CHAPTER 2
THE CURRENT STATE OF THE UKRAINIAN PENSION SYSTEM AND THE CONSEQUENCES OF ITS REFORM

DOI: https://doi.org/10.30525/978-9934-26-537-2-2

2.1. Dynamics of Pension Payments in the Context of Pension System Reform

"The current state of Ukraine's pension system is characterized by low pensions for most pensioners, unequal approaches to its calculation, lack of the Pension Fund's own funds to cover pension costs, and, in our opinion, significant and unjustified differentiation in the amount of pension payments" [92, p. 106]. At the same time, pension payments made by the state are one of the important factors determining the standard of living and welfare of the least well off [93, p. 6].

In total, as of January 1, 2024, the number of pensioners receiving pensions in Ukraine amounted to 10.5 million, which is 3.02 million less than in 2014 (Figure 2.1). The decline in the number of pensioners is primarily due to the depopulation, as well as the occupation of certain territories of Ukraine by russian invaders since 2014.

According to the Pension Fund of Ukraine, 75.37% of pensioners receive an old-age pension, 14.63% receive a disability pension, 6.26% receive a survivor's pension, 5.24% receive a seniority pension, 0.50% receive social pensions, and 0.04% receive a life allowance for judges [96].The structure of pension payments indicates a significant dominance of old-age pensions, reflecting the aging population and the demographic challenges Ukraine faces. This distribution emphasizes the need for targeted reforms in the pension system to address the financial sustainability of the Pension Fund and ensure adequate social protection for various categories of pensioners. At the same time, the small share of social pensions and life allowances highlights gaps in coverage for certain vulnerable groups, which may require additional measures to enhance inclusivity and fairness in the system. In particular, the share and number of recipients of disability pensions (+ 48 thousand people) and survivors' pensions (+ 20 thousand people) increased (Figure 2.2).

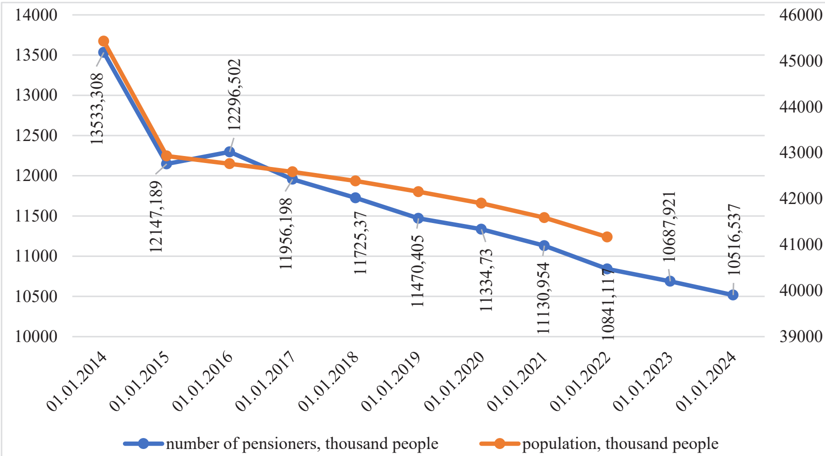


Figure 2.1 – Population and pensioners dynamics, thousand people

Source: compiled by the author based on [94; 95]

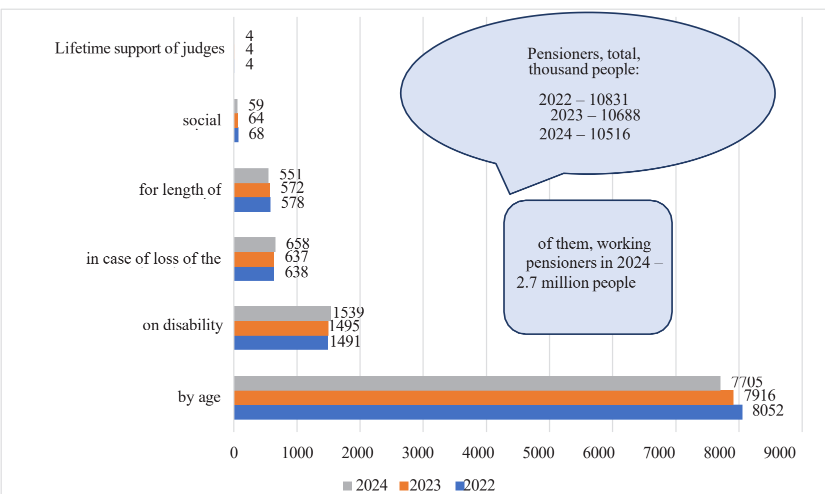


Figure 2.2 – Information on the number of pensioners by type of pension as of January 1 of the respective year

Source: built by the author on the basis of [97]

The issue of pension differentiation remains a pressing concern. Significant disparities in pension amounts often arise due to outdated calculation mechanisms, varying levels of official earnings, and periods of contribution.

Thus, the largest share of pensioners are those who receive an old-age pension (from 74.3% as of January 1, 2022 to 73.3% at the beginning of 2024). Against the backdrop of a decrease in the number of pensioners receiving old-age pensions (-347 thousand people) and social pensions, the share of other categories has increased.

Out of the total number of pensioners as of January 1, 2024, 2.7 million people are still working. Based on the above, it can be assumed that for the vast majority of pensioners, pensions are the main type of income and, accordingly, should not be lower than the ASL for disabled persons, as it is calculated based on the minimum standards of food and manufactured goods and services that are vital for this category of persons. This norm is also defined in Article 46 of the Constitution of Ukraine, but it states that the amount of the pension should be "not lower than the SL established by law" [98].

The average pension in Ukraine as of January 1, 2024, is UAH 5385.25, which is also lower than the ASL at December 2023 prices. At the same time, there is a significant differentiation in the size of pension payments by region (Figure 2.3).

Pension payments are higher than the ASL and the national average in eight oblasts of Ukraine: city of Kyiv (UAH 7248.97), Rivne (UAH 6790.2), Donetsk (UAH 6622.3), Luhansk (UAH 6334.23), Zhytomyr (UAH 5924.22), Dnipro (UAH 5891.07), Zaporizhzhia (UAH 5578.83), and Kyiv (UAH 5578.83). The lowest average pension was recorded in Ternopil (UAH 4070.43). Below average – in Vinnytsia (UAH 4532.66), Volyn (UAH 4930.74), Zakarpattia (UAH 4262.23), Ivano-Frankivsk (UAH 4508.86), Kirovohrad (UAH 4736.96), Lviv (UAH 4804.7), Mykolaiv (UAH 5020.91), Odesa (UAH 5094,92 UAH), Poltava (5191.82 UAH), Sumy (4816.73 UAH), Kharkiv (5334.5 UAH), Kherson (4648.77 UAH), Khmelnytsky (4501.65 UAH), Cherkasy (4663.06 UAH), Chernivtsi (4255.55 UAH) and Chernihiv (4875.1 UAH) oblasts.

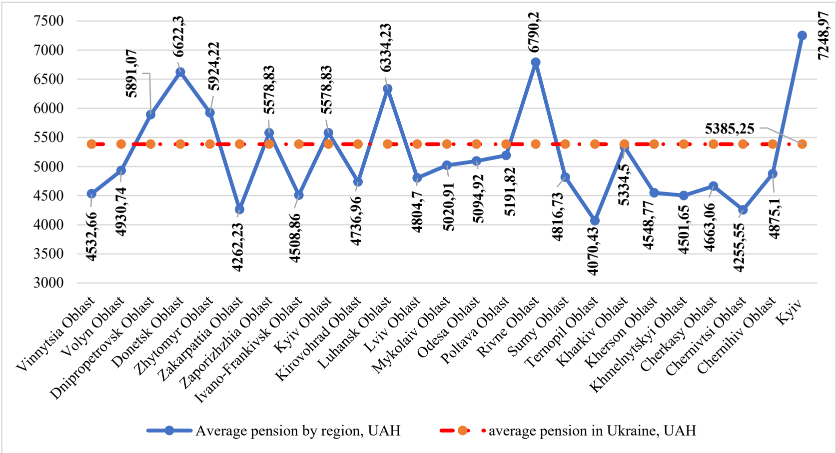


Figure 2.3 – Average amount of pension payment as of January 01, 2024

Source: compiled by the author based on [99]

The analysis of pension payments in Ukraine as of January 1, 2024, reveals significant regional disparities. While the national average pension stands at UAH 5385.25, several regions exceed this amount, particularly industrial and economically developed oblasts. Conversely, many regions, particularly in western and central Ukraine, report pension payments below the national average, highlighting economic imbalances.

The variation in pension levels can be attributed to differences in wage levels, employment structures, and economic activity across regions. Oblasts with higher pensions are often characterized by a historically strong industrial base, higher salaries before retirement, and a larger proportion of pensioners from specialized sectors. In contrast, regions with lower pension payments may have a predominance of lower-wage industries and weaker economic performance.

This disparity underscores the need for policy interventions to ensure a more balanced pension system. Measures such as pension recalculations, regional economic support programs, and adjustments to contribution mechanisms could help reduce financial inequalities among retirees.

Addressing these imbalances is crucial for enhancing social stability and improving the standard of living for pensioners nationwide.

There is a significant differentiation in the average monthly amount of pension payments and by recipient category, as evidenced by the results of the comparative analysis in Table 2.1.

Table 2.1 – Average pensions for certain categories of pensioners in 2011-2023

Pensioners	2011, UAH	2021, UAH	2023, UAH	2023/ 2011, times	in % to the average for Ukraine	
					2011	2023
Average in Ukraine	1151,93	3507,51	4622,59	4,0	x	x
Military personnel	1772,69	5583,21	9363,26	5,3	153,89	202,55
Members of Parliament	15541,5	16185,49	16354,06	1,1	1349,21	353,78
Journalists	3029,84	4695,10	5404,91	1,8	263,03	116,9
Employees of the customs service	4592,81	6058,68	6283,61	1,4	398,72	135,9
NBU employees	5448,56	10168,44	11641,67	2,1	473,01	251,8
Employees of the Cabinet of Ministers	15088,3	15386,54	15600,00	1,0	1309,86	337,5
Civil servants	3030,00	5332,62	7498,94	2,5	263,04	162,22
Local government employees	2823,83	3668,44	4808,04	1,7	245,15	104,01
Chernobyl victims	2279,08	6265,84	11422,53	5,0	197,85	247,10
Persons receiving a pension in accordance with the Laws of Ukraine "On Pension Provision" and "On Compulsory State Pension Insurance"	1079,13	3325,07	4223,35	3,9	93,68	91,36
Prosecutors	6233,47	15354,38	21571,87	3,5	541,15	466,66
Remuneration of judges	6253,68	67869,91	96195,91	15,4	542,90	2080,99

Source: compiled by the author based on [100; 101]

Thus, during the analyzed period, the highest pension payments were received by judges (in 2011 – UAH 6253.68, in 2021 – UAH 67869.91, in 2023 – UAH 96195.91). At the same time, more than 90% of pensioners received pensions 20.4 (2021) to 22.8 (2023) times less.

Moreover, the growth rate of the average retirement pension is far behind the growth rate of pension payments to judges (Figure 2.4), which indicates that the pension system is imperfect.

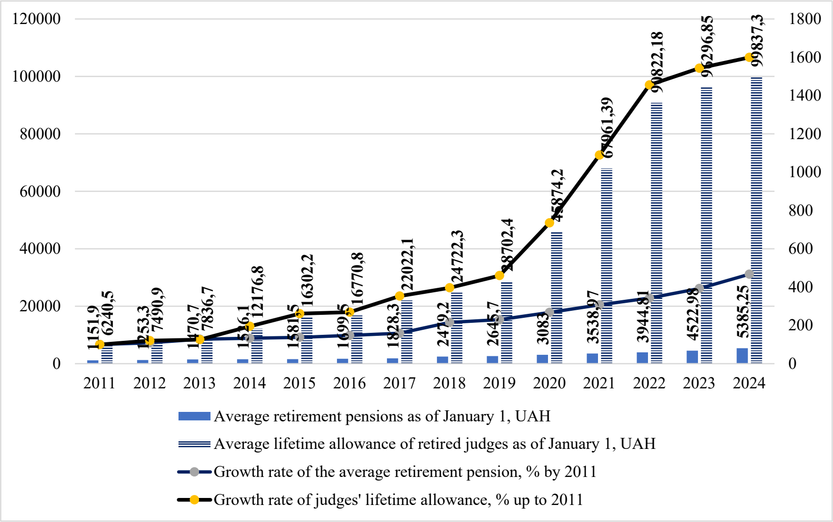


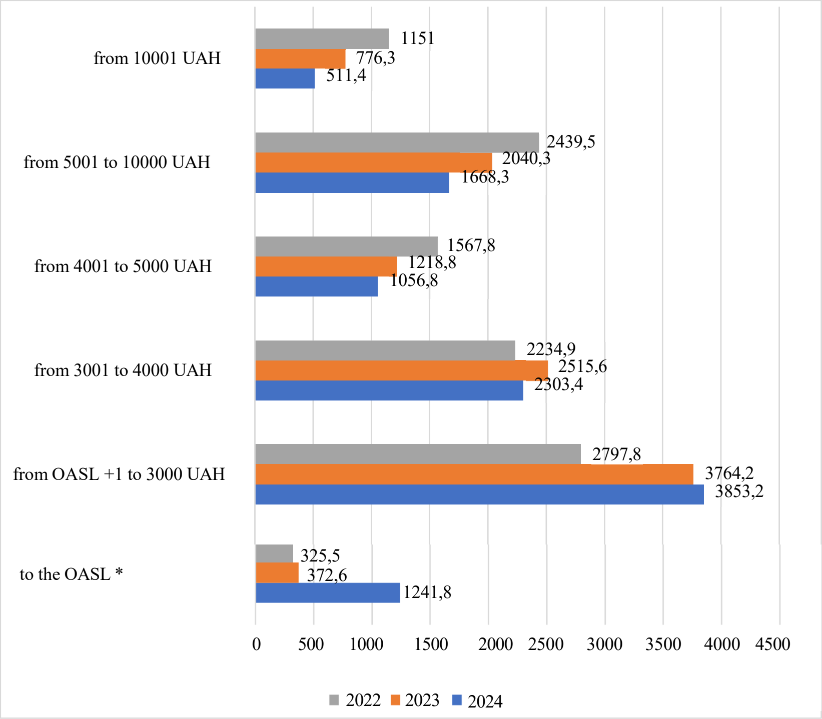
Figure 2.4 – Ratio of the dynamics of average retirement pensions and lifetime allowance of retired judges from 2011 to 2024

Source: based on [102; 103; 104]

As we can see from Figure 2.4, the gap between the average amount of judges' pensions and old-age pensions is growing every year, which once again confirms the imperfection of the methodology for calculating and recalculating pensions.

Under the current methodology for recalculating pensions, pensioners with higher pensions will receive a much larger increase than those with lower pensions. Thus, as of January 1, 2024, due to the increase in the SSS and guarantors, the minimum pension increased by UAH 268, and the maximum pension increased by UAH 2,680.

Having analyzed the pension provision of pensioners by the level of their pension payments, on the one hand, we can say that, despite the war, the situation in the field of pensions is satisfactory: the number of people receiving pensions at or below the OASL is decreasing. Thus, as of January 1, 2022, there were 1241.8 thousand such persons, in 2023 – 372.6 thousand, and at the beginning of 2024 – 325.5 thousand. At the same time, the share of pensioners with pensions above UAH 10 thousand is growing, as is their number (Figure 2.5).



*The OASL as of January 1, 2022 is UAH 1934; as of January 1, 2023 – UAH 2093; as of January 1, 2024 – UAH 2361;

For reference: ASL for persons who lost their ability to work in December: 2021 – UAH 3,786, 2022 – UAH 4,821, 2023 – UAH 5,227.4.

Figure 2.5 – Distribution of pensioners by pension amount, thousand people

Source: based on [105; 106; 107]

However, a comparison with the ASL, which reflects the purchasing power of pensioners, revealed that the share of people whose pension payments are below the ASL is more than 50% and is growing every year. Given that the current state of Ukraine's socio-economic development is overshadowed by the war, let's analyze pension payments to military personnel in more detail.

The largest share of pension payments to this category of pensioners is made up of long-service pensions. As of January 1, 2022, 382.5 thousand people received this type of pension, and as of the beginning of 2023, 375.8 thousand people received it (Figure 2.6). In light of the problems of mobilization, conscription of this category of people could partially solve them.

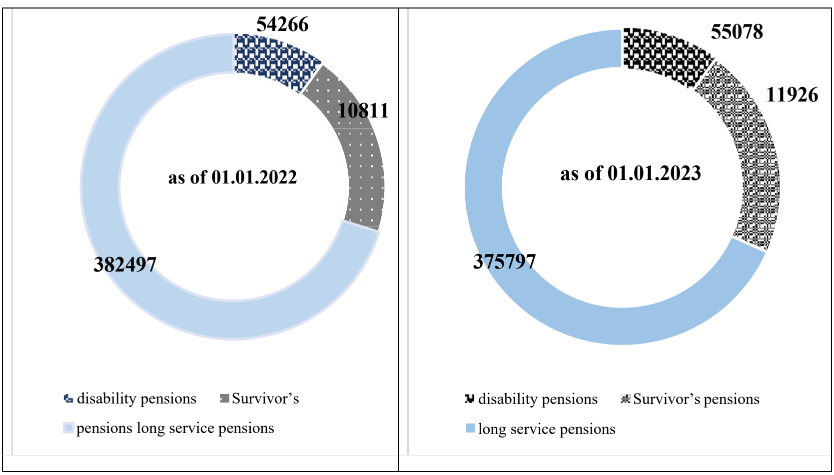


Figure 2.6 – Number of retired military personnel by type of pension

Source: based on [108]

As of the beginning of 2022, 108.1 thousand people were granted disability pensions, and as of the beginning of 2023, 119.3 thousand people were granted disability pensions. During the year of war, the number of disabled servicemen and women increased by 11.2 thousand. The number of people receiving a survivor's pension also increased by almost a thousand.

At the same time, the number of people receiving long-service pensions decreased by 6.7 thousand as of the beginning of 2023.

It is justified that the average amount of pensions for this category of persons is somewhat higher than the average for Ukraine for the same types of pensions (Figure 2.7). However, these payments are significantly higher than the average amount of life allowance for judges.

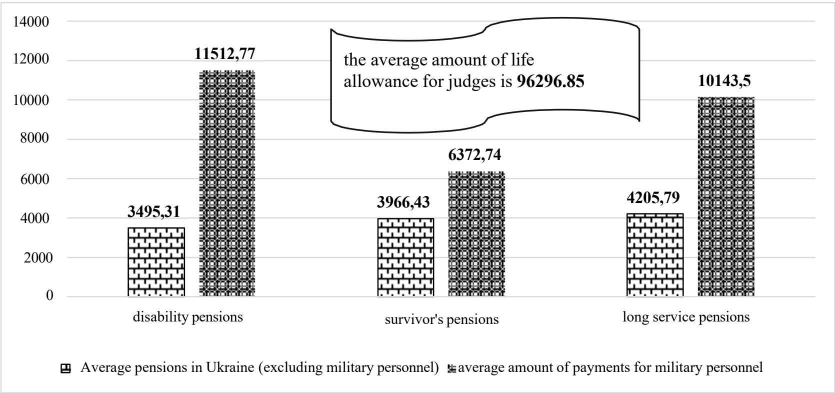


Figure 2.7 – Average pension payments to certain categories of pensioners by type of pension as of January 1, 2023

Source: based on [109]

All of the above confirms once again that reforming the PP system is necessary because of systemic problems. However, reforming the PP system alone is not enough to solve them. Income policy, in particular, wages, as well as the social protection system, also need to be improved.

2.2 Analysis of the Pension Fund of Ukraine revenues and expenditures

The basic rules for the formation and execution of the budget of the Pension Fund are regulated by legislative and regulatory acts of Ukraine [110; 111; 112; 113]. In particular, they define the concept of "Pension Fund budget", determine the account for crediting and storing funds, prohibit their misuse, and set out the procedure for developing, approving and executing the Pension Fund budget.

The timely and full payment of pensions directly depends on the performance of the Pension Fund's budget revenues, the main sources of which are its own revenues and the funds of the State Budget of Ukraine.

In 2018-2023, there was a steady upward trend in both total Pension Fund budget revenues and own revenues. At the same time, revenues from the State Budget of Ukraine in 2020-2021 were lower than in previous years. However, in 2022-2023, there was an upward trend again (Figure 2.8).

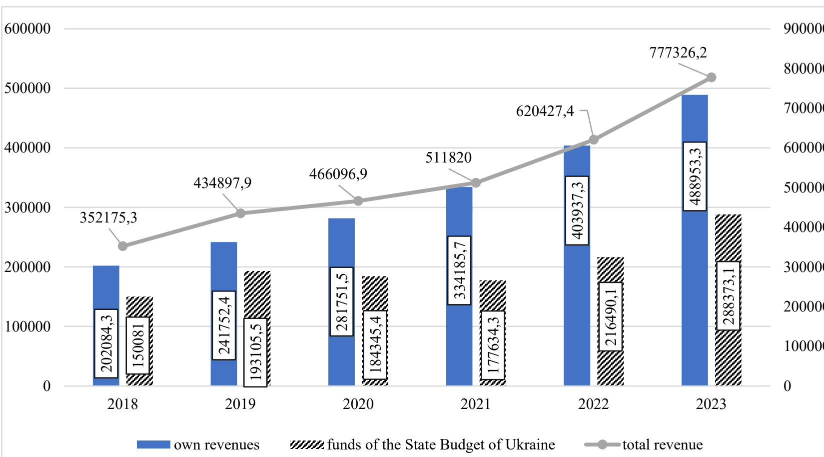


Figure 2.8 – Dynamics of Pension Fund revenues in 2018-2023, UAH million

Source: based on [114]

Own revenues are dominated by revenues from the unified social tax, which account for more than 90%. The second source of own revenues is insurance premiums for certain categories of insured persons, as well as funds from the State Budget of Ukraine to cover the reduced amount of the unified social tax (they also belong to the Pension Fund's own revenues) (Table 2.2).

Table *2.2* **– Structure of the Pension Fund's own revenues in 2021-2022**

Type of income	2021		2022		2022/2021	
	billion UAH	specific gravity, %	billion UAH	specific gravity, %	billion UAH	specific gravity, %
Amount of unified social contribution allocated to compulsory state pension insurance	301,4	90,19	375,4	92,94	74,0	2,75
Funds from enterprises to cover actual costs of paying and delivering pensions awarded to people who worked in jobs on the list No. 1 and No. 2	6,0	1,79	4,4	1,09	-1,6	-0,7
funds paid by banks for the use of temporarily free funds of the Pension Fund of Ukraine and other own income	0,2	0,06	0,3	0,08	0,1	0,02
funds for payment of pensions to foreign pensioners residing in Ukraine	0,2	0,06	0,2	0,05	0	-0,01
Payment of insurance premiums for certain categories of insured persons, coverage of the preferential rate of the unified social tax (state budget funds)	26,4	7,9	23,6	5,84	-2,8	-2,06
Personal income, total	334,2	100	403,9	100	69,7	x

Source: based on [117]

Given the shortage of its own revenues and the importance of the mission of the Pension Fund, the state cannot afford to allow arrears in pension payments, as most pensioners have this as their only source of income. Thus, in 2022, UAH 178.9 billion was transferred from the State Budget Office to the Pension Fund to finance pension payments under the relevant pension programs (for example, for military personnel). The structure of the Pension Fund's revenues indicates that the primary source remains the unified social contribution, which accounted for 92.94% of total revenues in 2022. However, the decrease in funds from enterprises and insurance premiums highlights a declining contribution from supplementary revenue streams.

Consequently, the significant transfer from the State Budget emphasizes the state's pivotal role in stabilizing pension financing and ensuring timely payments under critical programs. Another UAH 29.9 billion was allocated to cover the Pension Fund's budget deficit (Table 2.3).

In addition, in accordance with the current legislation of Ukraine, the Pension Fund makes payments that are not systematic and were introduced to mitigate the negative consequences that arose under the influence of objective but unforeseen circumstances. For example, in 2021, UAH 2.7 billion was allocated from the State Budget of Ukraine to provide assistance against COVID-19. In 2022, UAH 6.4 billion was allocated from the State Budget for the payment of housing subsidies and benefits for housing and communal services, the purchase of solid and liquid heating oil and liquefied gas, and UAH 0.79 billion for the payment of annual one-time financial assistance to war veterans and victims of Nazi persecution.

In 2003, the structure of the Pension Fund's revenues changed somewhat, as it was merged with the FCC (Figure 2.9).

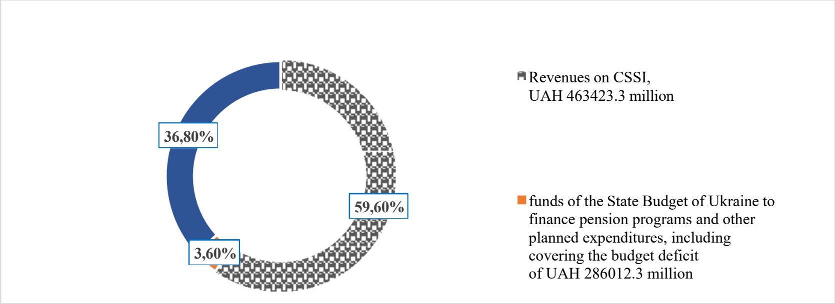


Figure 2.9 – Structure of Pension Fund revenues in 2023

Source: based on [119]

In line with revenues, the Pension Fund's expenditures in 2016-2023 had a steady upward trend. Thus, in 2023, the Pension Fund's expenditures increased by UAH 492.9 billion compared to 2016 (Figure 2.10).

Table 2.3 – Structure of SBU's revenues to the Pension Fund in 2021-2022

Type of income	2021		2022		2022/2021	
	billion UAH	specific gravity, %	billion UAH	specific gravity, %	billion UAH	specific gravity, %
Funds to finance pension payments	150,44	84,71	178,9	82,63	28,46	-2,07
Covering the Pension Fund deficit	23,9	13,46	29,9	13,81	6,0	0,35
Funds to repay pension arrears under court decisions	0,36	0,2	0,36	0,17	0	-0,03
Payment of pensions to IDPs for previous periods	-	-	0,15	0,07	x	x
funds of the State Budget of Ukraine to complete the provision of one-time financial assistance to insured persons that may lose income in the event of a complete ban on their activities as a result of increased restrictive measures	0,2	0,11	-	-	x	x
funds of the State Budget of Ukraine to provide assistance to insured persons for the period of implementation of restrictive anti-epidemic measures introduced to prevent the spread of COVID-19 in Ukraine	2,7	1,52	-	-	x	x
funds of the State Budget of Ukraine for the payment of housing subsidies and benefits for	-	-	6,4	2,96	x	x
housing and communal services, purchase of solid and liquid stove fuel and liquefied gas						
funds to pay annual one-time financial assistance to war veterans and victims of Nazi persecution	-	-	0,79	0,36	x	x
State Budgetary Institutions' revenues to the Pension Fund, total	177,6	100	216,5	100	69,7	x

Source: based on [118]

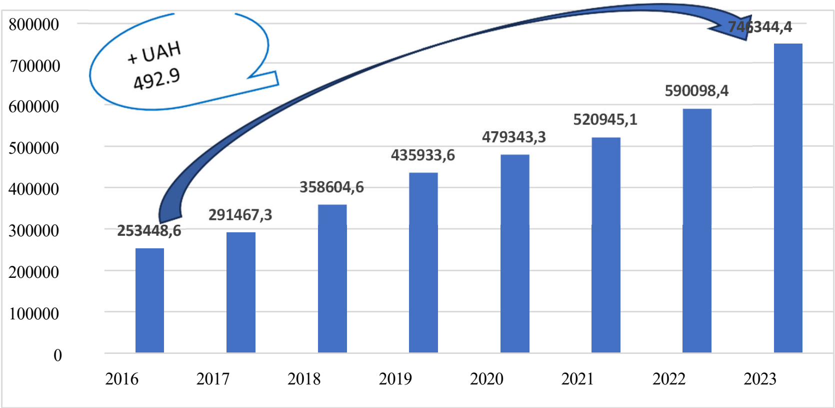


Figure 2.10 – Dynamics of Pension Fund expenditures, UAH million

Source: based on [120; 121; 122; 123]

The share of own revenues in total revenues has been increasing every year since 2020, with the exception of 2022-2023 (Figure 2.11), which is explained by the termination of operations of some enterprises, the relocation of others, the conscription of civilians for military service, migration of the working population, etc.

Thus, in 2021, the share of own revenues increased by 9.7% compared to 2019.

The data indicate a notable upward trend in the share of own revenues within total Pension Fund revenues between 2019 and 2021, reaching a peak of 65.29% in 2021. However, the subsequent decline in 2022 and 2023 can be attributed to economic disruptions caused by geopolitical instability, business closures, workforce reductions, and demographic shifts. The decline from 65.11% in 2022 to 62.90% in 2023 suggests a persistent negative impact of these factors, despite potential recovery efforts. This trend highlights the vulnerability of pension financing to external shocks and structural economic changes. Future strategies should focus on enhancing revenue diversification and strengthening financial sustainability through policy adjustments and labor market stabilization.

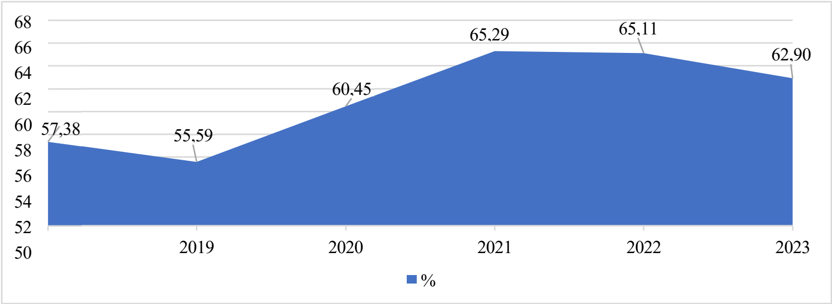


Figure 2.11 – Dynamics of the share of own revenues in the total amount of Pension Fund revenues

Source: based on [114]

Table 2.4 – **Structure of Pension Fund expenditures in 2021-2022**

Type of income	2021		2022		2022/2021	
	billion UAH	specific gravity, %	billion UAH	specific gravity, %	billion UAH	specific gravity, %
Expenses for pension payments	509,96	97,9	574,17	97,3	64,21	-0,6
Administrative expenses related to the performance of functions assigned to the bodies of the Pension Fund of Ukraine	5,72	1,1	5,9	1,0	0,17	-0,1
Expenditures for the payment of one- time assistance (UAH 8000) from the COVID-19 acute respiratory disease fund	3,13	0,6	x	x	x	x
Payment for services for the payment and delivery of pension benefits	2,08	0,4	2,36	0,4	0,28	0
Expenditures on annual one-time financial assistance to war veterans and victims of Nazi persecution	x	x	1,18	0,2	x	x
Expenditures on housing subsidies and benefits	x	x	6,49	1,1	x	x
Pension Fund expenditures, total	520,9	100	590,1	100	69,7	x

Source: based on [124]

The largest share of total Pension Fund expenditures is for pension payments (97.9% in 2021, 97.3% in 2022). All other expenditures (administrative, for housing subsidies and benefits, payment for pension payment and delivery services, and others) are insignificant and their share ranges from 0.2% to 1.1% (Table 2.4).

Based on the above, we conclude that the Pension Fund and its territorial offices face a number of problems in their activities, the main one being the budget deficit.

2.3 Implications of pension reform in Ukraine

The reform of the pension system began in 2003. The main innovations were: the introduction of a three-pillar pension system and the shift from calculating work experience to insurance record. These changes helped to reduce the level of wage shadowing, as in order for a certain period of work to be added to the pensionable service record, it is necessary to have paid at least the minimum amount of insurance contributions for that period.

The second large-scale pension reform took place in 2011. Its main provisions were reflected through amendments to a number of legislative acts [125; 126; 127; 128; 129; 130; 131; 132; 133; 134; 135] and concerned:

– gradually raising the retirement age for women (to 60 years);

– increasing the insurance period (for women – up to 30 years, for men – up to 35 years);

– setting a limit on the maximum pension amount (up to 10 monthly incomes for persons who have lost their ability to work). This provision was recognized as unconstitutional in terms of the appointment and recalculation of the allowance for judges [136];

– change in the percentage at which civil servants' pensions are calculated (from 90 to 80);

– regulating the establishment of a private pension funds at the legislative level, etc.

While it is clear that most of the provisions of this reform were necessary and certainly had a positive impact on the further functioning of the pension system, almost all of them have worsened the guarantees that were previously provided. The most painful for ordinary Ukrainians was the legislative increase in the retirement age for women and the increase in the pensionable service record. However, during these periods, the decision to raise the retirement age was made in many countries.

In Spain, in order to reduce the burden on the social security system due to the aging of the population, the country also approved an increase in the retirement age from 65 to 67 years, starting in 2013. The Finnish government has developed a strategy according to which the retirement age was to reach 67 years in 12 years, starting in 2011.

France has taken an interesting approach, gradually introducing an "automatic retirement age" in 2009, which has been mandatory for the private sector since 2010. However, since 2011, in accordance with the French government's legislative initiatives, private sector employers can no longer automatically retire employees at 65, as this age has been raised to 70. At the same time, the minimum retirement age for receiving a full pension remains 60 years under certain conditions (the insurance period becomes at least 40.5 years). Consequently, many countries are reforming their pension systems by raising the retirement age to address demographic challenges (Table 2.5).

Table 2.5 – **Changes in the retirement age* of women in selected countries**

Year of retirement	Ukraine	Germany	France	United Kingdom	USA	Netherlands	Denmark	Poland
2000	55	65	65	60	65	65	65	60
2010	55	65	65	60 9 months.	66	65	65	60
2020	59 6 months.	65 9 months.	66 4 months.	66	66	67	65	60
2030	60	67	67	66	67	67	67	60

* age at which the full pension in the PAYG system is granted

Women in Poland and Ukraine retire the earliest (at 60), which is only fair, as life expectancy in Ukraine is the lowest (77.1 for women, 68 for men). In Poland, life expectancy is also lower than in the other countries analyzed (81.1 and 74.6, respectively). That is, Poles receive a pension on average: women – 21.1 years, men – 9.6 years, and Ukrainians – 17.1 and 8 years, respectively (Table 2.6).

Table 2.6 – **Average life expectancy at retirement and minimum pensionable service in selected countries**

Country	Retirement age, years women/men	Minimum insurance period, years women/men	Life expectancy	Life expectancy at retirement, years, women/men
United Kingdom	66	40	83/79,1	17/13,1
Denmark	67	40	83/79,7	16/12,7
Spain	66	37	85,8/80,8	19,8/14,8
Germany	67	40	82,9/78,2	15,9/11,2
Norway	67	40	84,1/81,1	18,1/15,1
Poland	60/65	15/20	81,1/74,6	21,1/9,6
France	65/67	40	85,1/79,1	20,1/12,1
Sweden	62	40	84,0/80,1	22/18,1
Ukraine	60 63 65	35 (2028) 31 (2024 p) 20 15	77,1/68,0	17,1/8,0

Source: based on [137; 138]

Given the above, due to the high retirement age, women in Germany, Denmark, and the United Kingdom have the lowest average life expectancy in retirement, despite their relatively high life expectancy. Men have the lowest life expectancy in retirement in Ukraine, Poland, and Germany.

Thus, it can be concluded that these countries need to investigate the causes of deaths among men and women and consider lowering the retirement age.

In addition to plans to raise the retirement age for women, the government has also decided to increase the required insurance period for disabled people from 5 to 15 years. In our opinion, this is an unjustified step, as Ukraine still does not enforce laws on creating proper working conditions for people with disabilities. Therefore, it is quite a challenge for them to gain the required 5 years of work experience, given that the state has not yet ensured equal access to work for people with disabilities and healthy people. Thus, further increases in the requirements for the insurance period make it more difficult for disabled people to receive a pension.

This reform also introduced a requirement to transfer insurance contributions to APF as part of the introduction of the 2nd pillar of the pension system, but only if the Pension Fund's budget is deficit-free.

The largest Pension Fund deficit in the last 13 years was recorded in 2016. It amounted to UAH 84.6 billion. It is significant that 2016 was the first year after the next pension reform was carried out in 2015.

The main reason for the sharp increase in the pension fund deficit was a significant reduction in the unified social contribution rate and the abolition of the corresponding payroll deductions. These innovations were introduced to reduce shadow employment and bring the minimum wage out of the shadows. According to the PFU's calculations, this resulted in a UAH 115.1 billion shortfall in the Fund's budget.

In 2010-2023, the deficit-free budget of the Pension Fund couldn't be approved. The Pension Fund's deficit in 2022 and 2023 was almost at the level of 2011 and 2012 (Figure 2.12), i.e. before the reforms.

The reduction of the Pension Fund's budget revenues, in particular those generated from its own revenues, was also caused by the provision of benefits from for the payment of the unified social tax in the amount of UAH 1.8 billion, as well as the change in the share of the unified social tax distribution between insurance types by the decision of the Cabinet of Ministers in February 2016. In particular, the share for pension insurance was reduced from 88.29% to 78.5576%. However, this distribution lasted only until January 1, 2017, after which it was increased to 82.52%.

The situation is exacerbated by the fact that the amount of funds allocated from the State Budget to finance the payment of pensions, bonuses and increases to pensions granted under various pension programs is increasing every year. Thus, the amount of such payments increased from UAH 33.1 billion in 2010 to UAH 225.2 billion in 2023.

Given the rather low size of pension payments for most pensioners (see Section 2.1), the taxation of pensions for working pensioners, which lasted from July 2014 to March 2018, was a rather negative phenomenon. It is clear that this decision was caused by a gradual increase in the Pension Fund's budget deficit, but each pensioner has already paid the relevant taxes and fees to receive a pension during the periods of his or her employment (insurance) record, as has his or her employer. Therefore, this practice can be regarded as double taxation, which is unacceptable in a social state.

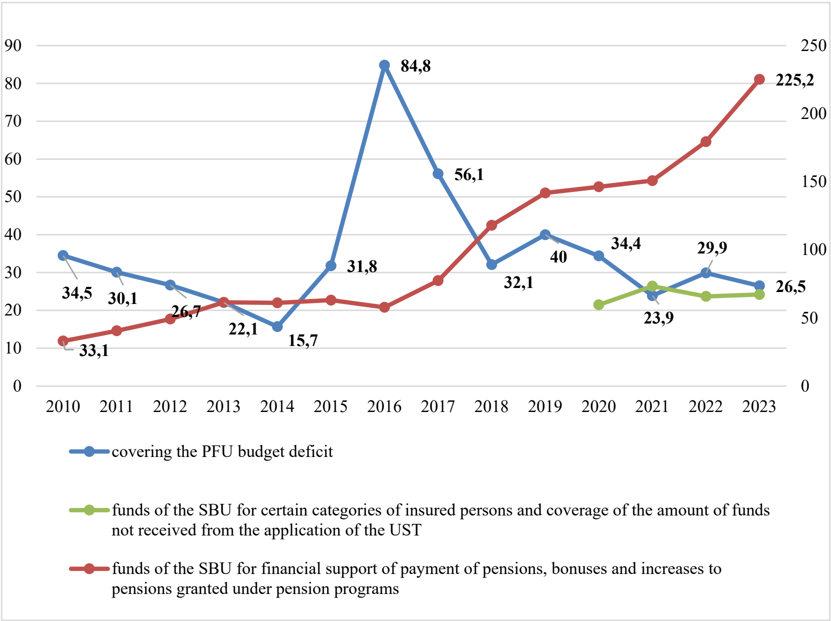


Figure 2.12 – Dynamics of the PFU- deficit, UAH bn

Source: based on [139; 140; 141; 142]

Other reasons for the pension budget deficit, which are still relevant today, include a decrease in the number of insured persons due to the deterioration of the demographic situation; an increase in the number of people receiving wages below the minimum level; the Pension Fund's expenditures that are not typical for this institution but are provided for by law; and an increase in arrears of unified social tax and other payments to the Pension Fund.

The war in Ukraine has significantly exacerbated existing demographic problems. Depopulation that has been characteristic of Ukraine throughout the years of its independence in 2022-2024 was exacerbated by the migration outflow of young people and the working population. According to various estimates, the difference between those who left Ukraine and those who arrived ranges from 2.7 to 4.2 million people.

Among the negative demographic trends that have significantly deepened during the period of russia's military aggression against Ukraine is the decline in the birth rate, which has led to a decrease in the share of the population aged 0-14 and the share of people of working age. The decline in the number of employed people has led to a reduction in the number of insured persons, although the overall dynamics of the number of UST payers is positive (Figure 2.13).

The total number of UST payers increased by 409.5 thousand from 2020 to 2024, including: legal entities – by 104.6 thousand, individual entrepreneurs – by 302.2 thousand, persons engaged in independent professional activities – by 2.2 thousand, and members of farms – by 0.6 thousand.

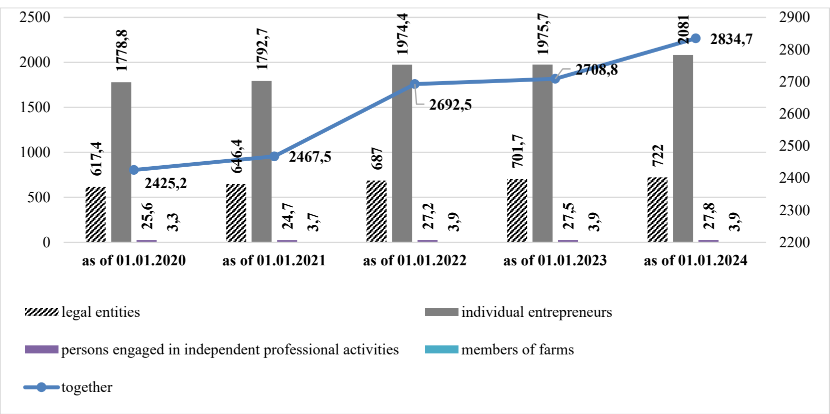


Figure 2.13 – Dynamics of the number of UST payers, thousand people

Source: based on [143; 144; 145; 146]

The number of insured persons decreased by 1408.2 thousand over the same period (Figure 2.14).

The situation is exacerbated by the fact that, against the background of a decrease in the number of insured persons, the number of people receiving wages below the minimum wage is growing, which accordingly reduces the amount of revenues to the Pension Fund budget. At the same time, the share of people receiving a salary below the minimum wage is increasing every year, with the exception of 2019. Thus, in the analyzed period, this indicator increased by 9 pp in 2022, which was caused by the suspension of operations of a number of enterprises due to the war and the strengthening of security measures in all organizations. A significant number of employees were put on forced downtime with minimum wages. In 2023, despite the continuation of the war, the situation stabilized somewhat, and in December of this year, the share of people receiving wages at or below the minimum wage decreased by 5.5 percentage points, but still remained high at 17.6% (Table 2.7).

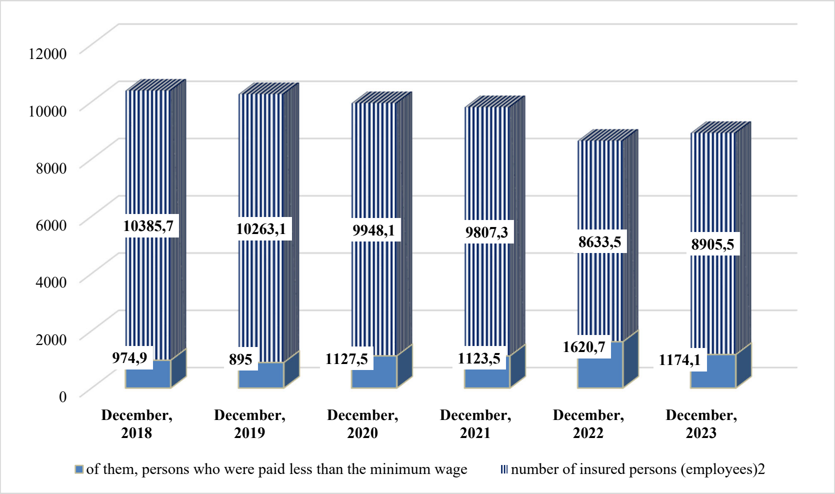


Figure 2.14 – Dynamics of the number of insured persons – employees, thousand people

Source: based on [147; 148; 149; 150]

It is worth noting that the share of people who are paid a wage of UAH 20 thousand or more up to the maximum amount of wage subject to the UST is also growing, which has a positive impact on increasing revenues to the Pension Fund budget. In 2022, there was a sharp increase in the number of people (by 2.4 times) who were paid a salary of more than

UAH 100,500 and from which, in accordance with the current legislation, no UST is paid (from the excess amount). This trend continued in 2023. In view of the above, the Pension Fund is not able to cover its expenditures with its own funds (see Figure 2.10).

Table 2.7 – **Distribution of insured persons by salary ranges, thousand people**

December of the respective year	Indicator by years	≤ min wage *	from minimum wage* up to 10000.00	from 10000.01 to 20000.00	from 20,000.01 to the maximum value by which UST is charged**	over the maximum amount for which the UST is currently payable**	Total number of insured persons
2018	number	1441,4	5696,6	2389,9	771,4	86,4	10385,7
	%	13,9	54,9	23,0	7,4	0,8	100
2019	number	1252,1	5082,6	2682,6	1150,3	95,7	10263,1
	%	12,2	49,5	26,2	11,2	0,9	100
2020	number	1785,7	3733,4	2809,4	1528,1	91,5	9948,1
	%	18,0	37,5	28,2	15,4	0,9	100
2021	number	1849,9	2812,5	2986,7	2079,5	78,7	9807,3
	%	18,8	28,7	30,5	21,2	0,8	100
2022	number	1990,0	1916,5	2265,5	2271,1	190,4	8633,5
	%	23,1	22,2	26,2	26,3	2,2	100
2023	number	1565,6	1843,9	2425,2	2840,1	230,7	8905,5
	%	17,6	20,7	27,2	31,9	2,6	100,0

*in December of the respective years: 2018 – UAH 4173; 2019 – UAH 4723; 2020 – UAH 5000; 2021 – UAH 6500; 2022 – UAH 6700.

** in December of the respective years: 2018 – UAH 62595.01; 2019 – UAH 70845.01; 2020 – UAH 75000.01; 2021 – UAH 97500.01; 2022 – UAH 100500.01; 2023 – UAH 120000

Source: based on [151; 152]

The largest deficit of own funds is observed in Luhansk (17.2%), Donetsk (20.6%), Kherson (36.9%), and Zaporizhzhia (38.6%) oblasts (Table 2.8). This situation is primarily due to the occupation of the territories of these regions by russian invaders. Only in Kyiv city are total expenditures covered by own funds by more than 100%. The main factor behind this high level of funding is the high level of salaries. In 2022, the average monthly salary in Kyiv was UAH 21347, while the average salary in Ukraine was UAH 14847.

Table 2.8 – Coverage of the Pension Fund of Ukraine's Expenditures by Own Funds in 2020 and 2022, UAH thousand

№	Name of the region	Percentage of expenditures covered by own funds					
		Expenses financed from own funds, %			Total expenditures, %		
		2020	2022	2022/2020	2020	2022	2022/2020
1.	Vinnytsia	71,6	94,2	22,6	46,0	61,4	15,4
2.	Volyn	84,7	113,1	28,4	51,1	68,9	17,8
3.	Dnipropetrovsk	53,2	116,6	63,4	40,2	86,5	46,3
4.	Donetsk	29,2	28,6	-0,6	21,1	20,6	-0,5
5.	Zhytomyr	73,4	122,6	49,2	44,9	67,8	22,9
6.	Zakarpattia	91,4	133,3	41,9	54,4	81,7	27,3
7.	Zaporizhzhya	50,7	50,2	-0,5	38,8	38,6	-0,2
8.	Ivano-Frankivsk	73,6	95,4	21,8	46,1	61,4	15,3
9.	Kyiv	68,8	78,6	9,8	45,9	51,5	5,6
10.	Kirovohradska	66,7	82,4	15,7	45,1	56,0	10,9
11.	Luhansk	28,4	24,0	-4,4	20,1	17,2	-2,9
12.	Lviv	79,2	144,9	65,7	52,6	98,2	45,6
13.	Mykolaiv	67,1	105,4	38,3	47,7	75,0	27,3
14.	Odesa	74,3	119,7	45,4	50,3	80,9	30,6
15.	Poltava	61,8	73,6	11,8	43,7	52,1	8,4
16.	Rivne	87,0	118,2	31,2	54,4	71,3	16,9
17.	Sumy	58,7	78,4	19,7	41,1	55,1	14
18.	Ternopil	72,5	88,5	16	45,7	57,6	11,9
19.	Kharkiv	62,7	85,9	23,2	44,6	61,6	17
20.	Kherson	60,8	52,9	-7,9	42,4	36,9	-5,5
21.	Khmelnytskyi	70,2	97,9	27,7	43,9	62,2	18,3
22.	Cherkasy	55,2	81,9	26,7	37,5	56,1	18,6
23.	Chernivtsi	80,4	99,0	18,6	48,9	61,0	12,1
24.	Chernihiv	63,7	87,7	24	41,5	57,2	15,7
25.	Kyiv city	314,7	214,9	-99,8	233,2	160,1	-73,1

Source: based on [PFU-22]

In most regions of Ukraine, the percentage of total expenditures covered by own funds in 2022 increased compared to 2020. However, in 7 regions it ranges from 51.5% to 57.6%, in another 7 from 61% to 68.9%, in 2 from 71.3% to 75%, and in 4 over 80%. The decrease in this indicator is observed only in those 4 regions where it is the lowest. Thus, almost 30-40% of all pension payments are made at the expense of the State Budget. This indicates the ineffectiveness of the state policy in the area of income and pensions.

Returning to the 2015-2017 reform, we can conclude that it had both positive and negative consequences. In particular, it provided for the following:

– recalculating pensions based on a single average salary used for calculation;

– abolition of the 15% limitation on pensions, which was in the form of taxation;

– raising the minimum insurance period required for retirement;

– introducing the possibility of buying pensionable service;

– the coefficient of the cost of pensionable service was reduced;

– the right to early retirement for certain categories of employees was canceled;

– the right to an increased pension amount, which was established for certain categories of employees due to an increased coefficient of the value of the pensionable service, was canceled, etc.

Some of them had a positive impact on the lives of pensioners, but others led to a narrowing of rights and a reduction in guarantees for the respective categories of pensioners. In particular, special pensions for scientists and academic personnel, civil servants, journalists, local government employees, members of parliament, and category IV Chernobyl victims were canceled.

The abolition of special pensions could certainly be considered a positive reform practice, but these categories of workers have paid increased payroll taxes for pension insurance (instead of 1.5%, up to 5% depending on the size of their salary). These funds have been lost to them, as there were no mentions of refunding them or establishing an increased coefficient to wages in the years of their payment.

One of the positive aspects is that the problem of the mismatch between the increase in state social guarantees and the current state of the economy has been almost completely resolved before Russia's full-scale military invasion of Ukraine (by 2022). In particular, the growth rate of the average pension since 2011 has hardly exceeded the growth rate of wages (Figure 2.15), with the exception of 2012 (by 2.6 percentage points) and 2020 (by 4.4 percentage points). Previously, this practice was quite common. In particular, in 2005 there was a peak of such an excess – by 36.8 percentage points.

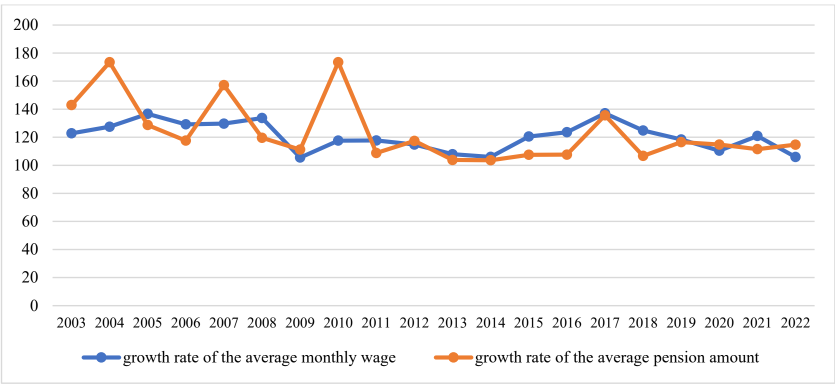


Figure 2.15 – Ratio of growth rates of average monthly wages and pensions in 2003-2022

Compiled by the author based on data from the State Statistics Service of Ukraine: http://www.ukrstat.gov.ua/

As for the defined contribution component of the pension system, its introduction can be considered a progressive step in reforming the system. Just like the pay-as-you-go system, the defined contribution system should be mandatory, meaning that contributions to it should be made on a mandatory rather than voluntary basis. At the same time, there is a fundamental difference: the pay-as-you-go system does not provide for individual savings, while the defined contribution system is based on the formation of personal pension accounts. Unfortunately, despite the announced plans, the government has been constantly postponing the implementation of the mandatory defined contribution component of the pension system.

Thus, the introduction of a defined contribution pension system is an important step in the reforms, but it requires political will to implement.

Summarizing the above, it can be concluded that the reforms that took place between 2003 and 2023 failed to solve three major problems in the pension sector, namely: low pension payments to most pensioners; significant differentiation in pension amounts between certain categories of pensioners; and the existence of a Pension Fund budget deficit.