ANALYSIS OF ACCUMULATIVE PENSION SCHEME IN UZBEKISTAN

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Abstract. Socially oriented method of transition to market economy sets all priorities based on the aspects of development policy and current socio-economic condition. Social protection and welfare policy plays the central role and reflects essence of tendency of national development and prosperity of population. Wide range of social protection forms including various pension schemes hold particular importance in execution of state social policy. Accumulative pension scheme is a newly introduced type of public pension provision which has significance and multifaceted importance for prospective future. This article highlights the structure, importance and role of accumulative pension scheme.

Key words: pension, savings, retirement, accumulative pension scheme, mandatory pension, voluntarily pension, pension benefit, retirement and disability pensions.

One of the prerequisites of market economy is the protection of human rights and opportunities. Government must take legislative measures to enhance the life conditions of population and support their attempts by launching the legislative means. Development of market relations, improvements in public-private ownership ratio have the direct effect on social protection system.

In this respect, in his speech the President of the Republic of Uzbekistan Islam Karimov stressed that Uzbekistan achieved the socio-economic stability, improved through diversification and modernization, life condition of nation improved significantly due to stable and dynamic growth of national economy in the joint meeting held at the Cabinet of Ministers dedicated to socio-economic achievements in 2013 and priority tasks for 2014. In 2013 salaries and pensions increased 20.8 per cent, real income of population rose 16 percent. Public spending on social sector was kept in the highest share and constituted 59.3 percent of total public expenditures (Karimov, 2014). This indicator serves for ensuring the national prosperity and social protection.

While complex strategy of socially oriented market economy infrastructure is reflected in five broad principles, it encompasses the all aspects of life. In order to create strong, systematic and flexible mechanism of social protection during transition to market economy Uzbekistan established the accumulative pension scheme in 2010 according to the Presidential Decree no.4161 “On the further improvement measures of civil pension provision system”.

In international practice following three funding and management mechanisms of pension provision are widely used:
1. Public budget transfer schemes funded by current budget revenues.
2. Mandatory and voluntary pension schemes
3. Insurance against investment risks derived from loss or depreciation of pensions due to inflation and economic crises.

Pension system reform requires the synchronized simultaneous adjustments and reforms in labor market, monetary and tax policies. In addition, reform strategy should not neglect the ethnicity, national traditions and families and proportion of age groups in total population (Qosimova, 2007).

Pension plan is a large flow of financial resource distribution, it strongly influences on the stimulus for circular flow of goods and services, resources and income as well as economic activity of population. Pension system and other segments of economy have a direct link so properly established pension system can serve as a source of financing the investments. Charges of accumulative pension scheme are fixed in comparatively higher rates than public pension plan and it creates a room for reserve funds for future investments (Stojiddinova, 2010).

Public pension schemes can be classified in following three models:
- Mandatory pension scheme which is controlled by the government. This model has a particularity in
the calculation of the amount of pension because calculation is based on retiree’s wage and financed bycharger from employers and employees;

- Social pension system provided by mandatory funding system which financed from public budget subsidies allocated to retirees who gained the required minimal length of work;
- Pension system which is based on the full capitalization and funding, and conducted via individual pension accounts.

International experience shows that public spending on pension does not suffice to achieve the expected efficiency. Nowadays in global practice three main direction of financing the pension expenditures exist – public pension scheme which guarantees the minimum amount of pension, contributory pension scheme which provides additional pension through labour associations, private pension schemes which deals with financial circumstance of citizens. Currently abovementioned schemes are successfully used in the United States, the Netherlands, Great Britain, Germany, Switzerland, Italia etc. (Khayitov and Ziyadullayev, 2009).

The accumulative pension fund is a form of social protection from the loss of job, validity, income and other various accidents. Accumulative pension fund is specialized fund for preventing the loss of work capability due to retirement, illness and accidents. Organization and regulation of this fund’s work is fulfilled by government (Qosimova and Karimova, 2009).

Especially, initial steps were taken by establishment of legal fundaments and material-technical basis in Resolution of the Cabinet of Ministers no. 595 declared in December 21, 2004 and the Decree of the President of the Republic of Uzbekistan PD-110 in June 28, 2005.

Key players of accumulative pension scheme are employees hired by enterprises and organizations indifferent ownership titles, sole proprietors and other citizens, their representatives, businesses, regional branches and outlets of State Commercial Bank of Khalk Banki, and regional social protection and welfare offices.

According to the law, all employed citizens must to pay 1 per cent of their monthly wage to their special accumulative pension accounts in branches and outlets of State Commercial Bank of Khalk Banki. This amount of money is a deduction of income tax for 1 per cent and guaranteed opportunity for saving in future. If the person is employed by two or more employers, he must pay the mandatory rate only from income gained by main job. Employee is given a record book of amounts of accumulated pensions. Employers must pay the fee monthly to the pension accounts in the branches of Khalk Banki from the monthly wage of employees.

The Ministry of Finance and the Central Bank of the Republic of Uzbekistan control and regulates the efficient use, ensuring the investment and revenue facilities, organization of proper and transparent spending of accumulated pension resources. In absence of legal recipients of accumulative pension their representatives or legatees are legally allowed to receive the accumulated amount of the pension. If an employee converts the citizenship, his accumulated pension is returned fully. Withdrawal of funds from accumulated pension can be done partly and fully in any time based on employee’s option.

As one of the instruments of social protection accumulated pension schemes are widely used in international practice. It is also notable that nearly in all cases it has brought its benefits and positive effects. Having the same economic and legal status, the unique economic and legal view CIS states have introduced accumulative pension scheme.

As stressed above accumulative pension scheme differs across countries in terms of form and method, management and other properties, its essence is, unique and core, to save the income earned in the validity to work, economic active and young period of life for future when social risks obscure prosperous life.

Nowadays distributive pension system functions in Uzbekistan. Civil Public Pension Provision Law serves as the legal and legislative basis for pension system which reflects the constitutional right for retirement (old age) pensions, disability pensions, and pension for the loss of a breadwinner. The law outlines the nationwide single pension system, pension benefit eligibility criteria, benefit calculation, and recalculation and delivery procedures.

Accumulative pension scheme as we already stated above is established on the basis of State Commercial Bank of Khalk Banki. Khalk Banki conducts the accounting of citizens who use the scheme, conducting payment operations with the accumulative pension accounts, floatation operations of accumulated assets to reliable financial instruments. In this process maximum share and list of assets in floatation is determined by Ministry of Finance and the Central Bank of Uzbekistan.

Through the adoption of this law, transition to more efficient pension system, significant increase and improvement in life quality of pensioners are expected. If the financial benefits of players are considered, new
system gives a wide opportunity to attract the population employed in informal and self-employed sector to accumulative pension scheme.

After the launch of new accumulated pension scheme, generated resources may become the sources of investment and develop the national financial market, be used for financial influence on real sector of economy. Taking all into account, financial instruments may possibly augmented in order to investing the pension assets. Furthermore, pension assets may be invested in long term investment projects which require long term financial resources (Vohobov, 2003).

Resolution of the Cabinet of Ministers no. 595 about the execution of and enforcement measures Civil Public Pension Provision Law declared in December 21, 2004 was targeted to provide population who need moral and material support in retirement age.

Being an additional source of income, the accumulative pension scheme stimulates the young and labor-eligible employees to work harder and more efficient, earning more wage and eventually increasing the amount of accumulative pension in their pension account, in line with payment of the accumulative pension rate from the amount of personal income tax which does not affect the financial circumstances of both employers and employees (Tuxtarova, 2010).

The government approved the discipline on floatation of accumulative pension fund resources in investments and credit resources. According to the discipline, accumulated funds are placed in the shown objects in Figure 1.

![Fig. 1. Floatation of funds of accumulated pension scheme](image)

Coordination board requires the following responding the following requirements for investing and crediting the funds of accumulated pension scheme:

a) sufficient experience of credit association  
b) requirements of adequacy of assets, composition and structure;  
c) minimum requirements for private capital of credit union or an organization;  
d) quality of corporate stocks and financial stability of issuers.

Introduction and gradual adoption of the accumulative pension scheme strengthen the position of advanced social protection policy which has a particular priority in the long term development strategy of the Republic of Uzbekistan. Accumulative pension scheme plays the central role in ensuring the social equality, political stability and economic prosperity in Uzbekistan.

References