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ISSUES OF PENSION SYSTEM DEVELOPMENT: SOME EMPERICAL EVIDENCE

TURSUNOV JAKHONGIR PULATOVICH

Abstract

This article examines the emergence and stages of development of the pension system. The literature on the theoretical foundations of the pension system was analyzed. Pension coverage coefficients were analyzed based on the pension systems of foreign countries. Existing problems have been studied and proposals and recommendations have been developed for their elimination.

Keywords:
pension provision, social risk, social protection, solidarity system, coverage coefficient, mandatory pension provision, voluntary pension provision,

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INTRODUCTION

Pension provision is one of the most important social guarantees of the state. If the good functioning of this system ensures social stability in the society, on the contrary, problems in the pension system can cause dangerous social tensions in the society.

In this regard, the President of the Republic of Uzbekistan Shavkat Mirziyoev (2020) in his Address to the Oliy Majlis states that social protection of the population is important for the society and the state as follows: "In the last three years, based on the principle of ``Human interests are above all else," the broad efforts carried out to fundamentally improve the lives of our people we will continue large-scale social reforms. For this, first of all, improving the well-being of the population and strengthening its social protection will be one of the main tasks for us."

In recent years, there has been a need to reform existing pension systems due to socio-economic and demographic changes in many countries of the world. During the transition to a socially oriented market economy, important changes related to the implementation of economic, social and political reforms have taken place in Uzbekistan, as well as in the pension system. A two-tier pension system has been formed in Uzbekistan, that is, the state pension system based on the solidarity system and the accumulated pension system. In addition, it was established that pensions will be paid in full to working pensioners, compulsory insurance contributions collected from wages were canceled, the threshold amounts for average monthly wages determined for calculating pensions were increased, and these changes can be counted in many ways. It can be said that the last three years can be called the period of pension reform.

Despite the continuing process of reforming the pension system, the amount of pensions is still low, the ratio of the amount of the pensioner's pension to the salary received during his working life (recovery coefficient) is kept at a low level, the existence of problems in ensuring the participation of the employed in the pension system, the financial stability of the Pension Fund showing its negative effects. Also, the accumulated pension system, established in 2005, is not able to find its proper place in the national pension system and has not been able to show its significant impact on the total amount of pensions during the past 15 years.

Researching the theoretical and practical issues of creating an effective pension system in such conditions remains relevant.

LITERATURE REVIEW

German economist A. Borsch-Supan (2018) considered the main problems of reforming the pension system (private, solidarity pension system) in European countries from the point of view of the cost and the increase in the average life expectancy of the population.

Also, the laureate of the Nobel Prize in economics R. Diamond (2011) analyzed the impact of different approaches to the creation of the pension system on the labor market, savings and economic growth. In his research entitled "Economic Theory, Taxation and Pension Policy", he made a deep analysis of compulsory pension insurance.

S. Orlov and A. Shemetov (2013) were able to reveal the importance of non-state pension funds in the pension system in their monograph "Pension provision of the Russian Federation". In the monograph, they defined non-governmental pension funds as non-profit organizations that collect funds and use them to pay pensions and benefits to their members.

In the doctoral (DSc) dissertation work of Uzbek scientists D. Rustamov (2018) on the topic "Directions of ensuring the financial stability of the pension fund in Uzbekistan", the scientific and methodological basis of ensuring the financial stability of the non-budgetary Pension Fund, income and expenses were researched.

In Sh.Rajabov's (2018) PhD thesis, the theoretical and organizational foundations of non-state pension funds were studied.

International financial organizations, the Organization for Economic Cooperation and Development (IEC), the World Bank, the International Monetary Fund (IMF), and the International Labor Organization (ILO) annually study the state of the pension systems of the world's countries and their reforms.

RESEARCH METHODOLOGY

In the course of the research, the works of foreign and domestic scientists were studied and analyzed regarding the theoretical and practical foundations of the pension system. In the article, methods such as theoretical observation, systematic approach, observation, generalization and analysis were effectively used, as well as conclusions and suggestions were formed regarding the existing problems in the pension system and their solutions, as well as the tasks to be performed in this regard.

ANALYSIS AND RESULTS

It is known that social support of the elderly and persons with disabilities in society, constant attention to them has existed since the beginning of mankind. As the economy develops, due to objective reasons, i.e., economic and production factors (occupational disease, disability due to accidents, unemployment), the risk of temporary or permanent loss of working capacity, loss of income, and thus a decrease in the standard of living increases.

"The deterioration of the financial situation as a result of the loss of a job or permanent source of income for reasons of social importance, as well as the dependence of family members in need of assistance on additional expenses in meeting the need for medical and social services is called social risk or social risk." (Borisenko, 2007)

A set of measures aimed at protecting people from social risks can be called a social protection system. The system of social protection of the population has its own history of development. For the first time, social protection of the population was carried out by religious organizations. With the development of the market economy, the role of the state in the social protection system has increased.

The term "Social Security" was first used in 1935 in the US Social Security Act. According to this law, the procedure for protection against death, old age, disability and unemployment through compulsory insurance is established. Later, this term began to be widely used in other countries and in the practice of international organizations.

In modern conditions, social protection is a multi-level economic, social and legal system strengthened by law, as well as an institution designed to protect the population from social risks.

Material protection of the population from social risks is manifested in the form of social security, which is considered a separate group of economic relations. One of the main forms of social security is pension provision.

Pension provision is a set of legal and economic measures aimed at providing material support to people when they become old, become disabled, and are deprived of the main source of income specified by other relevant laws (Tursunov, 2020) .

The state pension program operating in Uzbekistan is formed on the basis of the solidarity system. The solidarity pension system is based on the payment of taxes from the wage fund of workers to the pension fund and the payment of pensions to pensioners from the pension fund. The amount of pension depends on salary and length of service. Also, the amount of salary and pension is not linked, in other words, this system provides for pensions that are not linked to the amount of contributions.

The pension system operating in our republic has passed a certain historical path, and its development has started a new stage based on the essence of reforms aimed at establishing a socially oriented market economy from the first days of independence. The development of the pension system of our country can be divided into certain stages (Table 1).

Table 1

Stages of development of the pension system in Uzbekistan[1]

No	Steps	Characteristic
1	**1917-1956 years**	The first stage is defined by the emergence of the concept of "pension". In 1917-1919, more than fifty decrees on pension provision were adopted, the main idea of which was to impose the responsibility of the society on the social provision of the disabled. in 1930The Regulation "On Pensions and Social Security Benefits" was developed, and until the adoption of the Law "On State Pension" in 1956, pensions were paid on the basis of this regulation. According to this regulation, only persons disabled due to work injury or occupational disease have the right to pension. This stage is characterized by the existence of a single pension system.
2	1956-1991 years	The second stage is characterized by the adoption of the Law "On State Pension Provision", which was adopted in 1956 and was valid until 1991, and the formation of a unified pension system for the first time. This law established a uniform procedure for the appointment, calculation and payment of pensions. By 1964, pension coverage covered all sections of the population.

[1]was compiled by the authors on the basis of information from the official website of the off-budget Pension Fund under the Ministry of Finance of the Republic of Uzbekistan www.pfru.uz.

3	1991-2005 years	The third stagethe beginning of reforms in the social security system and the law "On pension provision of citizens in the USSR" in 1990, which was its basisdetermined by acceptance. An important feature of this stage is that the concepts of pension fund, social pensions and income indexation appeared for the first time in practice.
4	2005-2010 years	The fourth stage of the new pension system in Uzbekistan is characterized by the adoption of the Law "On Accumulated Pension Provision of Citizens" on December 2, 2004, and the introduction of the new system in mandatory and voluntary forms starting from 2005.
5	since 2010	In accordance with the Decree of the President of the Republic of Uzbekistan dated December 30, 2009 "On measures to further improve the pension system of citizens" No. PF-4161, in accordance with the Law of the Republic of Uzbekistan "On the State Pension System of Citizens" and further improvement of the organizational structure of the pension system, pensions and In order to timely finance social allowances from the off-budget Pension Fund and pay them in full, as well as to strengthen control over the targeted use of funds for the pension provision of citizens of the republic, the departments of the off-budget Pension Fund under the Ministry of Finance of the Republic of Uzbekistan were established.

According to the form of ownership, pension funds in the world can be divided into state and private (non-state) funds. Management of state pension funds can be carried out not only by state bodies and institutions, but also by private organizations under state control.

In today's world, three types of state pension provision can be conditionally distinguished, depending on the level of return of the income received during the working period after reaching the retirement age.

1. State pension provision with a high level of income - in this, pensioners with full work (insurance) experience or permanent residents of the country (15-45 years old) have the right to receive a pension in the amount of more than 50 percent of the average salary. The countries with this state pension are: Austria (if you have paid insurance contributions for 45 years, the amount of pension is 89% of your income), Spain (if you have paid insurance contributions for 35 years, the amount of pension is 83% of your income), Italy (40 years 92% of his income if he paid insurance contributions for 45 years), Germany (52% of his income if he paid insurance contributions for 45 years), Portugal, Turkey, Argentina and other countries.

2. State pension provision that covers income at an average level - pensioners with full work (insurance) experience or permanent residence in the country (35-45 years old) have the right to receive a pension in the amount of up to 50% of the average salary. An example of this type is New Zealand, the United States, the United Kingdom, Japan, Poland, and Chile.

3. Low-income state pension provision - in which pensioners with full work (insurance) experience or permanent residence in the country (15-45 years old) have the right to receive a pension in the amount of not less than 50% of the average salary. This type includes Norwegian, Canadian state pensions (Finogenova, 2003).

Along with the above three levels of state pension provision, private (non-state) pension provision has been developed in parallel in order to ensure the full functioning of social protection mechanisms provided in state pension systems in developed and developing countries.

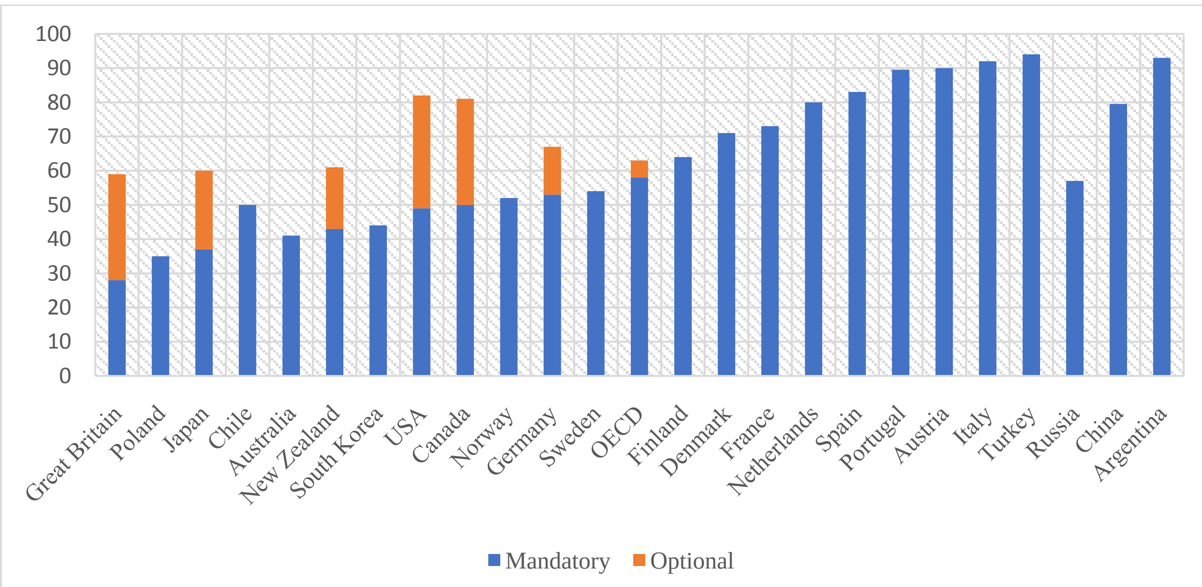

Figure 1. The ratio of the amount of the pensioner's pension to the salary received during the period of work, coverage coefficient, 2020

(Pensions at a Glance, 2021)

The report published by the Organization for Economic Co-operation and Development (IHTT) lists the compensation coefficients of the workers' pension at retirement age. This calculation reflects the data of 2020 and was analyzed on the basis of pensioners over 22 years old with full working experience. In Japan, 38% of pension funds are provided by the state, and 22% are provided by voluntary funds, making up a total of 60%.

In 36 member [2]countries of the OECD, the total coverage ratio in mandatory and voluntary pension provision was equal to 61% on average. We can see the role of voluntary

[2]Australia (1971), Austria (1961), Belgium (1961), Canada (1961), Chile (2010), Czech Republic (1995), Denmark (1961), Estonia (2010), Finland (1969), France (1961), Germany (1961), Greece (1961), Hungary (1996), Iceland (1961), Ireland (1961), Israel (2010), Italy (1962), Japan (1964), Korea (1996), Latvia (2016), Lithuania (2018),

pension provision mainly in countries such as Great Britain, Japan, USA, and Canada. In other countries, the effect of voluntary retirement was not felt.

The level of development of non-state pension provision in the country depends on meeting the population's need for a high pension, and for this, it depends on the state policy on creating favorable conditions for the organization and operation of the system. The lower the level of public pension provision in a country, the greater the level of non-state pension provision (UK) or vice versa (Germany).

To date, non-state pension provision with high coverage is in the USA, Great Britain, Ireland, the Netherlands, Belgium, Sweden, France, and Japan.

Depending on the participation in the pension system and the forms of financing, pension provision is manifested in mandatory and voluntary forms.

Mandatory pension provision means the implementation of the state social guarantee for social protection of the population in case of old age, partial or complete loss of working capacity, loss of breadwinner and other cases. Payment of pension through compulsory pension provision is carried out on the basis of the established legislation. In Uzbekistan , state pension provision is regulated within the framework of the Law "On State Pension Provision of Citizens" adopted on September 3, 1993 . In foreign experience, non-governmental organizations can also pay pensions and allowances within the framework of mandatory pensions (Chile).

Voluntary pension provision was established in order to increase and further improve the amount of pensions paid within the framework of mandatory pension provision. Voluntary pension provision is usually provided through the private sector. Participation is voluntary.

Depending on the level of pension coverage, the following forms of pension provision are distinguished:

- nationwide (universal) – covers all persons who are employed or have a certain income;
- professional or corporate - covers employees of particular industries or companies;
- territorial - includes persons who have a fixed length of service or who lived in that area for a certain period of time (in a fixed year);
- individual (personal) – intended for individual individuals.

These forms of pension provision may differ depending on the structure of each country and the features of pension provision.

Luxembourg (1961), Mexico (1994), Netherlands (1961), New Zealand (1973), Norway (1961), Poland (1996), Portugal (1961), Slovakia (2000), Slovenia (2010) , Spain (1961), Sweden (1961), Switzerland (1961), Turkey (1961), Great Britain (1961), USA (1961)

If we look at the history of the development of the national pension system, we can see that it has developed as a state. The nationwide state pension system was first established in Germany in 1889 by Chancellor Otto von Bismarck (Borisenko, 2009).

During the Second World War, national pension systems existed in countries such as Austria, Belgium, Great Britain, Spain, Italy, the USA, France, and the largest in the United States was the General Federal Program, which covered all those employed in the public and private sectors. Pensions paid on the basis of such pension systems provided only 15-20 percent of wages, since the main purpose of public pension provision was considered to be poverty alleviation. Later, due to economic growth, the level of pension coverage of the population also increased. This created the need for new pension systems (non-state, corporate) and new pension systems appeared in Switzerland (1949), the Netherlands (1957), Sweden (1960), Norway (1966) and Canada (1966). In the USA and Japan, public pension provision has been actively expanded as a result of the inclusion of wealthy people in the pension system.

Professional (corporate) pension is formed independently by employers and pensions are paid on the basis of a mutually concluded contract with the employee. Occupational pension provision has historically developed in a non-state form. By the second half of the 20th century, the importance of corporate pensions increased, and countries with a large part of the population working in this system made this pension system mandatory by law (Switzerland). Also, in Australia, employers' contributions were made mandatory for financing the occupational pension system (Chubarova, 2003).

Today, one third of the population of the developed countries of the world is covered by various non-state occupational pension systems. The level of coverage of occupational pensions for employees based on the collective agreement is 90% in Sweden, more than 80% in the Netherlands, and 70% in the USA. In the Netherlands and France, occupational pensions play an important role in the pension system. The advantage of this system is that it is managed jointly by the employer and the employees and both parties are equally responsible. In general, the role of occupational pensions is becoming increasingly important.

Territorial pension provision provides for the pension coverage of persons who have a fixed length of service or who have lived in that area for a certain (fixed year) period. Payments are made by local budgets.

Personal pension provision is carried out at the expense of funds collected in private savings accounts opened by workers in non-state pension funds, insurance companies and commercial banks.

Initially, personal pension provision was formed by employees and self-employed persons saving their own funds due to the small amount of pension provided by the state pension provision. Its development occurred as a result of a significant increase in the rate of wage

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growth in developed countries in the post-World War II period. Personal pensions play an important role in the UK and Danish pension systems today. While participation in this scheme is voluntary in Denmark, in the UK it is mandatory for anyone not participating in a national or corporate pension scheme.

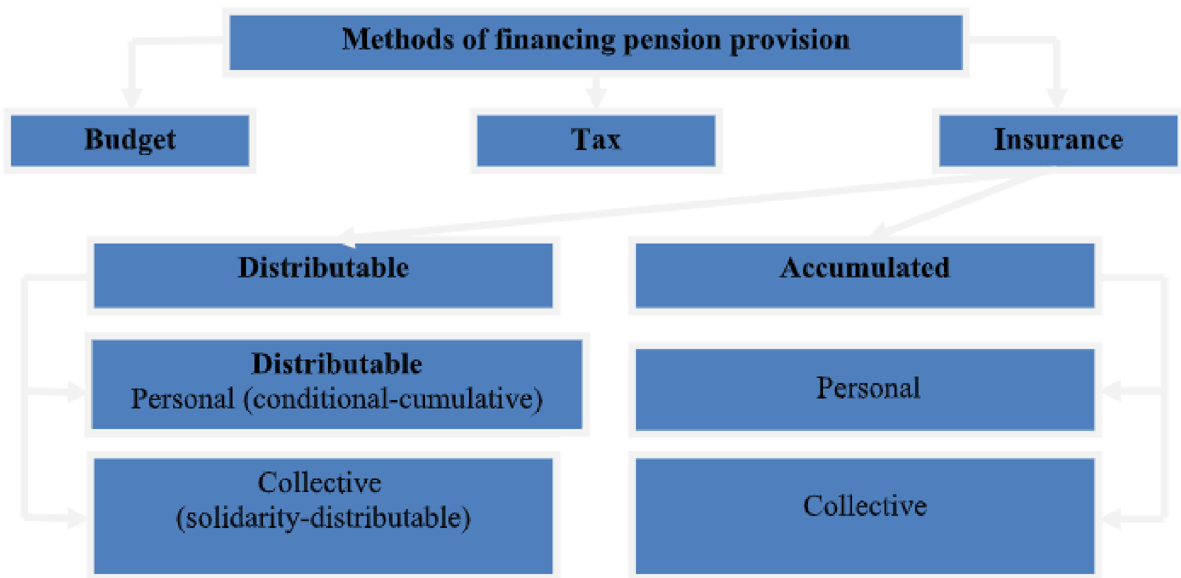

Figure 2. Pension financing methods (Borisenko , 2007)

There are various methods of financing pension provision, which are implemented through budget funds, taxes and insurance.

Funding from the budget assumes that it will be implemented mainly from the budget funds, as well as from the budget funds of some large companies. In Uzbekistan, social allowances are mainly financed from the budget (republic and local budget).

Financing from taxes mainly refers to social taxes.

Financing on the basis of insurance is carried out at the expense of insurance contributions of employers and employees with the direct participation of the state.

The budget method of financing pension provision is mainly implemented in order to protect persons who are not covered by mandatory pension insurance and who need special financial support from social risks. Such pensions and allowances are available in all countries of the world. In Switzerland and France, these types of pensions and allowances are the majority of recipients, while in Chile they are paid only to persons with no other income.

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In Uzbekistan, pensions are mainly financed from the funds of the extra-budgetary Pension Fund, and pensions for military personnel (internal affairs, state security service, customs, etc.) are financed from the budget funds. Also, age, disability and survivor's allowances for persons with insufficient work experience (at least 7 years), social allowances and material assistance for low-income families are financed from the budget funds.

The budgetary method of financing pensions and allowances is implemented not only within the government, but also in the private system. In this case, private companies (employers) finance from their own funds without officially establishing a pension fund. This financing system was developed for the first time in the USA and Japan, and the disadvantage is that it is characterized by insufficient guarantee of payment of payments. Because the timely payment of payments is directly related to the financial condition of the company.

In the tax method of financing pension provision, income from certain taxes is directed to cover the costs of pension provision (Borisenko, 2007).

The insurance method provides for the protection of insurance participants who have contributed to the insurance fund from social risks. Individuals are insured through social insurance payments on the basis of fixed contributions (Borisenko, 2007).

Social security payments are a modified form of wages that provide for "deferred consumption" in the future, that is, when workers and self-employed workers save a portion of their income into a social insurance fund to protect against old age, disability, bereavement, or other social risks. Pension insurance is important in the system of social insurance payments (Davronov, 2020). Pension insurance is an important source of financing the pension system.

The pension system is a set of legal, financial and organizational relations that guarantee financial support in the form of a pension (payment) in old age, disability, loss of a breadwinner and in other cases (Tursunov, 2020).

Therefore, financial support for persons who have lost their ability to work or need social protection, as well as increasing the efficiency of the pension system cannot be achieved only by improving the financial stability of the pension system, but by forming a multi-level pension system in the country, including the introduction of non-state pension funds, professional and corporate pensions. stability can be achieved in the national pension system.

The development of the country is reflected in the improvement of the standard of living of citizens. Also, the pension system serves as one of the most important social protection institutions to improve the living standards of the population when they get old or lose their ability to work and protect them from poverty (Tursunov, 2020).

CONCLUSIONS

Based on the above, the following tasks should be carried out in order to improve the mechanism of formation of Pension Fund funds, to strengthen the institutional foundations of the pension system, to organize private pension funds and to create their legal foundations:

it is necessary to further improve the voluntary accumulated pension system with extensive use of the insurance method of financing pension provision by establishing non-state pension funds under the state guarantee;

taking into account that the pension is an important component of the social protection system of the population, it is necessary to index the amount of the pension according to the consumption index based on foreign experience, and for this, it is necessary to develop a consumption basket and determine the minimum amount for living;

above-mentioned low-income state pension system to the medium-income state pension system, to ensure that all economically active people pay social taxes to the pension system, and to further expand the number of professions listed in the list of self-employed persons;

In Uzbekistan, it is necessary to carry out targeted work to reduce poverty, that is, to maintain a single register of the existing poor and ensure their employment through vocational training.

In conclusion, pension provision is one of the important components of the social protection system of the population, which is related to the vital interests of almost all citizens, who are socially protected through this system when they lose their ability to work. Therefore, the establishment of private pension funds in our country serves to protect the savings of the working population through financial mechanisms that are resistant to inflationary pressure, and by increasing their income, it serves to create opportunities for them to get a high pension so that they can live a decent life in old age.

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