



REFORM AND IMPROVE THE PENSION SYSTEM IN UZBEKISTAN

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Article history:	Abstract:
Received: 4 th November 2021 Accepted: 4 th December 2021 Published: 10 th January 2022	This article analyzes the ongoing reforms in the pension system and examines foreign experience in reforming and improving the pension system in many countries, including the Commonwealth of Independent States. In addition, proposals and recommendations have been developed for a comprehensive study of the pension system and the development of this sector in our country.
Keywords: Pension, Pension Provision, Disability, Development Strategy, Length Of Service, Pension Fund, Old Age Pension, Poverty Protection, Non-State Pension Provision.	

INTRODUCTION

The pension system provides for a range of economic, legal, social and organizational measures aimed at ensuring and supporting the living standards of the disabled and low-income citizens.

In recent years, the burden on the economically active population of the Republic of Uzbekistan on social contributions has been growing. Demographic projections predict that the share of the population of retirement age (1.2 million people) will increase by 2030, which in turn will lead to a proportional increase in the Pension Fund's expenditures.

The current state pension system in Uzbekistan needs to be able to meet modern requirements, including the creation of a high level of favorable conditions for citizens in old age and incapacity for work. In this regard, for the self-employed population, ie those employed abroad, the dehqan farm and its members, who work on a plot of land of not less than 4 hundred square meters or keep not less than 50 heads of cattle or poultry on this plot of land. mechanisms for participation in the pension system for individuals have been introduced

Despite good results in improving living standards, 11.5 percent of the population is considered poor (according to the national nature of poverty).

The distributional nature of the pension system, the strength of the practice of repeated subsidies and the relatively high rates of pension contributions do not provide the necessary level of funding for the entire working population in the establishment of the Pension Fund. It is estimated that less than 50 percent of the economically active population pays regular contributions to the pension fund, which affects the financial sustainability and potential of the pension system to increase pensions. It is also necessary to introduce a system of incentives for migrant workers to contribute to the pension fund without fear of being forced to pay income tax, which

will significantly increase the pension fund (more than 2 million people are migrant workers).

MAIN PART

Undoubtedly, the formation of the pension system is in the national interests and strategic priorities of the Republic of Uzbekistan. After all, the improvement of the pension system on the basis of international experience will serve the socially and economically sustainable development of our country.

In reforming the national pension system, it is necessary to first analyze the factors that affect it: 1) Social factors - determine the level of development of public and labor relations in the state. Examples of social factors include the historical and ethnocultural development of the state, the national mentality, the religious aspects of public life, the strategy and tactics of social policy pursued by the state, the social structure of the population, the labor market, wages and so on; 2) Economic factors - determine the capabilities of the state and the economic conditions in which the pension system is built and operates.

Economic factors include the state of public finances, the level of welfare of society, the strategy and tactics of economic policy pursued by the state, the role of the state in the economy, the level of development of production, etc. ; 3) Demographic factors are an important target, a beacon in determining the optimal qualitative and quantitative details of the pension system, reflecting the needs of society for pension protection.

Other indicators of demographic factors include the age structure of the population, the share of retirees in society, the rate of population growth, the ratio of the employed population and the number of retirees, and so on.

Today, in international practice, there are two main models of the pension system. These are: distributive and accumulative models.

The pay-as-you-go system is based on the principle of solidarity of generations and is therefore



called the unitary model. The essence of this principle is that the responsibility for the pensions of the older generation (retirees) rests with the younger generation (economically active population). The distribution system is, first and foremost, a state system. The distribution model usually sets a guaranteed level of pensions based on length of service and the amount of wages, but the level of pensions is relatively small, as its main function is to protect against poverty. The disadvantages of this system are its dependence on demographic changes, the reduction of the share of the economically active (engaged in real labor) population in society and the increase in the share of old-age pensioners, which in turn often creates additional costs for the state budget.

The funded system is based on the principle of insurance - the pension is paid from the savings formed during the employment of participants, while many researchers emphasize the need to establish personal accounts in the savings system, the experience of the Swedish, Singaporean and Malaysian savings funds shows that savings and placement can also be done in the context of centralized savings accounts without maintaining personal accounts. This model allows middle- and upper-wage workers to actively influence their future retirement levels (planning to retire at a level commensurate with their previous salary).

It should be noted that this can be done in the context of highly developed national financial markets (availability of the necessary infrastructure, market capacity, level of competition, quality of coordination and control, level and quality of risk management skills of senior management). At the same time, the funded pension system is less dependent on demographic factors than the distribution system, but is more prone to economic factors, which is reflected in the risk of inefficient investment processes and the provision of financial assets due to financial and economic crises. In this case, under the accumulative system, pension funds direct their pension contributions to the investment of financial assets, the value of which, of course, depends on the financial market conditions.

The stability of the funded pension system also reflects the level of social development of the country and the well-being of society. In world practice, there are two types of accumulative pensions: fixed contributions and fixed contributions.

The fixed contributions form (defined contributions) means that the contributions made by the depositor are recorded in the contract. In this case, the amount of the pension depends on the amount of contributions and the income of the fund, but the liability of the pension fund is recorded at the level of the nominal amount paid by the depositor. The defined benefit pension stipulates that payments

made by a joint fund are recorded in the contract. The amount of the pension is determined by a predetermined formula and depends on the salary. The difference is that in this case the pension fund undertakes to increase the income to a certain level, and this obligation is higher than the nominal amount paid by the depositor.

How the pension scheme is chosen in the funded system reflects the risk level ratio between the pension fund and the employee. The fixed-payment pension scheme means a relatively low level of risk associated with changes in the value of financial assets for pension funds, and a higher level of risk for employees than a fixed-payment scheme. However, it should be noted that if the pension fund suffers, the method of payment of pensions does not affect the overall social loss, it only determines the share (ratio) of losses to the pensioner and the state.

It is expedient to divide pension reforms into two types: structural (structural) and parametric reforms, based on the accepted general terminology. When it comes to parametric reforms, it is important to understand that certain parameters of the existing pension system mechanism will be changed by the state. Structural reforms call for a radical change in the mechanism of the existing pension system.

The experience of the following countries in the field of structural reforms in the distribution pension system is noteworthy. For example, in Germany, the amount of pension is inversely proportional to the number of retirees per worker (the more retirees per worker, the lower the pension).

The pension system provides for the implementation of economic, legal, social and organizational measures aimed at improving the living standards of the disabled and needy. One of the main goals of the pension system is to protect citizens from poverty in old age, to provide a certain amount of guaranteed income in proportion to the amount of wages paid before retirement, and to protect this income from future decline in living standards. In addition, the sustainable functioning of the pension system is a guarantee of social stability in society, and, conversely, the instability of pension provision poses a strong social risk [1]. In this regard, the reform of the pension system is one of the most important tasks of social policy of any country.

Since the early 1990s, most former Soviet Union countries have undergone a variety of pension reforms in terms of composition and coverage. Kazakhstan, Russia, and the Baltic states are currently in the second phase of pension reform, with many other countries (Ukraine, Turkmenistan, Azerbaijan, and Armenia) implementing major and comprehensive pension reforms in the early stages of reform.

At present, the pension system of Uzbekistan is undergoing large-scale reforms.



In order to further increase the effectiveness of ongoing reforms, create conditions for comprehensive and accelerated development of the state and society, implement the priorities of modernization and liberalization of all spheres of life, the President of the Republic of Uzbekistan on February 7, 2017 On the basis of the Decree No. PF-4947 "On Action", the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 was adopted. The "Priorities for the Development of the Social Sphere" in this Action Strategy outlines the main directions related to the further development of social security, in particular, the state pension system.

To some extent, these areas will contribute to the further development and sustainability of the social security system, including the state pension system.

A study by J. Peng, a professor at the University of Arizona in the United States, discusses the issue of pensions, which raises the issue of post-employment financial stability and the current issues of pension provision. Recognizing that retirement is the most important source of income for the financial sustainability of citizens in old age, J. Peng examines the current problems and future changes in the system. Among the factors influencing the provision of pensions are: the prospects for retirement of the current generation; Life expectancy in the United States and around the world; lack of financial resources for national social and health insurance programs; the disappearance of traditional pensions for private sector workers; increase in the cost of providing pensions for public sector employees; high medical costs. In the United States, retirement benefits typically come from three sources: social security, employer-sponsored pensions, and personal savings. Together, these three sources will ensure the financial security of citizens in old age.

According to economist Yu.N. Borisenko, the main purpose of the pension system is to protect citizens from poverty in old age, to provide a certain amount of guaranteed income in proportion to the amount of wages paid before retirement, to protect this income from future decline in living standards. It is stated that the stable functioning of the pension system is a guarantee of social stability in society, and, conversely, the instability of the pension system poses a strong social risk [1].

According to Valentin Roik, the amount of the pension depends on the amount of insurance premiums paid by citizens and the amount of wages received, and compulsory pension insurance for employees includes old-age, disability and survivor's pensions [5].

A.I. In Fedotov's research, the positive aspects of the accumulative pension system are recognized as one of the main conditions for ensuring social justice

in society, creating social guarantees, creating and maintaining political stability. At the same time, there are negative features of the funded pension system. In particular, countries undergoing pension reform may face problems with the introduction and operation of a funded pension system and its acceptance by the general population. Moreover, "for countries that are just beginning to reform their pensions, these problems may be exacerbated by the interaction of the funded pension system with the distributed pension system" [6]. The system also has a high level of financial risk, which is a serious problem, especially in an unstable economy. However, the future of the funded pension system is relatively bright.

From the above, it is clear that the reform of the pension system will improve the financial stability of workers after work, the welfare of workers after retirement, the security of citizens in old age, as well as the protection of citizens from poverty in old age to create social guarantees, to create and ensure political stability.

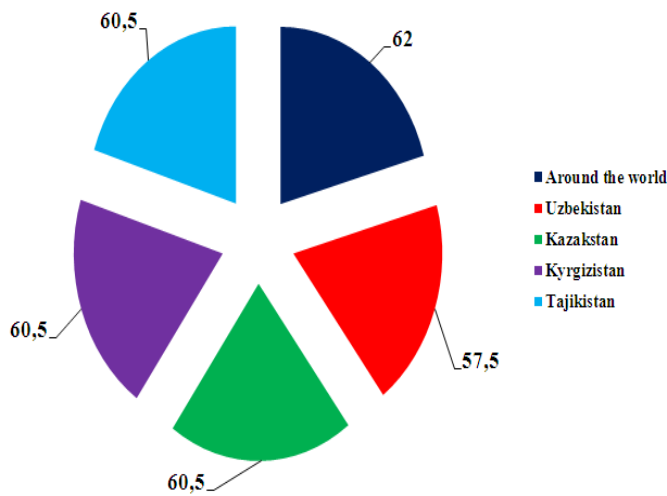
However, the reform of the pension system requires, first of all, on the basis of the demographic situation in each country and the development of the economy and other factors.

In recent years, the burden on the economically active population of the Republic of Uzbekistan on social contributions has been growing. According to demographic forecasts, the share of the population of retirement age is expected to increase sharply in 2019-2025 (average annual growth - 16 thousand people) age.

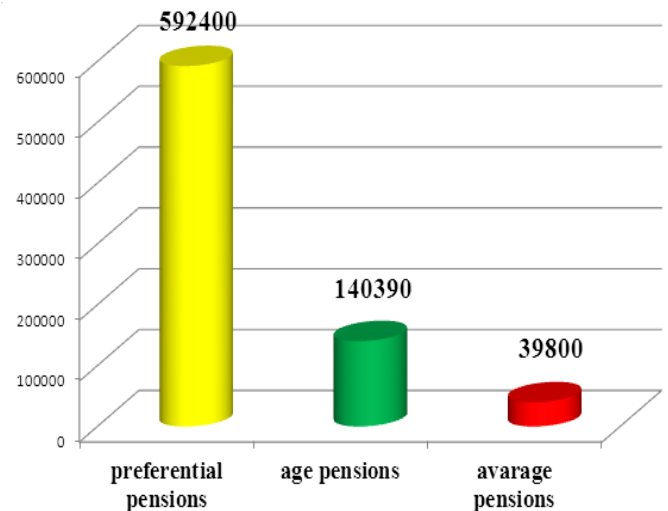
This in turn leads to a proportional increase in the Pension Fund's expenditures.

The analysis shows that the average retirement age in the world is 62 years for men and women, while in Uzbekistan it is 57.5 years (55 years for women and 60 years for men). In Central Asian countries, such as Kazakhstan, Kyrgyzstan, and Tajikistan, the retirement age is 63 for men and 58 for women. In Kazakhstan, the retirement age for women has been raised to 63 years, with a gradual increase of the retirement age by 6 months each year.

Average year pensioners



Average years pensioners. Source: <https://www.stat.uz>



Average years pensioners. Source: <https://www.stat.uz>

Maintaining a balance between the amount of social contributions and payments is a key principle that ensures the insurance nature of the pension provision of the employed population and is an impact mechanism that encourages its financial participation in the financing of the pension system.

The mechanism for encouraging continuous and long-term participation of citizens in the social insurance system remains complex and unclear, resulting in an estimated 10.2 million people of working age. The person is not covered by the state social insurance, ie does not make social contributions to the extra-budgetary Pension Fund.

According to the requirements of the International Labor Organization, the ratio of the number of contributors to the number of pensioners for the sustainable development of the pension system should be 1: 4. However, today in Uzbekistan this figure averages 1: 1.5. It should be noted that the ratio of retirees to the working population increased from 61% in 2009 to 66% in 2017.

A significant part of the Pension Fund's resources is used to finance preferential pensions and pension supplements. The share of preferential pensions is 592.4 thousand people or 19.5% of total pensions, of which age pensions are 23.7%. An average of 39.8 thousand preferential pensions are granted annually.

At the same time, the average amount of preferential pensions is higher than the average amount of old-age pensions (543.2 thousand soums). - Pensions on List No. 1 are 1,025.4 thousand soums. There is also a correlation between the amount of the pension and the share of the employee's length of service. The current pension system provides for pensions for people with at least 7 years of service. This right allows only those who have worked for 7 years and have made the least contribution to the formation of the Pension Fund for the entire period of their ability to work to receive a pension.

The existence of a minimum requirement of 7 years of work experience has a negative impact on the participation of citizens in state social insurance. For example, the difference between the pension of a man with an average salary of 30 years (required - 25 years) and the pension of a man with 10 years of service (minimum required - 7 years) is about 200 thousand soums. forms.

Weak mechanisms to encourage long-term and continuous participation in social insurance force workers to look for new ways to avoid paying insurance premiums. All this requires a reconsideration of the basic approaches of the social protection system in the field of pensions.

The Government of the Republic of Uzbekistan has adopted a program of measures to prepare proposals for a comprehensive study and development of the pension system and to develop a Concept for the reform of the pension system in 2019-2030. This program includes:

To study, analyze and develop proposals for the current state of the pension system. The World Bank, in collaboration with experts from the United Nations Development Program, will identify key conceptual areas for the pension system.



The study of improving the efficiency and social justice of the pension system includes:

- reconsider the establishment of norms and standards for the allocation of social benefits for the poor;

- revise the existing mechanisms for awarding and paying pensions (social benefits) to the elderly and disabled, as well as to those who do not have the required length of service required for the award of state pensions;

- preparation of proposals on optimization of benefits in the appointment of preferential pensions;

- preparation of proposals to expand the coverage of social contributors;

- preparation of analytical materials and proposals to improve the efficiency of the pension system and ensure social justice.

In the study of incentive mechanisms in the pension system of citizens, the following are considered:

- Encourage long-term and continuous participation of citizens in the pension system;

- increase in the amount of pensions depending on the length of service and the amount of salary (above the required standards);

- Encouragement of length of service "exit from the shadow economy";

- Develop and substantiate proposals to radically increase the number of pensioners by involving migrant workers and the informal sector in the social insurance system, ensuring the transparency of pension contributions;

- It is planned to prepare analytical materials and proposals to encourage long-term and continuous participation in the pension system.

- Study of the mechanism of voluntary participation of citizens in the social insurance (pension) system:

- comprehensive study of issues related to the conditions of voluntary participation of citizens in the social (pension) insurance system;

- giving citizens the right to pay water insurance premiums for third parties on a voluntary basis. To offer the right to voluntarily pay insurance contributions to the Pension Fund for an unemployed spouse at the expense of the working husband's (wife's) income in the form of wages. In particular, to offer citizens who have reached retirement age, but do not have the required length of service, the right to pay a lump sum insurance premiums to the Pension Fund for each month of length of service, which is not enough in the calculation of state pensions. Many countries around the world have a system of voluntary insurance contributions to the Pension Fund for unemployed spouses. For example, in Japan this system is mandatory, such a system also exists in Sweden and the United Kingdom [7];

- prevention of problems that negatively affect the development of the system of mandatory and voluntary funded pensions, as well as increase the profitability of funded pension funds;

Preparation of analytical materials and proposals on strengthening mechanisms to encourage the participation of citizens in the pension system, including the funded pension system.

To study the conditions for ensuring the financial equivalence of generations and the financial stability of the pension system:

to study the conditions of the minimum length of service required for the award of an old-age pension (the minimum length of service required for the award of an old-age pension in the International Labor Organization Convention No. 102 on Minimum Welfare Standards [8] is 15 years). defined as

In many countries of the world, including the Commonwealth of Independent States, the minimum length of service required is 10-15 years);

It envisages a gradual increase in the retirement age based on the study of best international practices, including the experience of the Commonwealth of Independent States, and based on sound calculations.

CONCLUSIONS AND SUGGESTIONS

Based on the above, it is expedient to pay attention to the following issues in the reform and development of the state pension system in Uzbekistan:

- Improving the legal and regulatory framework of the pension system In this regard, adopted on September 3, 1993 "On state pensions" and approved by the Cabinet of Ministers of the Republic of Uzbekistan on September 8, 2011 "On the procedure for appointment and payment of state pensions." It is expedient to make relevant amendments to the Charter, to adopt them in the new edition, to develop a draft Code of Social Security;

- Establish a non-governmental pension system and create an effective system for regulating their activities, taking into account the experience of foreign countries;

- Development of incentives for participation in the social insurance system, taking into account the experience of foreign countries;

- Further intensification of the use of modern information and communication technologies in the pension system.

- Improving the mechanism of legalization of citizens' incomes, including the expansion of the coverage of self-employed and migrant workers;

- Introduction of "Electronic Pension Services" (E-Pension) system in the Extra-budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan and its regional departments and divisions



in order to create more convenience for pensioners and pensioners;

- In order to increase the effectiveness of financial control over the activities of the pension system, it would be expedient to take measures to connect the civil registry offices (CSOs) with the regional branches of the Pension Fund (electronic communication). This is due to the fact that as soon as the information on the registration of deaths of citizens in the civil registry offices reaches the regional offices of the Fund, it will be possible to eliminate cases of excessive time spent by employees.

As a result of the implementation of the above proposals and recommendations, the following results can be achieved:

- within the framework of a fully formed state pension system, a system of decent pensions will be formed;

- A system of high-quality services for pensioners and social pensioners will be established;

- The system of combined forms of pension rights on the basis of state and non-state pension provision (development of a three-tier pension system) will be improved;

- Increases the efficiency of the funded pension system.

In conclusion, in the process of transition to the digital economy, the improvement of extra-budgetary Pension Fund management on the basis of modern information technologies will improve the efficiency of pension and pension services, interactive electronic appointment of pensions and benefits, reducing the human factor in determining pensions. To some extent, this will help ensure transparency in the management of the pension system, increase public confidence in the pension fund, and further expand the coverage of insurance premiums.

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