of pension payments in relation to the given categories of engaged is liberal, while the participation in system of pension maintenance, as addressees of pension or social grant, in practice is obligatory.

Fourthly, the level of application of modern information technologies in pension system of Uzbekistan is low. Insufficient use of computers during assignment of pensions, formation of the documents of payment, the preparations of the statistical data and their analysis do not allow to completely liquidate admitted mistakes. It brings to infringement of the pension rights of the citizens, or to a wrong expenditure of means of Pension Fund to raise the productivity of work of the employees, to improve quality of the analysis and efficiency of reception of the statistical reports.

The present pension system of the republic belongs to a type of solidary pension systems. This system was transformed from pension system of former USSR, at which the financing of pension payments till 1991 was carried out completely from means of the state budget at the expense of general tax receipts.

In 1991 the partial reform of pension system was carried out, as a result of which the sizes of pensions were put in closer dependence on duration of the experience of work and monthly average earnings, and the financing of pension payments has become to be carried out from means of specially created Pension Fund.

In spite of the fact that the reform of 1991 has brought in significant changes to the order of assignment and payment of pensions, nevertheless it could not solve the main problem - stabilization of financial maintenance of pension system. The reform did not take into account regional and national features, and also economic situation in the republics. It became especially apparent after disintegration of the former USSR.

Practically, all newly formed independent states have confronted a problem of maintenance of duly payment of pensions. Many from these states till now can not completely solve this problem.

Uzbekistan also has met a problem of financing of pension system. Created in 1991 without the account of an economic and demographic situation the Pension Fund of Uzbekistan already right at the beginning was financially insolvent, i.e. the profitable part of Pension Fund did not cover a spending part. Till August, 1991 the deficiency of Pension Fund of republic was dated from the Center, and after disintegration of the former USSR this problem should be solved at the expense of the state budget of republic.

The measures accepted by the Government of Uzbekistan have allowed at the end of 1996 and the beginning of 1997 to stabilize the financial position of pension system and to liquidate the debts on pension payments, formed to that period.

However, in spite of the fact that now the Pension Fund of the Republic of Uzbekistan is independent of state budget and has no debts on execution of the obligations it is still impossible to speak about sufficient financial durability of national pension system.

Absence of reserve fund ensuring as a minimum of three monthly requirements on payment of pensions, the rather high sizes of obligatory pension payments rendering influence on the cost price of goods and competitiveness of economy, high debts on payment and evasion from payment of obligatory pension payments, direction of means of Pension Fund

on the purposes which have not been stipulated by the legislation (payment of pensions to the military men of an urgent service), reduce financial durability of national pension system.

On financial durability of pension system the significant influence renders also imperfection of the present pension legislation regulating the order of assignment and payment of pensions.

Imperfection of the national pension legislation, first of all appears in that in most cases it does not measure accurately the sizes of nominated pensions to the sizes and amount brought in to non-budget Pension Fund of obligatory payments. The financial problems of pension maintenance of the Republic in many respects are connected to problems of preferential pension maintenance. Any advanced state of the world has not such amount of preferential pensions, i.e. pensions nominated earlier than common stated age. In planning-distributive system the preferential pensions represented some kind of indemnification to separate categories of the workers for harmful working conditions and underestimated earnings. However, in conditions of the market relations, when enterprises establish the sizes and forms of payment, and also working condition, the initial task of preferential pension maintenance loses the sense. The people engaged on harmful manufactures continue to consider that the society is obliged to compensate these conditions. However indemnification for harmful and heavy working conditions is already incorporated in the sizes of their earnings. Moreover, many professions today are not harmful and hard, as it was some years before. The new, more modern technologies and mechanisms allow to decrease progressively the role of preferential pensions. If the enterprise does not introduce such technologies, it should compensate a prescheduled exit of the worker on pension and the society should not bear additional financial expenses.

There is also inadequacy of participation of the citizens in profitable and spending parts of Pension Fund to a gender attribute. So, for reception of the right on complete pension, the participation in Pension Fund for 20 years suffices to the women, men - during 25 years. The women receive the right on pension at achievement of age 54-55 years, men - at achievement of age of 60.

Taking into account, that the average duration of life of the women makes 72 years, and the men 67 years, it is possible to make a conclusion that the share of participation of women in a spending part of Pension Fund is more than 2 times higher than a share of participation of men. Thus it is necessary to note, that the share of participation of the women in a profitable part of Pension Fund is much lower than a share of participation of the men.

Unequal conditions and the requirements for pension maintenance established by the legislation for men and women, result in essential distinctions in an estimation of each year of participation in a profitable part of Pension Fund of the citizens to a gender attribute. So, each year of participation of the women in Pension fund is estimated in 2.75% (base size of pension - 55% required experience - 20 years), men - in 2.2% (base size of pension - 55% required experience - 25 years) of the base pension.

The legislation permits to separate categories and groups of the population not to participate in a profitable part of Pension Fund. So, for the military men of all categories it is not required at all any participation in a profitable part of Pension Fund.

To the majority of categories and groups of the population the legislation gives significant privileges as double calculation of the experience of work (for example, the year of a service of the military men of an urgent service is set off as 2 years of work), offset in the labor experience of the periods of a presence without work (care of the invalids of 1 group and the disabled children till 16 years, time of a presence of the wives of shepherds and officers with their husbands during a service, time of a care of children before achievement by them of age 3 years etc.), offset in the labor experience of the periods of activity, when the pension payments were not paid (study, military service, leaves of absence on a care of children) and various extra charges to pensions not having additional sources of covering of these charges.

Another imperfection of the pension legislation is that it establishes the disproportionate sizes of payments in Pension Fund for the employers and workers, and also for various groups of commodity producers. It is established by the legislation, that the employer monthly pays an obligatory pension payment at a rate of 37.3% from fund of payment of work, and worker - at a rate of 2.5% from the wages. It considerably deforms representation about sources of formation of Pension Fund. The people consider, that the Pension fund is formed at the expense of their payments, whereas in reality the employers bring in to Pension Fund 96 %, and workers only 4% of a payment.

Such situation has a place in many countries of CIS, whereas in advanced Western countries the employers and the workers bear practically equal responsibility for formation of pension funds. For example, in the USA, Germany, Japan and majority of other advanced countries the workers and the employers pay a pension payment in equal shares.

Table 2. Pension age and time of a pension payment in the separate countries

Country	Pension age		Size of a pension payment	
	Men	Women	Employer	Worker
England	65 years	60 years	10%	10%
Germany	65 years	65 years	10.15%	10.15%
USA	65 years	65 years	6.2%	6.2%
France	60 years	60 years	9.8%	6.65%
Uzbekistan	60 years	55 years	37.3%	2.5%

Source: "Ekonomicheskoe obozrenie" magazine, # 10-11.2002. Page 5

Nominal factor of dependence in Uzbekistan makes 0.3. However, due to this factor number of the workers making payments in Pension Fund, is high. It is close to 0.65 that leads to huge debts on making of payments and presence of a significant part engaged, to which the right not to participate in formation of Pension Fund is given.

The analysis shows, that only 42% of the able-bodied population (from 11 million of people) bring in obligatory payments to Pension Fund. Other 58% are debtors, people, evading from making of obligatory payments, unemployed and persons, not involved by the legislation. It is, therefore, clear that if a share of participation of the able-bodied population in formation of a profitable part of Pension Fund increases, it will be possible not only to increase very quickly financial durability of Pension Fund, but also to reconsider the sizes of obligatory pension payments in the direction of reduction.

Under transition to the market relations there is a problem of registration of the documents for assignment of pensions and check of their reliability. Increased dynamics of movement of the enterprises (change of the name and the patterns of ownership, departmental accessory, reorganization, liquidation etc.), growth of number of pluralists, working on the several enterprises, considerably complicate work of bodies of social maintenance and cause additional problems connected to registration of pensions. It is natural, that in process of the further transition to the market relations the similar problems will be shown ever more, in this connection, it is necessary already now to begin development of new techniques of the account of the labor experience and earnings on the basis of modern computer technologies.

Besides the forecast of a demographic situation shows, that the rates of growth of a population of pension age exceed rates of growth of a population of able-bodied age, therefore by 2025 the population of pension age will increase more than in 2 times in comparison with 2000 and considerably will exceed growth of a population of able-bodied age. It will worsen a financial condition of pension system, as the rates of growth of a spending part of pension fund will exceed rates of growth of its profitable part. It is necessary already now to begin reforming of pension system of the republic so that the period of reforms has captured that temporary lag, convenient from the point of view of demographic changes.

Chapter 2. Basic directions of improvement of pension system in Uzbekistan

Unlike developed countries, which practice increase of pension age for ensuring a financial durability of pension systems, the pension system of Uzbekistan has the following potential mechanisms of increasing its financial durability.

Firstly, liquidation of preferential pension institute, i.e. pensions fixed earlier than a generally established age. Realization of this mechanism allows to increase an average age of retirement for men by 1,5 years, for women by 2 years. Analysis shows that the mechanism allows to decrease pension spending and bring down a loading to pension fund by 16% or by 53.3 billion sums.

Secondly, equalization of a retirement age for men and women. Realization of that mechanism allows to increase an average age of retirement by 3 years. Analysis shows that the mechanism allows to decrease pension spendings and bring down a loading to pension fund by 27% per annum – 90 billion sums.

Thirdly, strengthen dependence of pension volume on participation duration in a pension fund. For that instead of concept -“working record is important” to introduce concept - “insurance record”, which allows during pension fund calculation to take into account just those periods, when pension fees were paid.

Fourthly, exclude the pension fund spending not defrayed by means of financing. To such spending we can include various bonuses, fixed to pensions for special merits (participation in war, honorary titles, working during a war, etc., so called social grants fixed for lonely old citizens, who don't have working record, for disable children younger than 16 years old, for disabled from childhood, pensions fixed according to the law about pension provision of servicemen), who have to be financed at the expense of the government budget. Totally, this kind of expenditures compose 30% (or 100 billion sums) of the Pension Fund. So, it is potentially possible to reduce pension funds expenditures at least approximately by 25-30% which enables 1) to reduce the volume of obligatory fees to the fund from 40 to 26-27%, 2) to increase a pension volume to the participation of the pension fund by one-third by keeping operating fee to rates to the pension fund. Liquidation of “unpaid loading” completely and simultaneously is impossible. The process could take up to 10-12 years.

Therefore, by going forward on perfection of pension system gradually based on an obligatory social insurance, it is important to carry out steps in the direction of forming of an extra pension provision systems based on a voluntary participation of citizens in it.

Common Principles of Creating NPF in Uzbekistan

According to world experience, as was cited above, one of the most effective directions of pension provision improvement is organization of an accumulative pension systems.

However, from our point of view, accumulative pension systems shouldn't be an alternative for pension funds with solidary responsibility. In solidary systems a state together with the public realities constitutional guarantees of citizens in a pension provision sphere, while in accumulative systems these guarantees are provided by a state itself, and that is conducive to the decrease of a guaranteed pension level.

That's why, accumulative pension funds have to be considered as extra, which help for a state to provide the sufficient standard of life and promoting the decrease of a loading to the state's pension system. For example, extra accumulative pension systems are the most effective compensation mechanism of abrogation of preferential pensions fixed earlier than generally established pension age.

On the other hand, such kinds of funds are the most powerful source of investments to national economy. The practice of developed countries shows that just such funds are main instruments of an economic development. As an example we can give Chile, where, to the view of World Bank experts, basic development of the country was provided with just accumulative pension funds.

The creation of accumulative pension systems has to be put into effect by creating non-government pension funds' network. Participation in non-government pension funds must be based only on the voluntary basis. For that, there should be created an effective legislative base, which regulates the process of creating and functioning of non-government pension funds. Investment activity of such funds has to come true just through the network of specialized managing companies, which is the most important requirement for providing the effectiveness of investment and safety of means.

The development of non-government extra systems of provision of pension should be put into effect in accordance with basic principles of national model of transition to market economy:

- creation of the system of an extra non-government provision of pension has to strengthen social protection of citizens in old ages;
- non-government pension funds should provide economic expediency for their participants;
- creation of the system of an extra provision of pensions should be put into effect gradually as an extra element to an existing system of provision of pensions. In this case, graduality means 1) adoption of legislative and normative acts, which providing protection of pension accumulations and regulating relations among the participants of non-government pension systems; 2) creation of prerequisites for attraction of employees to participation in non-government pension systems at the expense of decrease of tariffs of obligatory dues to a government pension system and perfection of a taxation mechanism; 3) organization of non-government pension funds for employers of big companies with further broadening of their services to other categories of employers as the development of an important infrastructure;
- forming the system of an extra provision of pensions, a government should play the leading role as an initiator of these systems and a guarantor of providing legality and reliability of their functioning. That's the point, that in accumulative pension funds there are accumulated huge financial means, in this connection "rules of game" set by a government should provide protecting from establishment of "financial pyramids", provide transparency of functioning of accumulative funds and minimize risk from investing;
- development of a non-government extra system of provision of pensions has to be a sufficiently reliable legislative base.

Possible Functioning Mechanisms of NPF in Uzbekistan

Before passing to chosen strategies and mechanisms of perfection of the provision of pension system in Uzbekistan, it is expedient to consider in detail possible variant of pension system development, based on a voluntary participation and answer to the following questions:

- is it all right to tie together voluntary pensions with plans financed in advance, or provision of pension will represent pay-as-you-go;
- will plans of provision of pensions be managed only by the government or also by private means, or by combination of those two models of management;
- will plans of provision of pensions be with "fixed pensions" or plans with "fixed dues";
- are there reliable financial instruments, which provide preservation of pension accumulations and their protection from inflation processes, having in view that pension assignments have to take place during some decades;
- who and to whom it is advantageous to take part in non-government pension funds and what will be this advantage.

There are two kinds of financing of any pension plans: financing in advance, i.e. participants of a pension fund finance their own pension, saving up means in a pension fund, for the reason that to acquire these saved up means completely after a pension age comes; and financing pay-as-you-go, supposing pension payment by the volume, which enables to play current condition of a pension fund.

The participants of voluntary pension funds hardly become aware of advantages of payments from current receipts, excluding, perhaps, the nearest to a pension age of potential participants. The reason for that is that the participants of a fund in a young age can't forecast the volume of future pensions and they doubt about probabilities of a permanent stability provision of a pension fund, since this stability will depend on the number of a pension fund's participants, who have entered to the fund after a young age participants. If suddenly, by any reasons, the number of a pension fund's payers decreases – the volume of current dues also decreases, as a result of that, receiving of pensions in an expected volume will be greatly problematic.

On the other hand, “financing in advance” system (or properly accumulative system) also has some risks:

Firstly, if an inflation rate regularly exceeds revenues rate, savings after significant duration of time will depreciate.

Secondly, if there is distrust to financial institutes providing payment of pension accumulations, then the participation in a pension fund will be problematic because of having a dread of fund's ruin, that also can repel the main part of potential participants.

The alternative of choosing a private or state management of fund also have its positive and negative sides:

Voluntary pension funds managed by a state have their following advantages:

- they are supported by governmental guarantees;
- no threat of arising of spurious pension plans;
- no requirements of significant changes in a pension legislation;
- it is possible to achieve significant economy on scale of a fund's assets management, because state funds will not be so many.

Besides, state management has its disadvantages:

- return rate, as a rule, is lower than of funds with private management;
- investments are less differentiated and, therefore, risks are higher;
- temptation to use these means to state's needs.

On the other side, pension funds, based on a private management also have disadvantages, expressed in:

- high potential of presence of spurious plans;
- necessity of control reinforcement of their activity;
- necessity in reliable functioning supporting institutes of a financial sector;
- comparatively high expenses of administration owing to necessity of maximum diversification of means.

Choice between plans with “fixed pensions” or “fixed dues” also is enough difficult.

In plans with fixed pensions, the volume of a future pension is defined according to the time of dues' payment and their volume. On practice, plans with fixed pensions is structured in such way, so that provide employers with large length of service with a pension on volume not less than 30% of their definite salaries.

There are 4 main advantages of plans with fixed pensions:

- they guarantee well-known substitution rate of a pre-pension salary;
- they have fitted protection from longevity, because pensions are paid monthly during all life;
- they can guarantee minimum pension to employers with large length of service, but insignificant salary;

- pensions can be easily indexed in accordance with inflation rate.

At the same time, such plans have some disadvantages:

- cross-subsidies, expressed in that pensions are distributed among those pensioners, who die in an early age in favor of long-living pensioners;
- vagueness of dues rate;
- risk of insolvency;
- expensive regulation.

However also plans with fixed dues, defined by sum of dues, which have been payed in to the account of an employer, and investment return on this account, have some considerable disadvantages:

- they don't guarantee predicted substitution rate;
- individual employer takes all risks of investment market on himself;
- practically there is no fixed protection from longevity, because for that it is important to have large quantity of highly qualified actuaries;
- to perform actuary calculations and presence of developed insurance system.

Therefore, choice of optimal pension system for Uzbekistan, based on voluntary basis, leads to the choice of indicated variants and their combination.

The Uzbek Strategy of Private Pension Funds Creation

The creation of the private pension funds in Uzbekistan should be based on the following directions:

- The private pension system should be only the additional element to the state pension system. The reason is that state pension system enhances almost all employees, but the private pension funds are attractive only for highly paid and healthy employees. Those who have low salaries and illnesses could not afford reasonable pension payments.
- Private pension system in Uzbekistan should be based on voluntary participation of employers and employees. Contractual relations between private pension fund and payers (individual worker and/or employer) provide this voluntary participation.
- These pension funds should be created as an independent juridical person, responsible with all its capital to its participants. The state is not responsible for funds' liabilities and pension fund is not responsible for liabilities of founders and state.
- The capitalized assets of the pension fund with investment income are under ownership of its participants. The share of participants depend on their payments and investment income.
- At initial period these pension funds could be established by financially stable companies for own employees and members of their families, and commercial banks. It is also possible to establish pension fund with participation of several companies working in similar sector or on the same territory. Some economists and international experts refuse the idea of joining of several companies in establishing their own pension fund and by corporations, by motivating this temptation of investing means in an own production, that can promote the decrease of investment revenue level. However, transmission of functions on management of fund's assets to an independent specialized managerial company removes such risk. At the same time, creation of non-government pension funds by big enterprises and corporations allows in short time to provide indispensable quantity of participants, from whom effectiveness of these funds' functioning depends very

considerably. Practice of the USA, European countries, Russia shows opportunities and sufficient effectiveness of non-government pension funds' functioning created on sector and corporate principles.

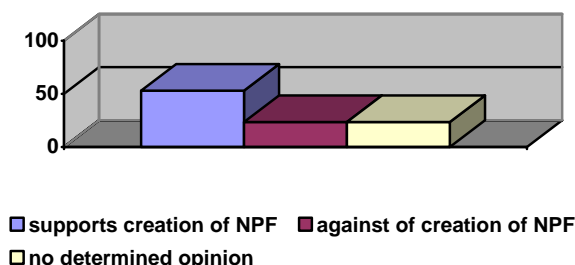
- The activity of non-government funds has to be subject to government's obligatory licensing.
- The activity of non-government funds has to be directed only to: accumulation of pension dues; accumulation of pension reserves; calculation (registration) of pension obligations; payment of non-government pensions to the participants of the pension fund.
- Dues assignment to a non-government pension fund has to be fulfilled not only to employers but also to employers on the base of collective agreements.
- With a view of establishing necessary stimuli for the participation in a non-government pension fund of employees and employers, it is expedient to use the scheme of taxation. It is necessary to foresee an exception from taxation base of sums due by employees and employers to a non-government pension fund with further stopped income tax from sums paid with a view to a non-government pension to the funds' participants. Such scheme of taxation, known as "EET", simplifies taxation mechanism, excludes an opportunity of double taxation and is widely used in Western countries.
- The pension assets of a non-government pension fund must be stored on personal accounts of the fund's participants, who should also have an opportunity to control the condition of their personal accounts. However, it doesn't assume opening of personal banking accounts of the participants. Personified registration of pension accumulations is fulfilled by the execute organ of a non-government pension fund.
- One of the obligations of non-government pension funds' functioning is power distribution on management and storage of pension assets. For all that managing company and institutes, providing storage of fund's assets can't be the same person. Power distribution on management and storage of pension assets among independent from each other organizations are to secure an extra protection level of pension accumulation

The activity of non-government pension funds, and also control for their activity have to be regulated by a separate legislation.

Perspectives of Establishing Non-government Pension Funds

For potential analysis of population's participation in the activity of a non-government pension fund there have been carried out an inspection of 153 large companies of the Republic of Uzbekistan, covering 270 thousand employers, which makes 2.9% of total quantity of employed population. Total fund of payments on these companies in 2001 was 95.7 billion sums, and an average monthly salary was 30427 sums (Appendix 1).¹

Figure 1. Results of the Survey on Creation of NPV, in %



¹ "Ekonomicheskoe obozrenie" magazine, # 10-11.2002. Page 9.

The analysis showed that:

- 9.2% of inspected companies, 3582 extra pensions are paid, which makes 8.7% of total number of employers in the companies;
- 52.9% of companies supported while 23.5% didn't support of the idea of establishing a non-government pension fund;
- within the number of employees, who support NPF, a portion of highly-paid employees and those older than 40 years old predominates;
- 58% of companies consider, that volume of additional pension should make 50% of existing pension;
- 54% of the companies have desired to pay dues to NPF for their employees;
- 44.4% of the companies think that dues have to be excluded from taxation base, while 22% think that dues have to be included to cost price;
- 53% of the companies think that establishment of NPF will promote the security of personnel, and 39% - to improvement of a socio-psychological climate.

An estimation of financial resources for forming of NPF was carried out on the basis of distribution of employers according to salaries. Only categories of highly-paid employers of the companies agreed to take part in the inspection, there are 14 categories of highly-paid employers out of 50, i.e. 1274 thousand persons.

According to calculations, an average monthly salary of highly-paid employers in 2002 will be 56.4 thousand sums, and their number will increase up to 1299.5 thousand of people. Total assignments per annum to NPF are estimated about 44 billion sums under condition that 5% of average monthly salary will be transferred to NPF for each employer.

Total financial resources of NPF at the end of 2003 taking into account forecasting income rate on refinancing tariffs is estimated at the volume of 52.8 billion sums in comparison with 44 billion sums at the beginning of the year.

With a view of effective management of financial resources of NPF, managing companies are offered the following directions of their investing: to bonds at volume of 25% of total resources, bonds of Central Bank – 25%, commercial bank deposits – 15%, companies' stocks – 30%, foreign market stocks – 5% depending on their profitability, inflation rate and expenses tariffs of managing companies (Appendix 2-3).

The volumes of extra pensions, paid to participants of NPF, ingeniously depend on duration of dues' payment, the volume of salaries, real profitability from investment means of NPF and duration of payments. Calculations carried out on 14 more highly-paid categories of employers shows that an average volume of a non-government extra pension, paid from NPF, will make more than 15% of an average volume of a government pension while participation duration in NPF during 10 years, more than 30% - while participation duration in NPF during 20 years and about 50% - while participation duration in NPF during 30 years. In total, calculation results satisfy inquiries of the majority of the questioned companies.

The calculations were carried out under conditions of profitability of NPF at the volume of 1.4%. in case of increase of profitability of NPF up to 3%, the volume of extra pensions will increase up to 17%, 34% and 53% respectively of the volume of an average monthly government pension.

Macroeconomic aspects of pension systems' perfection

Nowadays in the structure of GDP salary fund make approximately 33.1%, gross revenue of economy – 53.6%, including companies revenue – 18.9%. Total assignment tariff on social insurance to a pension fund makes 37.3% of salary fund.

In case of perfection of current pension system (Appendix 4) by liquidating institutes of privilege pensions, equalizing retirement of male and female, and distributing the part of pension expenses to a state budget unusual to a pension fund, there is a possibility of

decreasing of taxes for social assignments to a pension fund to 26% of salary fund. This will allow to optimize expense part of PF and establish 3 month normative of stock of a pension payment, and also reduce the fund's expenses by 30% or by 100 billion sums in the prices of 2001.

Besides, decrease of taxes on social assignments to a pension fund to 26% allow, according to estimations, to legalize shady income of householders at the volume of 3.7% of GDP, i.e. 182.7 billion sums, that respectively increases the volume of GDP and tax receipts to budget and social assignments to a pension fund (Appendix 5).

Besides, salary fund in the structure of GDP will increase to 33.5%, and companies revenues from 18.9 to 19.9%.

Increase of gross income of companies will positively influence on the growth of investments at the expense of means of companies, the share of which in the structure of GDP will increase from 6.8% to 8.4%. The share of total investments in GDP will reach 25.2% in comparison with 24.5%. real investment growth, will increase totally by 8.4%. Under conditions of Uzbekistan for providing 1% of GDP growth, the growth of investments should increase by 5.5% (ICOR), then total real growth of GDP will make 1.5%.

One of the important sources of investment growth is means of NPF, because the basic part of these financial resources will be invested to a real sector of economy through deposits in commercial banks and purchase of stocks of highly-profitable companies (portfolio investments). On these purposes it is provided to direct about 45% of all resources NPF. About half of resources will be directed on purchase of treasury-bills and bonds of the Central Bank. The latter, on the one hand, are with low risk, on the other hand- will serve as one of the important means directed on the reduction of the inflation.

Thus, macroeconomic consequences of the given circumstance are:

positive:

An opportunity to reduce allocations on social insurance from wage fund from 37.3 to 26% will increase the fund by 0.4% or 108.7 billion sums. This, in its turn, will decrease of the cost price, growth of the profit and investment opportunities of the enterprises and organizations.

Share of investments in GDP will increase from 24.5 to 25.2%, which will ensure additional increase of GDP by 1.5%.

There will be a real opportunity of significant growth of standard of living of pensioners through increase of additional payment.

Legalization of shadow income (due to calculations, by 3.7% of GDP) and increase of GDP by 1.5% will allow to additionally increase allocations to pension fund by 22.7 billion of sums and income tax to budget by 21.7 billion of sums.

negative:

The allocations, not peculiar to pension fund, to budget will increase its expenditures, approximately, by 100 billion of sums, which will lead to the increase of budget deficit from 1 to 1.5% of GDP. However, budget deficit will not exceed maximum permissible level for transitional countries (3% of GDP), which can be covered by non-inflationary sources, including treasury-bills, and, further, at the expense of financial resources of non-government pension funds.

Perfection Issues of the Pension System of the Republic of Uzbekistan

Pension system of the Republic Uzbekistan functions in accordance with the Law “About state pension maintenance of the citizens”, adopted in 1993. (There is also the Law “About pension maintenance of the military personnel” adopted in the republic). The basic characteristics of the system are that it is an obligatory state system based on the principle of solidarity of generations - the pensioners receive payments from state fund, whose financial resources are formed by the allocations from wage funds of the working at present.

The amount of the pension is estimated under the scheme: (1) base part; (2) raised part for seniority; (3) extra rise in pensions due to some conditions. Conditions of acquiring pensions are (a) old age (pension age), (b) disability (pension on physical disablement), (c) loss of the bread-winner (pension in a case of loss of the bread-winner). The amount of the pension depends on the experience of work and monthly average earnings for 5 years in succession from whole labor period. It is a typical monopolized state pension system with single rate of allocations (dues) of all enterprises and uniform conditions of pension payments to workers irrespective of, to what category of the workers they concern (benefits are not taken into account). The number of the pensioners amounts to about 2.5 million of people, where as the number of working people is 8.2 million persons, which means “pensioner/worker” is 1:3.3. The amount of allocations to the pension system (excluding other kinds of social allocations to the Pension Fund) is about 27% of wage funds, the biggest in the world. These two circumstances - small weight of the pensioners in population and the high rates of allocations, were financial sources of the pension system of the republic, sufficient for maintenance of the rather high incomes of the middle age people.

Table 3. Pensions and grants in total incomes of the population, midst of 90s, in %

	Weight of population, younger than able-bodied citizens	Weight of population, older than able-bodied citizens	Weight of pensions and grants, in total incomes of the population
Azerbaijan	35	10.5	10.9
Belarus	23.9	20.6	16.0
Georgia	27.0	16.0	12.6
Moldova	29.0	15.8	14.9
Tajikistan	45.8	7.4	11.5
Turkmenistan	-	-	13.9
Uzbekistan	43.1	7.7	17.9
Russia	23.3	20.0	15.0

Source: World Bank

It is seen from table, that the highest weight of pensions and grants in total incomes of the population is in Uzbekistan, where as weight of pensioners – one of the highest. However, world tendencies – aging of the population and excessive burden on economy more and more affects the republic, creating here problems in financial maintenance and demanding transformation, which comply not only with demographic, but also macroeconomic and social conditions of forming market economy. According to the specialists of the World Bank, the number of population in 2000 will amount to 25 million of people and after 50 years this number will double, and the number of people over 60 will increase.

Table 4. Weight of people over 60 in different countries

	1990	2020	2050
Kazakhstan	10	17	26
Kyrgyzstan	9	12	33
Uzbekistan	6	10	22
Russia	17	24	28
Germany	20	30	33
Japan	17	31	34
USA	17	25	29
Chile	9	16	26
China	9	16	26

Source: World Bank

It is seen, that despite the lowest weight of middle age people, the rate of ageing growth of the Republic of Uzbekistan exceeds that of other countries in the table and by 2050 the republic will face the same problem as most of the developed countries have already done – extremely adverse ratio of among people of different levels.

Table 5. Ratio of Pensioners to Employed, and Age Category

	Ratio of pensioners to employed	Ratio of people over 60 to people of 20-50 age
Kazakhstan	56	18
Russia	46	31
Kyrgyz tan	34	20
Uzbekistan	34	15
Ukraine	50	35
Czech Republic	49	32
Hungary	66	36
USA	31	30
Switzerland	43	34

Source: World Bank

In perspective, in Uzbekistan in connection with rate of growth of the population and its ageing the worsening of the situation is predicted: if today the ratio of pensioner to employed is 1:3, then in 2000 – 2.8 and in 2050 – 1.4.

Taking into consideration, that pension reforms are of long period and touch many aspects of society's development, its urgency is obvious. Since, strictly speaking, the essence of pension reforms consists of fundamental change in principles and mechanisms of its organization, management and financing, namely, of implementation and development of private insurance either on terms of existence of traditional state system, or on terms of its total replacement, and the rest is just an improvement of existing pension maintenance and its adaptation to new economic and social realities, the reformation of pension system could be considered in two directions:

- 1 – improvement of existing system;
- 2 – implementation of accumulation principles and capitalization of pension maintenance.

An intensive work according to these direction is being done in the republic: significant changes are being adopted with the purpose of its adaptation to market conditions and, simultaneously, a base for accumulation is being prepared.

During last several years, group of specialists of the Ministry of social maintenance with the attraction of the advisers from various international organizations has prepared the Project of the concept of reforming of pension system in Uzbekistan. It focuses on the

creation of multi-component pension system, and also packages of the prime laws, the acceptance of which will initiate process of transition to mixed solidary-accumulative system. (“About state social insurance” (1998-1999), “About non-government social insurance” (1998-1999)”, “About government pension maintenance of the citizens” (1999-2000), “About non-government pension funds” (1998-2000).

The necessity of radical reforms of pension system is caused not only by growth of a share of the persons of pension age. The important factor is the reduction of share of wages in GDP. The transitional period is characterized by outflow of a part of a labor force of self-engaged category, expansion of illegal economy and understating of wage fund in the reports of small and medium enterprises, decrease of employed in production.

As in existing pension system the amount of pensions of the workers depends on the amount of wages, the tendency of decrease of wage’s share in GDP, though can result in reduction of the pension payment in long-term prospect, but in short-term - will result in deficiency of pension fund, as the payments are going with decreased wages, and current pensions are paid in accordance with last higher wage. To ensure timeliness of payments of pensions, not reducing thus their amount it is possible to bring a range of changes to parameters of an existing pension system and to external conditions ensuring its functioning. In general, these changes can be the following:

- reconsideration of norms and conditions of pension maintenance;
- computerization of pension system is carried out;
- the problems, connected to financing of payments of pensions are decided;
- indexation of the last earnings is carried out;
- administrative - technical expenses, connected to pension payments, are reduced;
- number of professions, giving the right to the to early and privileged to retire on a pension;
- number of payments, not of insurance character, are abolished;
- the question on change of age of retirement on a pension and rates of social allocations, is put on agenda.

All these changes are connected that the concept “pension insurance” is more and more filled with the real contents, that in its turn, requires elimination of practice of an early and preferential retirement on a pension, when the certain category of the persons can long before established age (55- women, 60 - men) apply for reception of pension financed at the expense of payments of other persons. In the republic the quota of the addressees of preferential pensions steadily increases: if in 1992 its share in an aggregate number of the pensioners on age made 22%, by the beginning of 1998 - 31.4%. On accounts of the experts of the Ministry of social maintenance the cancellation of this kind of pensions will allow to lower the expenses of pension system by 4.5 billions sums and to ensure, in addition, 5 billions sums. The number of pensioners, retired because of disablement for this period has increased twice. And today, this number makes about 18% of all persons receiving pension in accordance with the law “About government pension maintenance of the citizens”. This growth can be explained by misuses, assumed by certain officials, who execute retirements on pension on physical disablement. The majority of them are not the heavy invalids and, having pensions they continue to work, receiving the incomes. In western countries the opportunity of an early retirements on pension is based on funds created by efforts of the pensioners before the time of official pension age and in case of realization of this opportunity they receive, as a rule, lowered pension. As if to the workers of separate professions, working conditions of which result in premature «deterioration» of a labor force and because of

industrial features for them the lower age of retirement on pension is established, then it would be fair, if the expenses connected to an early retirement of these persons on pension were carried by their employers. In other words, it would be rational to establish additional allocations from wage fund of some workers of separate branches of industry, agriculture, culture and sports, public health services, education and others either in general pension fund (under conditions of their special account), or in additional professional pension funds, as it is accepted in many countries, where there are tens and hundreds of various base and additional pension regimes which take into account socio-economic features of various spheres of economy and specific features of separate professions.

The tendency to an individualization of the responsibility in the system of social insurance is shown not only in allocation of a degree of participation of separate groups of the workers in formation of means, but also of every individual. In 1982 American economists for the first time offered the accounts of personal social maintenance, basic sense of which consist in overcoming injustice in existing system through division its two functions of redistribution and insurance. According to their proposals everyone should have own account. The state would provide indexed to inflation returning of the paid taxes. The level of insurance payments should be defined on actuarial basis, which would provide to all families identical percent of return of their payments. The brought sums can be used for purchase of various types of the insurance policies: (1) payments on old age for the heads of family and their spouses; (2) payments to the surviving spouse; (3) payment to children-dependants who have survived the parents; (4) payment on disablement; (5) insurance of health in declining years. In middle of the 90s practice of introduction of personified accounts has taken its roots in CIS. In particular, in the separate regions of Russia and Kyrgyzstan have already used them.

Light scheme of the account looks as follows:

- the personal account for every worker for the account of insurance payments is entered which is constant number in all territory of the country;
- the employers make payments to the name on the account of each worker depending on his/her earnings and amount, established by the state, of allocations;
- under that number the certificate of insurance - legal document, showed at shifts and for the purpose of pensions – is given out;
- a worker has an opportunity to supervise over administration of the enterprise, receiving from the pension fund information on the sums of the payments which have acted on his/her personal account.

In the republic the transition to personal account is planned, but its introduction rests on perfection of ensuring systems and first of all in the decision of a problem (à) of a computerization of services of pension maintenance, as realization of such project requires the tax, processing, constant updating and tracking a huge file of the information, (b) of training of personnel for systems which are carried out now only by one educational institution of an average link and one - maximum.

As one of ways of reduction of payments from pension fund from a beginning 1996 in republic is used reduction on 50% of pensions to the working pensioners. It was supposed, that this measure will allow, on the one hand, to save means of pension fund, and with another, stimulating a leaving of the elderly workers from workplaces to release them for free youth. But, as the workers of the Ministry of social maintenance mark, the economy of means from the given measure practically was not received, as if to the second purpose - removal of intensity in the market of work, the compelled leaving from it of the workers of pension age is qualitative, quantitatively was not compensated by the appropriate replacement by the young staff. As the posts or low paid and non-prestigious (younger attendants, operating personnel), or requiring sufficient professional experience and certain skills of work were released.

Therefore at young age there is no interest to these workplaces, or they professionally are not prepared for, them to be employed.

More expedient the introduction in existing system of concept of the insurance experience and clearing of Pension fund of payments, which have not insurance character. Now size of pensions pays off proceeding from the labor experience, which is included those periods of life of the man, when it did not work and, accordingly, the payments in Pension fund were not done. (For example, years of study, care of children, invalids and aged, or nonparticipation in work of the wives of the officers, representatives of republic in the international organizations abroad and others). For these persons at retirement on pension the sharp break between the labor and insurance experience turns out. On accounts of the experts of the Ministry Social Maintenance and Labor of the republic, the introduction of the insurance experience will allow to reduce the charges of system of pension maintenance on 19.8 billions of sum per one year. The privileges established by the state with the purposes of encouragement of growth of an educational level or performance of any social functions within the framework of family are owed by financing the social grants, and also pensions nominated on the Law on pension maintenance of the military men and the various extra charges to pensions. The realization of these measures will allow to reduce the charges of pension system on 3.8 billions sums per one year.

The question on increase of pension age is the most painful for the population. At discussion of this measure the most widespread argument against its introduction frequently uses a parameter of average duration of life, making a start from which the period of pension life pays off.

However cardinal changes of system of pension maintenance and its roles in macroeconomics are connected with introduction of memory pension funds.

But this principle in the system of social insurance can be realized only at presence of the certain conditions, among which: (à) presence of legal, normative base; (b) effectively working financial institutions; (c) the prepared staff; (d) the modern standards of book keeping; (e) the adjusted mechanism of management of the taxes; (f) the prices, determined in view of the market attitudes, including wages; (g) macroeconomic stability.

All of these conditions form the environment, which is necessary for the development of memory and non-government systems of insurance, but it is represented to us, that on the initial stage it is impossible to do without first three conditions. In republic are prepared and the projects of the several laws forming a legal basis for further reformation of the social insurance are submitted to government changes to adjust conditions and order of insurance on unemployment. The large work on perfection of existing acts, and also on development of the new documents expanding border of development of social insurance in the Republic of Uzbekistan is necessary.

The huge importance for all system of insurance has presence of the well advanced financial institutions, without which the process of capitalization of the means, assembled in insurance funds is impossible. In the country there should be a rather advanced market of the capital, on which could turn these means, thus the degree of risk should be at the level ensuring certain reliability of operations. About the basic directions of accommodation of actives of pension funds of some foreign countries gives representation the table.

Table 6. Distribution of assets of pension funds, midst of 90s

	stock	bond	real estate
United Kingdom	64.0	16.6	9.2
Netherlands	16.4	60.7	10.6
Germany	21.4	59.4	7.0
USA	33.0	28.0	20.0
Russia	30.0	25.0	-

Source: World Bank

From the table it is visible, that the basic part of assets of pension funds in all given here countries is enclosed in valuable papers and only insignificant - in the real estate, which also produces a profit. Just the operations on internal and external markets of valuable papers are the main source of updating of resources of pension funds. In republic of Uzbekistan the infrastructure of the share market is generated, its (her) components are a Republican share stock exchange of «Tashkent», National depositary “VAQT”, Agency “Konsauditinform”, and also about 600 investment institutes the received licenses for the right of realization of operations with valuable papers – stocks of privatized enterprises, discount bills of commercial banks and other managing subjects, deposit certificates and bonds of commercial banks.

By the beginning of 1998 6715 releases of securities are entered into the Uniform state register of securities, volume of issue has made 158.3 billions of sums, amount of the stocks - 301.1 millions, total volume of capitalization of the market - 14 billions of sums. However, the volumes of activity of the share market are not at that level, which corresponded to the requirements of developing market economy: the basic share of the bargains is necessary on the limited number of the large broker companies, and located mainly in Tashkent, the secondary market of valuable papers etc is very poorly advanced. The experts mark, that besides especially economic forces, on the market of valuable papers renders constraining influence a number(line) of the accepted recently acts, for example Decree of the President of the Republic of Uzbekistan from March 4, 1998 “About measures on the further development of the share market and support of the joint-stock companies created on the basis of a state ownership” and the Decision of a Study of the Ministers ¹ 26 from March 5 of the same year “About results of check of realization of the established order of accommodation of the stocks in joint-stock companies, created on the basis of the state enterprises” (Market, money and credit, May, 1998, page70).

Alongside with the further development of the financial market, an important precondition of successful reforming of system of insurance is the training of personnel, is especial those, the need in which at old system was absent. The speech goes first of all about actuaries, which activity makes methodological base of organization of social and private insurance, as just they carry out an economic estimation of risk in various spheres of human life - pension maintenance, estimation of indemnifications in connection with industrial traumatism, protection of health of the population some problems arising in the field of the rights of life-hold possession of property.

Actuaries define size of insurance payments; establish the sizes and structure of insurance reserves, sufficient for maintenance of stability of operations; forecast of financial stability of the insurance company; prove procedure underwriting (method of an estimation of individual risk for revealing an opportunity of granting of the discounts or, on the contrary, increase of the insurance premium). At the decision of these scientific and practical tasks, they provide the approaches specific to conditions of market economy:

- estimation of risk in the economic form;
- probabilistic character of risky process;
- account of change of cost of money in time;
- change of structure of risks in time caused not only demographic, but also organized-economic and legal aspects of compensation of financial losses caused by the appropriate risks;
- conservatism understood as necessity of increase actuary of an estimation of risk at increase of the obligations of system of financial protection.

The preparation of actuaries can be carried out and abroad, and in high schools of the republic, that will require serious is scientific - methodical, organizational preparation.

Conclusion

The current pension system of the Republic of Uzbekistan is not strong enough from the financial point of view.

High taxes on obligatory payments and allocations to off-budget Pension fund raise the cost price and reduce competitiveness of the national companies in the market of the goods and services, hinder growth of wages and promote concealment of the incomes and decrease of receipts to Pension fund. **Decrease of the levels of obligatory payments and allocations to the Pension fund, and increase of the scope of collected taxes are needed.**

A weak dependence of the amount of pensions on duration of participation in Pension fund reduces a level of financial durability of pension system.

For strengthening of financial sustainability of pension system, the following measures need to be considered:

- equalization of conditions of pension maintenance for all groups of the population;
- liquidation or, at least, essential reduction of preferential pensions;
- introduction of the concept "insurance experience" instead of "labor experience";
- exception of an account part of Pension fund of payments, not secured by the income sources.

The creation of system of non-government pension funds, functioning on the principles of voluntarism and accumulation of pension means, will promote increase of the real incomes of the pensioners, development of the financial markets and attraction of additional investments to the national economy.

For the sake of realization of reforms it is very important to accept and legislatively adopt Concept of the reform of social maintenance. The Concept should define the order and stages of the realization of reforms, designate contours, terms and responsible people for each stage, and also establish basic directions of estimated changes.

At the first stage, after adoption of the Concept, it is necessary to issue the Laws **"About government social insurance"** and **"About non-government social insurance"**.

At the next stage, it is necessary to develop and to accept the new Law **"About government pension maintenance of the citizens"**, taking into account socio-economic changes and conditions of the Republic of Uzbekistan.

Simultaneously, it is necessary to accept the Law **"About non-government pension funds"**, ensuring citizens additional social protection.

By the next stage, it is rational to elaborate and to accept the Law **"About the social assistance for indigent families"**, the basic task of which is the maintenance of the address social assistance and precise definition of the tasks before each government institute.

The question on reconsideration of generally established age is rationally to be carried out stage step-by-step within 20 years.

Irrespective of term of a beginning and realization of reforms, now it is necessary to make changes to the system, modernizing earnings of the last years, which will be based on the principle of the individual contribution factor.

Appendices

Table 1

Financial Aid to Participants of the II World War, since 1999

	Number of people	Size of payment (sums)	Total (mln. sums)
The Republic of Karakalpakistan	3184	2640	8.515
Andijan	5144	2640	13.757
Buhara	3402	2640	9.098
Djizak	2085	2640	5.576
Kashkadarya	4380	2640	11.713
Navaiy	2603	2640	6.961
Namangan	5036	2640	13.468
Samarkand	9073	2640	24.264
Sirdarya	1265	2640	3.383
Surhandarya	3289	2640	8.796
Tashkent	7398	2640	19.785
Fergana	7346	2640	19.646
Harezm	4268	2640	11.414
Tashkent city	9980	2640	26.690
Total	68453		183.066

Table 2

Transfer Payments to Families with Children under 16 years of Age, since 2000.

Districts	Number of families	those, who get payment	% of them in total	sum on transfers(mln.sum)	average size of payments
The Republic of Karakalpakistan	244679	70520	28.8	173.1	2455
Andijan	411381	76726	18.7	184.8	2409
Buhara	260284	41248	15.8	94.1	2281
Djizak	171646	34797	20.3	10.2	2931
Kashkadarya	369594	80404	21.8	201.5	2506
Navaiy	144883	32388	22.4	72.5	2238
Namangan	354771	87778	24.7	204.4	2329
Samarkand	499255	97352	19.5	237.4	2439
Sirdarya	116522	26054	22.4	60.8	2334
Surhandarya	307258	66386	21.6	169.0	2546
Tashkent	419876	69550	16.6	165.7	2382
Fergana	490788	107409	21.9	249.5	2323
Harezm	248356	50470	20.3	118.9	2356
Tashkent city	369741	42046	11.4	88.3	2100
Total	4409034	883128	20.0	2122.0	2403

Table 3

Transfer payments to non-working mothers for bringing up the children under 2 years of age

Districts	Number of families those who get payment			Recievers' growth quantity for 01.12.2000 to 1996 (%)	Operating transfers' quantity 1.5 th. Earnings (sum)	Sum of monthly transfers
	for 01.01.96	for 01.01.99	1.12.2000			
The Republic of Karakalpakistan	9846	32435	35876	364.4	2625	94.2
Andijan	29385	44373	50304	171.2	2625	132.0
Buhara	6726	20520	27935	415.3	2625	73.3
Djizak	24589	29729	32264	131.2	2625	84.7
Kashkadarya	40159	60074	66290	165.1	2625	174.0
Navaiy	7726	14157	16117	208.6	2625	42.3
Namangan	17539	50592	52362	298.5	2625	137.5
Samarkand	30724	53695	60432	196.7	2625	158.6
Sirdarya	5243	14530	15076	287.5	2625	39.6
Surhandarya	29374	43482	53617	182.5	2625	140.7
Tashkent	25629	41205	43695	170.5	2625	114.7
Fergana	11200	40178	51574	460.5	2625	135.4
Harezmi	21170	32882	33778	159.6	2625	88.7
Tashkent city	10771	21695	24126	224.0	2625	63.3
Total	270081	499547	563446	208.6	2625	1056.1

Table 4

Transfers payments from Pension, 2000

	Number of recievers	Sum for 2000 year (mln.sum)	Number of recievers
1. Transfer payments for pregnancy	292750	2911,6	206276
2. Transfer payments for birth of child (2 minimal salaries)	267426	525,4	201503
3. Transfer payments for unemployed for a while	2243604	5424,5	1525025
4. Transfer payments for funeral (3 minimal salaries)	29831	80,8	17795
Total:	2833611	8942,3	1950599

Table 5

Average Life Expectancy of People, who are 60 or more

CIS countries	Male	Female	Pension age M/F
Russia	10.7	14.9	60/55
Kazakhstan	12.4	16.2	60/55
Kyrgyzstan	12.3	15.7	60/55
Turkmenistan	12.2	15.1	60/55
Uzbekistan	14	16.9	60/55
Azerbaijan	13.5	17.4	60/55

Life expectancy of pensioners

USA	14.8	18.6	65/55
Austria	13	16.8	65/55
Germany	13.8	17.8	65/55

Source: International statistics committee of CIS
Demographic yearly M. 1993,1995

Table 6**Population of Uzbekistan (mln. People)**

Years	Population
1950	6.3
1960	8.5
1970	11.8
1980	15.8
1990	20.2
2000	25
2020	31*
2050	50*

Rate of growth: 2000 year to 1950 year= 3.27 times
: 2050 year to 2000 year= 2.8 times

Main Differences in Structure of Pension System

- Obligatory (governmental) vs. Voluntary (non- governmental) Pension System
 - For most, non government = private
- Cumulative vs. Distributive
 - Distributive is also called as “pay- as- you- go” (PAYG)
 - Cumulative is also called as capitalized or financed
- Personal income vs. Redistribution
- Insurance vs. General Programs
- Single vs. Several Systems
 - Professional vs. industrial
 - Urban vs. non-urban
 - Self employed vs. engaged
 - Systems with selection right
- Centralized vs. non- centralized

- Social vs. private management
- Determined (DB) vs. determined contributions (DC)

Practice in European countries

- “ Classical system in postwar Europe presented unitary, with determined b , centrally managing “insurance” system using mainly distributive system of financing
---- But some countries (Sweden, Japan and can be USA) used combination of distributive and cumulative systems for financing their centralized system;
- Countries differentiate by the degree of redistribution, they want to have inside insurance systems vs. outside systems on bases of evaluation of means for existence or other programs (for example general programs)

Different Variants

- Germany, France has big distribution system and small sector of voluntary system.
- USA and Canada have average size of redistribution system and relatively big voluntary sector.
- Scandinavians have general programs as a part of all systems.
- Holland, Sweden, Denmark, Switzerland has obligatory or almost obligatory component in general system.

Even more differences:

- Australia mainly leaning against relatively big program based on evaluation of means for existence of elderly population (in present has also schemes on obligatory financing of workers)
- Great Britain has two circles:
 1. Main pension on distributive base and
 2. Circle connected with revenues, but with right of transition to financing plans as alternative for workers and now private person

Other Models

(“Virtual” account with determined contributions)

- Way to distributive system with new virtual account with determined contributions
-- Begin to develop simultaneously in Sweden, Italy, and China (?)
-- Embedded in Latvia, seriously discussing in Poland, Mongolia.
- System mainly staying distributive with determined b , but it can be partially financed and pass on some risks from system to private persons
- Using mechanisms of determined contributions for increasing stimulus and long term life expectancy
- Helping in transition to obligatory “two support” system (recommended way of Bank is examined below).

Other Models

- Inheritance of British Empire “Government Saving Fond”

-- Centralized management, determined contributions, estimated financed schemes (often not fully recovered)

-- Schemes in Singapore, Malaysia relatively necessary, but many of others not.

- Conceiving Latin American model:
 - Non- centralized and “private” management individually financed with contributions but under strong control and guarantees (often not fully recovered)
 - Occasionally combines with distributive circle; occasionally only “filling” minimum

Way recommended by the World Bank

- Obligatory system holds long term purpose relatively moderate with *or*:
 1. Combination:
 - PAYG “first support” “redistribute aid and
 - Financed “second support”, individual accounts in private management *or*.
 2. More financed “second support” with government financing “filled” minimum aid.
- Both voluntarily:
 - Schemes of employers (but preferably with determined contributions)

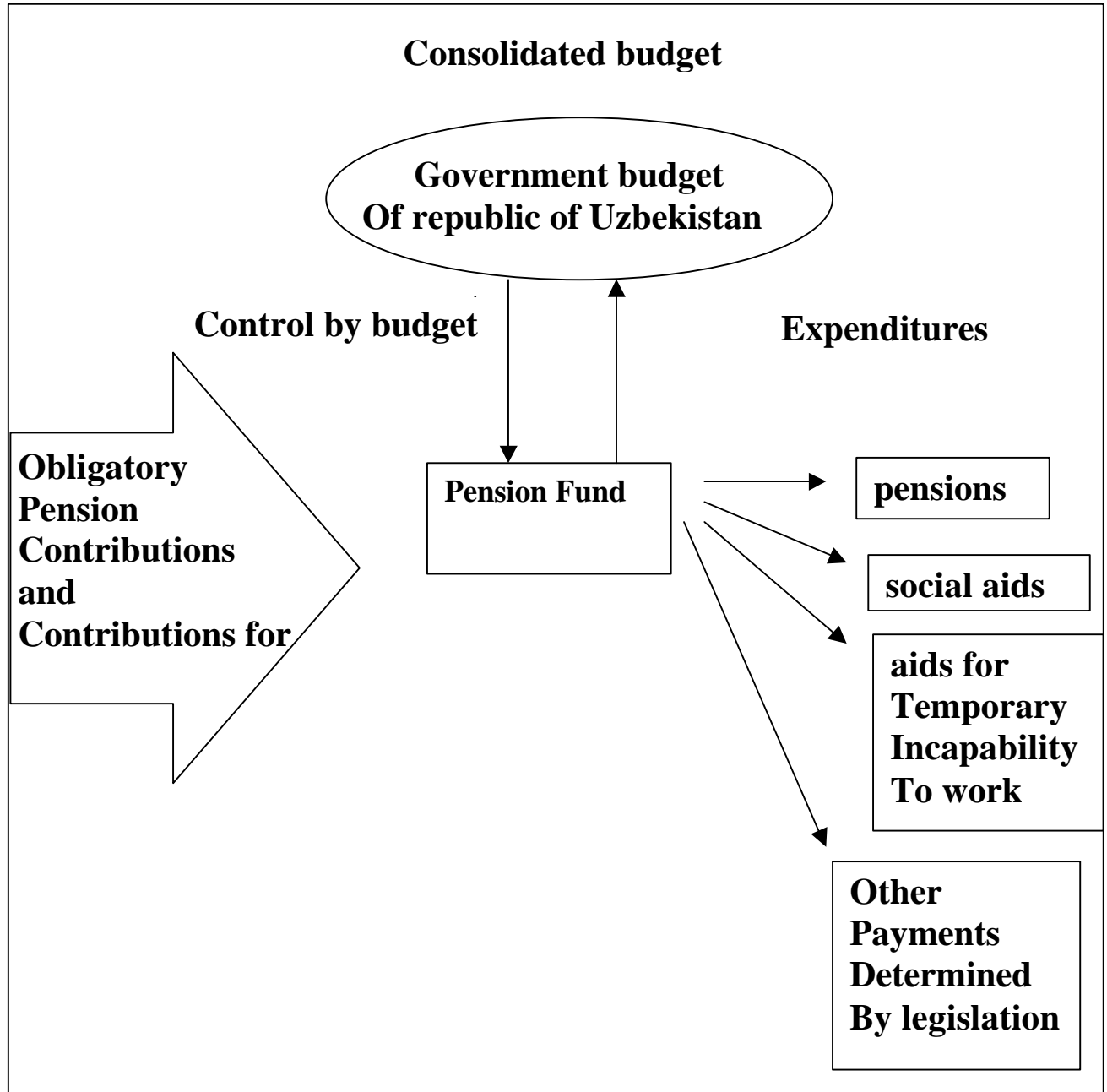
Why?

- Good stimulus for labor market (not “virtual” but “individual” accounts have such stimulus)
- Financing stimulates economic growth by:
 - Possible extension of big national savings:
 - Probably stimulation of security market, whose development can increase GDP growth till 1% to that size of savings;
- Forces development of progressive base of instructions and situations.
- Lower degree of long-term contributions.
- But exists costs of transition period, which demand “sacrifice” with some generations.

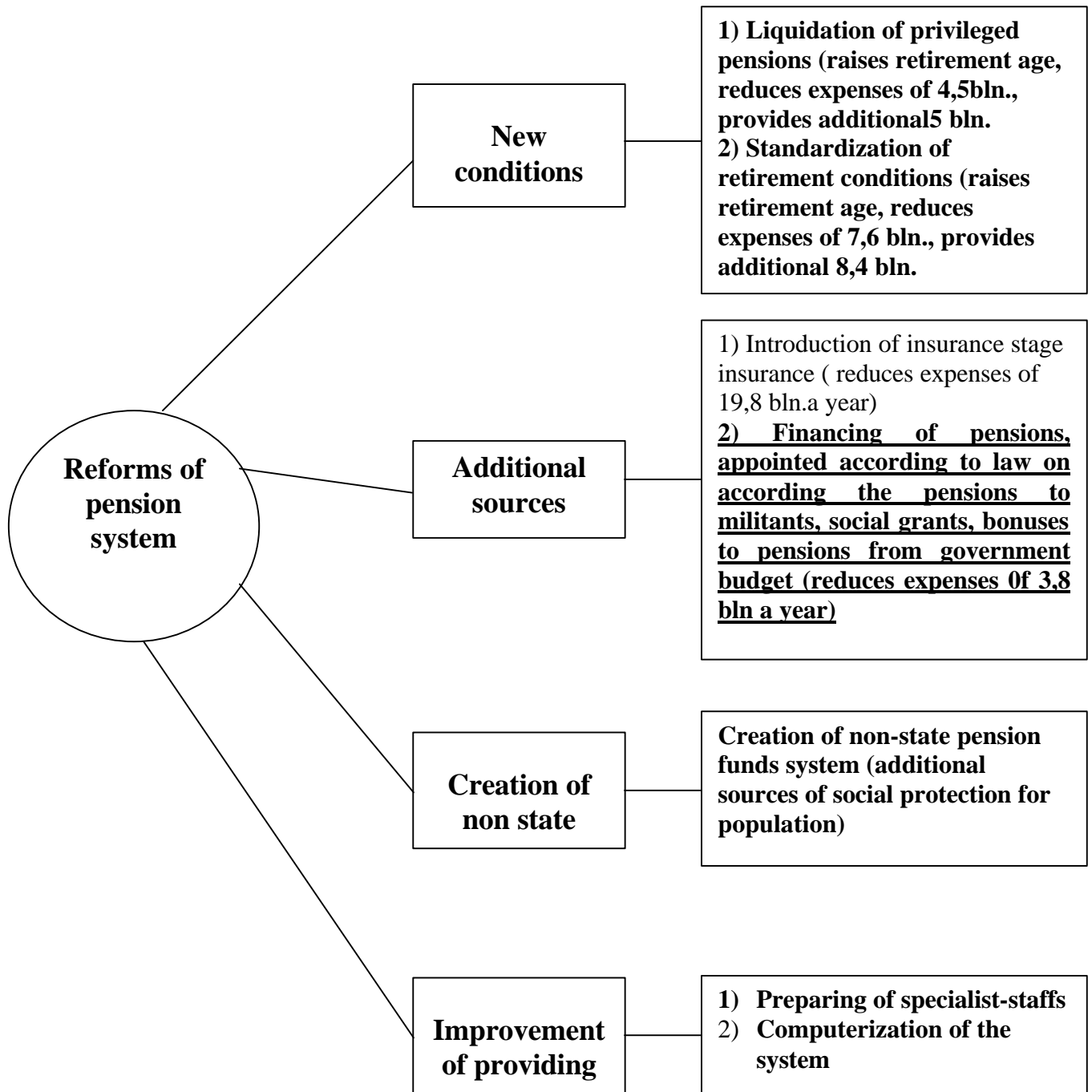
Tendency in financing social sector in countries with different revenue degrees

	Country groups	Sources of financing	Main problems
1	Countries with low revenues: GDP per capita 725 US doll and lower	<ol style="list-style-type: none"> 1. Budget- in small volume of official sector of employment, insignificant volume of savings of population, and also weak development of financial sector and organizational structures. 2. Non- official methods of obtaining aids support by territorial indication, aids of non-government and charity organizations. 	<ol style="list-style-type: none"> 1. Development of non-official means of generalizing risks- program of non-government or territorial organizations, increase using aids from foreign sources.
2	Countries with middle revenues: GDP per capita from 726 to 8955 US doll.	<ol style="list-style-type: none"> 1. Government budget. 2. Social insurance programs, including government employees and workers in official sector. 3. Growth of non- regulated private costs (insurance and direct payment). 	<ol style="list-style-type: none"> 1. Creating consecutive programs of social insurance. 2. Extension of scope of village population and non- official sector. 3. Regulation of private sector.
3	Countries with high revenues: GDP per capita more than 8955 US doll. (Situation in 1994)	<ol style="list-style-type: none"> 1. Government budget. 2. Government obligatory insurance. 3. Private insurance. 4. Direct payment. 	<ol style="list-style-type: none"> 1. Keeping degree of revenues. 2. Problems of elder population. 3. Providing high quality of services and nutrition of population.

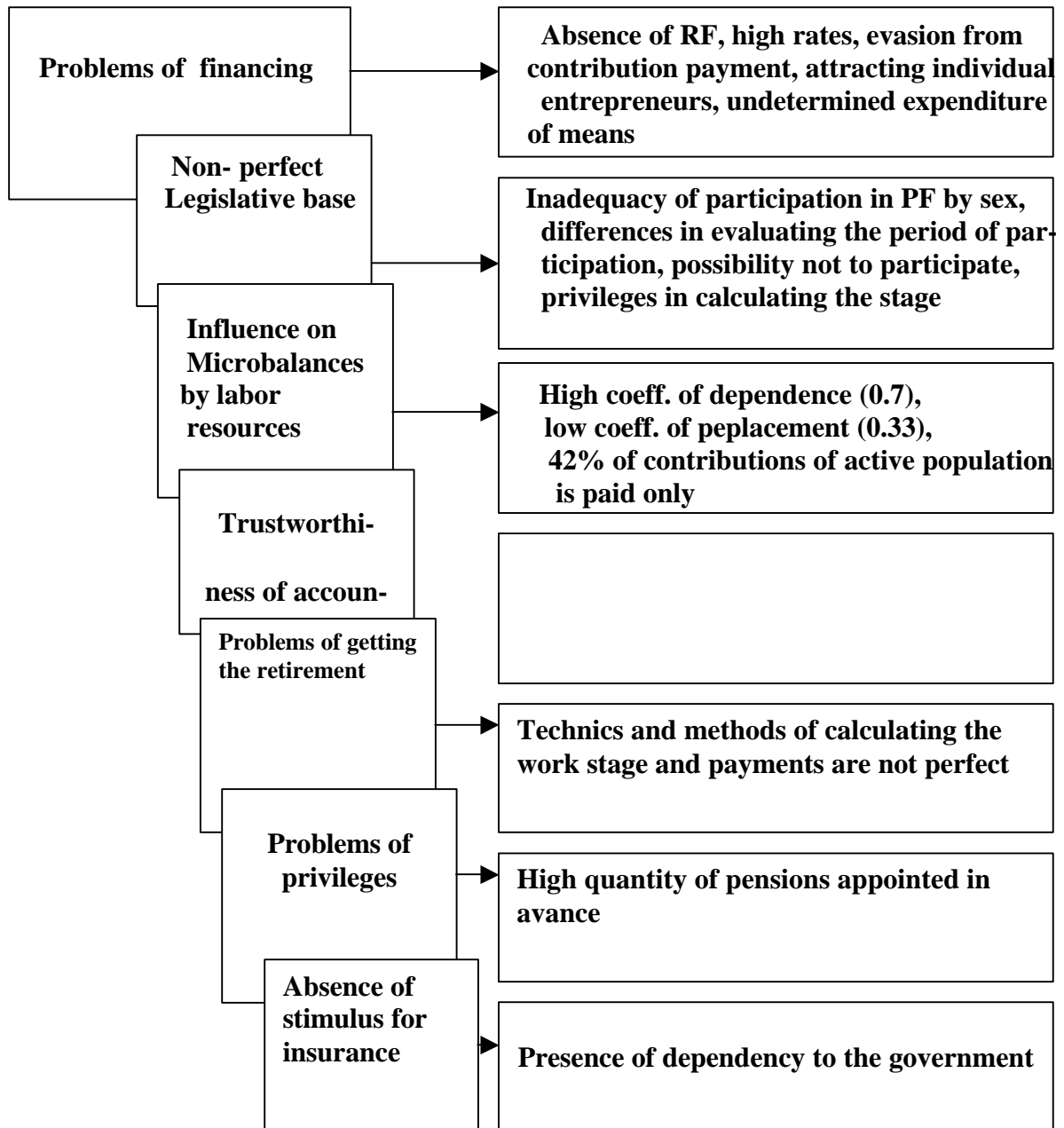
Financial support of pension system in Uzbekistan



Main Orientations of Pension Reforms



Problems



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