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Content

PUBLIC POLICIES

Three Years of Petro Poroshenko's Presidency: the Interim Results and Future Prospects	1
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ECONOMIC ANALYSIS

Pension reform: challenges and prospects.....	5
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Public Policies



Three Years of Petro Poroshenko's Presidency: the Interim Results and Future Prospects

Three years of Petro Poroshenko's presidency have led to the concentration of full state power in his hands and almost sole management over internal and foreign policy, despite a parliamentary-presidential form of governance. A distinctive feature of his leadership is an authoritarian management style, building of powerful presidential vertical relying on security forces, controlled media and closest allies. As of now, the President has failed to implement deep systemic internal reforms, stop armed conflict and restore sovereignty, whilst the list of his accomplishments is limited to the introduction of a visa-free regime with the EU and several reforms, which, however, have left the corrupt oligarchic model intact.

Despite the low level of public support, the virtual absence of strong competitors and a monopolistic control of key areas of governance make plans for the President's re-election realistic. As of mid-2017, there are three basic scenarios for the further development of this situation in the state, including the possible re-election for a second term. Given the number of domestic and foreign political factors, the final decisions on the further behaviour strategies of Petro Poroshenko will be made in the coming few months.

Three years have passed since the election of the President Petro Poroshenko on May 25, 2014. Absolute victory in the first round was brought by 54.7% of the vote. However, over the three years, the number of Ukrainians willing to vote for the incumbent President decreased by five times and according to various sources is 10% (Sociological Group "Rating") – 12% (Razumkov Centre). The reasons for such loss of political capital are not only failure to keep generous election promises, but more importantly, the

preservation of features belonging to a corrupt oligarchic model of governance, which led to the Revolution of Dignity in 2013. Ratings of the President are also falling due to a failure to restore peace, territorial integrity and economic growth in Ukraine.

The most important issue of both the election campaign and activities of President Petro Poroshenko, was the settlement of the armed conflict in eastern Ukraine. The promise to settle the conflict with Russia, operatively end ATO and restore sovereignty "had helped" him to get such a confident victory in the election. The need for an urgent election of the head of state for the immediate resolution of the situation in the east was the main thesis of the entire election campaign of the Poroshenko's team.

However, fairly quickly the Poroshenko's rhetoric of peace evolved to a more militaristic position. Active diplomatic processes on the settlement of conflict in eastern Ukraine started only after painful defeats near Ilovaik and Debaltsevo, although the achieved peace agreements packages "Minsk-1" and "Minsk-2" failed to stop the conflict, as well as negotiations within the "Normandy Four" or Minsk negotiation format. Despite the fact that hostilities are continuing every day, there is no clear plan of peace settlement in Donbas from the authorities and the Crimean issue is altogether withdrawn beyond the negotiation process. The President supported the Donbas blockade and he has been actively using tough anti-Russian rhetoric in all his public appearances in the country and abroad.

De-jure the presidential powers are under the Constitution of 2014, de-facto Petro Poroshenko has a lot of formal and informal mechanisms to influence the political process in Ukraine

Although de-jure the presidential powers are limited by provisions of the acting Constitution, de-facto he has enough formal and informal mechanisms to influence the political process in Ukraine. These mechanisms provide him with a full state power control not only on the Ministry of Foreign Affairs, Ministry of Defense, Prosecutor General's Office or Security Service, but

on the whole Cabinet of Ministers and the Parliament, regional administrations and judicial proceedings. With a parliamentary majority, the President's necessary decisions almost always find support in the parliament's hall.

The President's necessary decisions almost always find support in the parliament's hall

However, every year the disagreements inside the BPP party (many MPs from the presidential faction are opposition-minded, though they don't abandon its ranks) and among the partners in the ruling coalition are growing. However, these disagreements haven't gained a critical mass yet and they are displayed in the current 'anemic state' of the Ukrainian Parliament, when it is necessary to make significant efforts for adoption of any meaningful decisions.

Many MPs from the presidential faction are opposition-minded, though they don't abandon its ranks

The President's influence on the Cabinet of Ministers is limited by the Constitution of Ukraine, but the President's position in the government is crucial. The current PM Volodymyr Groysman represents the interests of Poroshenko, but there are some conflicts between them. The tension is strengthened by the Prime Minister's desire to create his own political force for the next parliamentary elections and the part of "People's Front", "Samopomich" and deputies' group "Renaissance" can support him.

There are permanent conflicts between Groysman and Poroshenko. The reason is the Prime Minister's attempts to become an independent player, to create his own political party

Among the four existing law enforcement agencies in Ukraine the heads of three (SSU, PGO, NABU) are one way or another legally and personally dependent on the president. The exception is the Minister of Internal Affairs Arsen Avakov appointed under the quota of Arseniy Yatsenyuk on February, 27 2014.

There are four powerful law enforcement agencies in Ukraine the heads of which, except for the Minister of Internal Affairs, are one way or another legally dependent on the president

He remained on the position even after the change of the head of the government in 2016. In fact, Avakov today remains one of the few figures in the current Ukrainian politics, who is increasingly acting as a counterweight to the growing influence of Petro Poroshenko.

Arsen Avakov is one of the key figures in the current Ukrainian politics, who creates a counterweight to the growing influence of Petro Poroshenko

Despite the establishment of an official platform for negotiations with big business – the National Investment Council – the President could not rid of oligarchs. The course on de-oligarchization, declared by the president, actually became the transformation of Ukrainian “poli-oligarchy” to “mono-oligarchy.” The role and influence on Ukrainian politics and business of Rinat Akhmetov, Viktor Pinchuk, and even more – Igor Kolomoisky or Dmytro Firtash – is now significantly limited and depends on agreements with parties.

Thus, the current president actually has the full power needed to control the situation in the country. Nevertheless, this full power has not transformed into deep systemic reform. In fact, the model of power is similar to that of which existed before the Maidan and the achievements of the past three years are confined to the introduction of the visa regime with the EU, increasing the combat capability of Ukrainian army and “halfway” reforms in specific areas.

Foreign Policy

Despite the new geopolitical circumstances, the foreign policy of Petro Poroshenko's presidency is still determined by the Law of Ukraine “On Foundations of Internal and Foreign Policy”, adopted under Viktor Yanukovych. The only amendment to this law concerning foreign policy, was the abolition of non-aligned status of Ukraine and the renewal of the course towards NATO membership. On the contrary,

the National Security Strategy of Ukraine dated May 26, 2015 cover foreign policy areas in terms of the current situation more accurately. The Strategy contains provisions on integration into EU structures, a special partnership with NATO, strengthening regional security and other areas of foreign policy activity. The said document makes apparent the “westernization” and “securitization” of foreign policy of Ukraine after Poroshenko came into power.



Ukraine's foreign policy is still determined by the law passed under the presidency of Yanukovych

During the three years of Poroshenko's presidency, Ukraine has made progress in respect to **European integration**. The Association Agreement between Ukraine and the EU has entered into force, a deep and comprehensive free trade area (DCFTA) operates, which simplifies access of Ukrainian goods to the EU market. On June 11, 2017 visa-free regime was launched, which became one of the most notable foreign policy achievements of Ukraine. Petro Poroshenko and BPP have already begun to actively use the visa-free regime as a trump card for the next election campaign.

Rapprochement between Kyiv and Brussels is hindered by the slow pace of reforms and fighting corruption. On the other hand, the political contradictions within the EU on the backdrop of a migration crisis, financial problems, Brexit and a feeling of euroscepticism pushed Ukraine to the periphery of interests for Brussels.

Under the presidency of Petro Poroshenko, Ukraine actually used 'the window of opportunities' in the field of European integration that the EU was willing to provide to official Kyiv at the current stage. As a result, in the near future the priority of pro-European vectors in Ukraine may depend on the EU readiness to offer new formats of rapprochement or other attractive incentives for internal transformations in the absence of the EU membership perspective.

Poroshenko was counting on active US assistance in counteracting Russian aggression, but the 'Ukrainian crisis' was not a priority for Barack Obama's administration. Among a number of appeals from Kyiv to Washington over the last three years – a request to strengthen sanctions against Russia, to provide Ukraine with lethal weapons and the status of the main ally outside NATO, to join Normandy format – Ukraine support was limited to the sanctions against Russia, non-lethal weapons supply to Ukraine, joint military exercises for Ukrainian armed troops, as well as the development assistance.

In the absence of new incentives further reforms in Ukraine become in doubt

The new US president continues the policy of the previous administration concerning the 'Ukrainian crisis.' Currently US passivity on the Ukrainian-Russian conflict could be explained partially by the fact that Trump administration hasn't yet formed a policy towards Russia and it is mainly focused on the challenges in the Middle East and Asia-Pacific region. However, without attractive initiatives Ukraine can hardly expect a significant increase in the US support under the present circumstances.

Trump hasn't defined his policy towards Ukraine yet

Key foreign policy challenges for Ukraine are related to Russia. Poroshenko took office as the President during the escalation of armed conflict in Donbas. With high support of the society at the beginning, Poroshenko tried to liberate Donbas territory from pro-Russian militants by force. In return, Russia's military intervention has led to a series of defeats of Ukrainian troops and forced Kyiv to sign disadvantageous peace agreements with illegal armed units – Minsk-1 in September, 2014 and Minsk-2 in February, 2015.

Poroshenko with the support of Normandy format managed to institutionalize the conflict. Thus, Ukraine has managed to turn the war in Donbas into a low intensity conflict, to maintain Western sanctions against Russia, to withstand international pressure on the issue of implementation of Minsk II political provisions (including granting special status to non-controlled territories and enactment of the Law on local elections in non-controlled territories). At the same time the Minsk process has stalled due to the lack of security mechanisms.

Poroshenko with the international support turned the war in Donbas into a low intensity conflict

Over the past three years, Ukraine has tried to use institutional methods to counter Russian aggression. In July 2015, Ukraine was one of the initiators of the UN Security Council resolution on the establishment of the International Criminal Tribunal on the MH17 crash, which was vetoed by Russia. In December, 2016 the UN General Assembly adopted a resolution on the human rights situation in Crimea, where Russia for the first time at the UN was named as the occupant state. In addition, the International Court of Justice is currently considering Ukraine's lawsuit against Russia in terms of violations of the Convention on the Elimination of All Forms of Racial Discrimination and the Convention for the Suppression of the Financing of Terrorism and the International Criminal Court is investigating crimes committed in the Crimea and Donbas after 2014.



Ukraine has used international arbitration to fight against Russia

Against the background of the developments surrounding Crimea and Donbas, the gap in the post-Soviet ties between Ukraine and Russia is growing. This is supported by a number of restrictive measures of Ukraine, such as: termination of bilateral military-technical cooperation, cancellation of direct air communication, banning a number of Russian websites, as well as the reduction of bilateral trade and an increased emphasis on energy independence from Russia and others.

Thus, over the three years of Petro Poroshenko's presidency, Ukraine has remained as a state but is lumpen with an outdated vision of Ukraine's role in the world, as demonstrated by a reactive position to the dynamic changes in the geopolitical environment, a deficit of structural initiatives and an unreformed diplomatic service on the backdrop of military intervention. Improving the international position of Ukraine should be started through the revision of priority objectives of Ukrainian foreign policy and the reforming of the diplomatic service.

Ukraine needs its foreign policy to be reviewed

What's next?

Petro Poroshenko and his team have not yet agreed on the final strategy for re-election for a second term. Given the current rhetoric of the President it can be stated that the future of the presidential campaign of Petro Poroshenko may be based on such messages as "opening doors to Europe" and "away from Putin's Russia." The President plans to focus on the patriotic wave in the society, pointing to the movement to the EU and NATO. However, the rating of the President and his political force has been steadily declining, and criticism from society is becoming more rigid. Public trust is almost lost, and even the PR campaign on the 'visa waiver' is unlikely to allow to easily get victory in the next presidential election. In this regard, there are several scenarios to follow.



Scenario No. 1: Political reform

Under the condition of low rating and illusive chances for re-election, Petro Poroshenko may decide to change the basic law and undertake a transformation of Ukraine into a parliamentary republic. The main condition for this should be allocating the post of Prime Minister to him, which under such conditions, will mean retaining all the powers. The initiators of this idea are trying to convince Petro Poroshenko that otherwise he cannot win, and thus the President will show the Ukrainians that he is against the dualism of power – the constant struggle between the President and Prime Minister, as in the case of such reform all the fullness of the powers is transferred to Parliament and the government, which is fully formed by the Verkhovna Rada.

The scenario stipulates the abolition or substantial weakening of the institution of the President

The Parliament itself may be changed and it may consist of 2 chambers. The lower chamber will consist of 300 deputies, and their competence will include the formation and control of the government, the upper chamber will consist of 150 majority deputies who will be responsible for working with the regions and heads of local administrations. It is therefore proposed to restrict the President's right to appoint the heads of regional administrations, and the Parliament will take the appropriate authority. The President will keep a purely decorative function.

This scenario is now very actively discussed in the Ukrainian political elite, supported by the leadership of the People's Front and by many politicians.

Scenario No. 2 “Strong hand”

This scenario involves a kind of ‘Erdoganisation’ of Ukrainian politics, with simultaneous strengthening of the authoritarian tendencies of the President and support by own resources.

The actions and management style of the President now give reason to believe that this scenario for him is the most acceptable. In the President's environment such ideas are being actively discussed, and the monopolization of power may easily allow to implement them. However, this scenario is the most risky, as it can quickly increase the tension and confrontation in Ukrainian society up to national protests and “a third Maidan”.

Further concentration of power and resources in the hands of the President could lead to a «third Maidan»

Scenario No. 3 Selection of the “right” opponent

The main scenario to maintain power in the hands of the current political management is the re-election of Petro Poroshenko for the second term, using the “easy opponent “ in the second round of voting. Most likely, a politician who today can win the second round of the presidential elections with the current President is Yuliia Tymoshenko.

Yuriy Boiko is the most convenient opponent for the current President

Presidential Administration is seriously concerned about the ratings of Yuliia Tymoshenko and is planning to make every effort to prevent

her victory. According to polls, in the case Petro Poroshenko and Yuliia Tymoshenko reach the second round, the leader of “Batkivshchyna” wins. The same result will be in case of a combination “Poroshenko – Hrytsenko” and “Poroshenko-Sadovyi”. The President can win only over Yuriy Boyko. That is why the ‘technological scenario’ of the re-election of Petro Poroshenko today is to discredit candidates who can win in the second round, and the support of the candidate from the Opposition bloc or right-wing forces, which Poroshenko would win on the wave of “vote against the worst evil.”

Thus, most of the achievements of President over the past three years are halfway, or those that are in the process of implementation, but without any prospects. Major presidential achievements include an increase in funding for the army, the signing of the Association Agreement with the EU, the validation of the election of mayors in two rounds, the availability of information on incomes and expenses of officials for the general public and the visa-free regime with the EU. The situation around Donbas and Crimea, decentralization of power, reform of law enforcement, judicial systems, CEC, completion of high-profile cases, and the abolishment of offshore accounts remain unresolved. The promises to sell the concerns ‘Roshen’ and ‘Channel 5’ are also unfulfilled.

In his activities, he is guided more by situational interests, rather than fundamental objectives. All the key positions in the country are given to loyal people, but not professionals, who are not independent in making decisions. The main priority for Petro Poroshenko is the marginalization of political opponents, deoligarchization of business to his advantage and re-election for the second term.

Economic Analysis



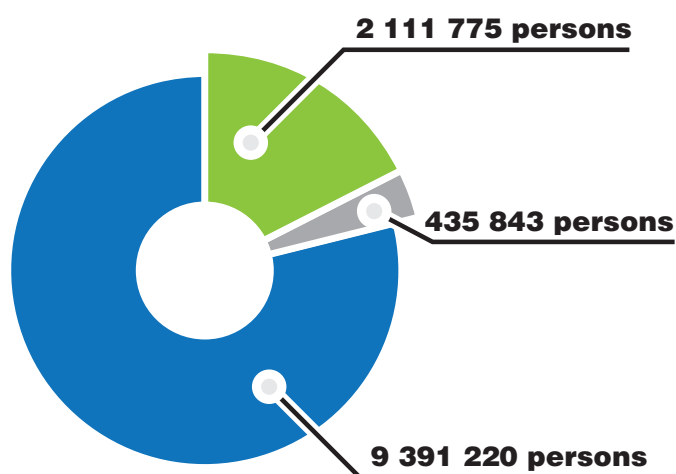
Pension reform: challenges and prospects

Attempts to implement pension reform in Ukraine have been undertaken for the last 25 years. However, the result is not comforting. Working Ukrainians have no stimuli to pay pension contributions; there is a chronic deficit of the Pension Fund, which puts pressure on the state budget; at the same time, the amount Ukraine spends for pensions is almost the biggest amount in the world (in percent of GDP), and until recently had a very high 'labor taxes', encouraging the motivation of business to go into shadow. Reforms are difficult to undertake due to many objective and subjective factors, including the complex demographic situation, high level of involvement through the shadow economy, imbalances in the budget and political populism. After the completion of the Revo-

lution of Dignity we are witnessing a new wave of attempts to improve the existing pension reform, which is carried out in terms of attention from the international community, primarily the IMF, as well as in the conditions of fierce political competition.

After gaining independence, Ukraine, which inherited a Soviet pension style, began questioning whether the formation of a new pension system, which would be consistent with current socio-economic conditions would be possible. Since independence was gained, there have been several attempts of systemic changes to the pension system. One of the key efforts was the adoption of a very progressive law 'On mandatory state pension insurance' in 2003. The new law provided for carrying out the pension system reform in Ukraine, the establishment of solidarity, mandatory public and private pension systems, and also related the level of

THE DISTRIBUTION OF PENSIONERS BY SIZE OF PENSION AS OF 01.01.2017



17,0%

**The size of pension from
UAH 2000 to UAH 4000**

3,7%

The size of pension up to UAH 4000

78,7%

The size of pension up to UAH 2000

pensions to the length of professional experience and wages in Ukraine.

However, in practice the law has not led to real reforms, has not solved the problem of the permanent deficit of the Pension Fund, has not provided the implementation of a state funded system of pension provision and cannot guarantee a decent level of pension provision for citizens.

Since Ukraine gained independence, there were several attempts to reform the pension system

This happened due to a number of circumstances, in particular:

- During consideration of the law within parliament, the norm on long-term sustainability of pension systems and the rate of gradual increase in the retirement age to 60 years for women and 65 years for men was eliminated.
- The law did not solve the problem of privileged pensions: 'VIP-retirees' continued to receive pension much bigger than objective economic circumstances could maintain.

– The law also did not solve the problem of high tax burdens on the Salary Fund associated with pension contributions.

– The entry into force of a second level of pension reform (obligatory state insurance) was postponed until the adoption of a separate law on the launch of the Cumulative Fund of obligatory pension insurance

However, the populism of politicians in the race for electoral support was the biggest problem. Buying electoral loyalty of pensioners became a trend. For example, from 2002 to 2010, the minimum amount of pensions increased by 9 times, while the average salary increased only by 3.4 times. Another problem is the existence of privileged pensions and early retirement for certain segments of the population. As a result, Ukraine was in a vicious circle of rising budget deficit accompanied by the demographic problem. Increasing pension costs, it increased the deficit of the Fund. The simultaneous worsening of the demographic situation reduced the possible options to solve the problem.

Buying electoral loyalty of pensioners became a trend

Difficult demographic situation in Ukraine considerably complicates the design and im-

plementation of pension reform. One of the main demographic problems of Ukraine is the very high premature mortality and, as a consequence, one of the lowest in Europe, life expectancy, particularly among men.

One of the controversial parameters of the demographic situation in Ukraine is the fact that Ukraine is one of the oldest countries in the world. It is true, if we take into consideration only index of 60+, the proportion of the population over 60 years of age. However, the proportion of people aged 65+ in Ukraine is lower than in the EU (15.6 per cent vs 18.9% in EU in average) due to the fact that in the interval from 60 to 65 years a quite large number of people are dying.

One should also consider the fact that in Ukraine the average life expectancy of men is lower than in most developed countries. However, not only the absolute age of retirement and average life expectancy at the time of retirement preferential early retirement are important. Ukrainian women take one of the highest places in the world for life expectancy during retirement period – so, in 2012, it amounted to 23 years, which exceeded their average seniority. For men the average life expectancy at the

time of retirement is equal to 14 years, which is comparable to the similar indicator in other countries. At the same time, in Ukraine, almost half of men retire at age 60 and the rest – at 40, that is actually the average age of retirement is 55 years.

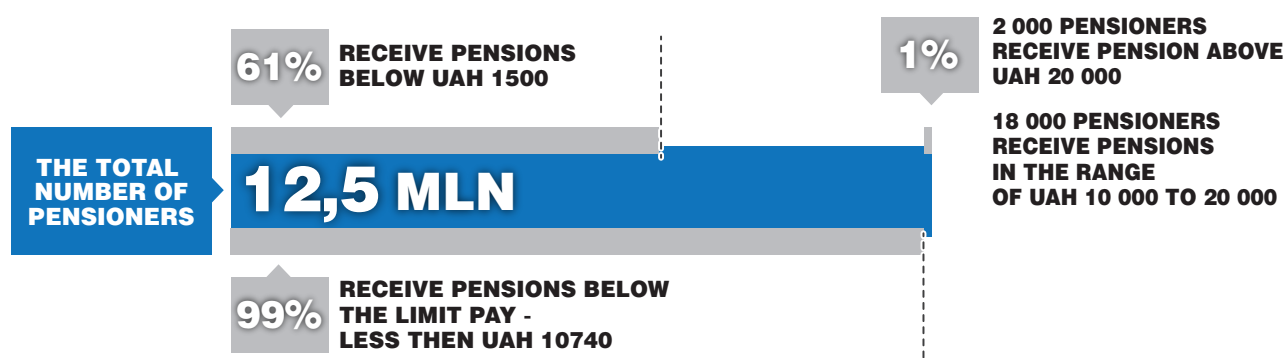
Difficult demographic situation complicates the design of pension reform

Another threatening trend is the aging of the population. The future level of population ageing and demographic burden will grow due to the reduction of the working period of the population. This will contribute to a catastrophic reduction in the birth rate that occurred in the 1990s.

As a result, as of 2017 in Ukraine there is the situation when for 12.5 million of pensioners there are 26 million people of working age of which only 176 million people are employed. Only 10 million of them pay UIP – base for the formation of the Pension Fund.

The budget for 2017 stipulates the Pension Fund deficit in the amount of 141.5 billion, representing 5.5% of GDP. Thus the Pension Fund is able

PENSIONS IN UKRAINE (END 2016), UAH



THE MAXIMUM PENSION IN 2017 IN UKRAINE

58 000 UAH

THIS IS THE PENSION OF UKRAINIAN HEROES AND TESTING PILOTS

MINIMUM PENSION IN 2017 IN UKRAINE

FROM JANUARY 1
1 247

FROM MAY 1
1 312

FROM DECEMBER 1
1 373

to finance a deficit to less than half of its costs. A similar situation was observed in 2016 – for the volume of the Pension Fund in the amount of UAH 257 billion the deficit was equal to UAH145 billion.

Pension Fund is able to finance deficit to less than half of its costs

Now in Ukraine the pension costs amount to 15% of GDP, which is one of the highest in Europe and significantly higher than many countries with significantly higher levels of aging such as Sweden, Finland, UK, Norway, Switzerland. The retirement age in our country remains one of the lowest in Europe – in fact, taking into account privileged pension at the age of 55, compared to 63.1 years in average in the EU countries. The average duration of employment in Ukraine – that is, the period during which a person earns a pension is the same for men and women (about 34 years). Also in 2016 in Ukraine there were 830 000 individuals under pension age, who received so-called “early” retirement.

The retirement age in our country remains one of the lowest in Europe

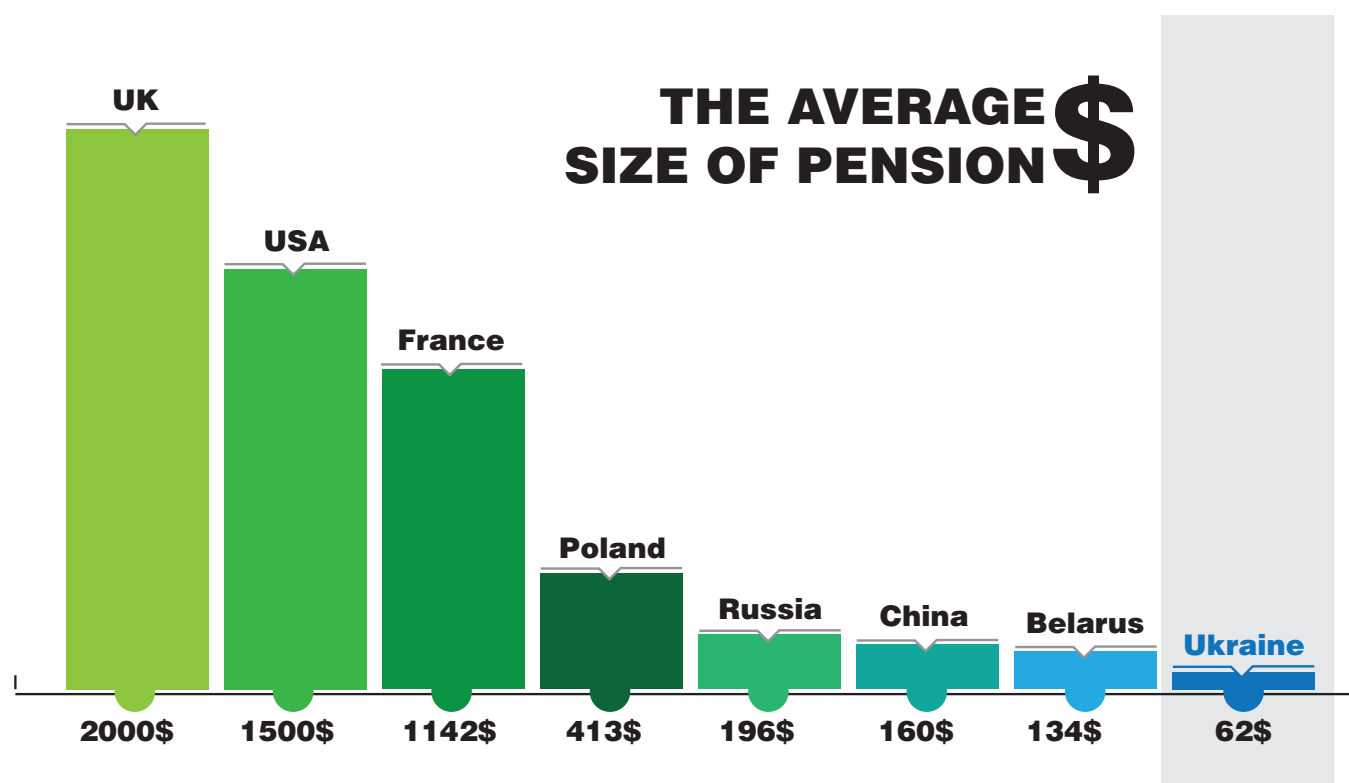
Therefore, the development of a draft pension reform occurred in a rather complex and stressful conditions. In May 2017, the Cabinet of Ministers under pressure of the IMF approved the draft project of a long-awaited pension reform. The current version of pension reform includes the following key points:

– Increase of the years of pensionable service from 15 to 25 years

According to the government's proposed reform, the retirement age remains at 60 years for persons with an insurance period of 25 years.

Now those who are 60 years old have the right to a retirement pension. The law specifies that these individuals must have been insured for 15 years.

From January 1, 2004 only the years of pensionable service are important for the accruals for pensions. Thus from this time the work book is not a confirmation of insurance. And the flexible corridor in the retirement age is introduced as well as the possibility of compensation of losses of insurance – citizens who do not have enough years of work experience in order to satisfy the requirement with minimum experience, will be able to pay contributions for the missing years (maximum 5 years).



SPECIAL PENSIONS IN UKRAINE (END OF 2016), UAH

JUDGE	16 586
A MEMBER OF THE CABINET OF MINISTERS	15 080
MP	15 057
PROSECUTOR	7 173
EMPLOYEE OF THE NATIONAL BANK	6 516
CUSTOM'S EMPLOYEE	4 663
CHERNOBYL VICTIM	3 382
MILITARY MAN	2 597

The proposed reform does not stipulate the increase of the retirement age

The draft reform project does not stipulate the raising of the retirement age, as demanded by the IMF.

– “Modernization” of pensions. 50% of pensioners will have increased pensions

For this, the government introduces single rules of determining of the amount of pension payments.

The introduction of new formula for calculating pensions for a uniform approach to the ‘old’ and ‘new’ pensioners using the average wage level UAH 3764,40 is planned. That is, it turns out that the rate at which pensions are calculated will be increased almost three times.

According to Prime Minister Groysman, as a result of this ‘modernization’ up to UAH 3764,40 more than 5 million pensioners, from October 1, 2017 will receive the increase of pensions of UAH 200 to UAH 1 thousand per month.

The introduction of such provision is due to the fact that a lot of pensioners who retired 10 years ago, get less pension than others who began to receive pensions recently. As of today, the amount of the pension depends on three factors: the employee’s salary, length of service and average wage in Ukraine, which is applied when calculating pensions.

The average salary is growing every year, therefore, the pensions of Ukrainians should be

recalculated but the last time such a recalculation took place in 2012 with the use of the average wage in Ukraine in 2007 – UAH 1197,91. During this time the average salary in Ukraine, which is applied when calculating the pension, increased to UAH 3764,4, or by more than three times. In a result, 2/3 of the pensions did not even reach the subsistence level.

Government introduces single rules of determining of the size of pension payments

– The taxation of pensions is abolished

From 1 October the taxation of pensions for working pensioners was abolished.

Now the pensions, the amount of which exceeds UAH 12470 (10 living minimums), are subject to taxation by the tax to incomes of physical persons at the rate of 18% and military duties at the rate of 1.5% of such excess.

– The abolition of the special conditions of retirement

Pensions for years of service will be assigned only for the military people.

The reform also stipulates that from January 1, 2018 the right for pensions for years of service for employees in education, health, social protection and other categories is revoked.

Pensions for years of service will be assigned only for the military people

The proposed tool is another method that should allow the government to reduce the number of pensioners.

– The establishment of a special regime for workers with harmful working conditions.

The draft reform provides that the company instead of reimbursement of pensions will pay a higher UIP for their employees engaged with harmful working conditions (with a gradual transition to a funded pension system). The draft proposes that for the persons who perform work in harmful and dangerous working conditions additional UIP should be paid – in the amount of 15%. That is, in general, for such employees the company will pay the single contribution at the rate of 37%. For all other categories of workers eligible for early retirement in hazardous working conditions, additional UIP will be equal to 7%. That is, in general, the employer will pay for such employees UIP at a rate of 29%.

It is also stipulated that additional contributions of UIP from January 1, 2019 for employees younger than 35 years will be accumulated in their individual pension accounts.

– The annual transfer of pensions

The draft stipulates an automatic rate of annual indexation (recalculation) of pensions to protect against inflation.

It is planned that the recalculation will take into account the financial possibilities of solidarity system – that is, if there is the growth of the economy and the budget is filled better.

Indexation of salaries would be tied to the growth rate of average monthly salary for three years

In this case, the government noted that indexation would be tied to the growth rate of average monthly salary for three years – not less than 50% of this growth and not less than 50% of the consumer price index.

– 15% reduction in pensions for working pensioners was abolished

From October 2017 the government proposes to abolish the 15-percent reduction of pensions for working pensioners. Among 2.3 million working pensioners the pensions are now reduced for 494 thousand of them. The draft project offers that those who work, should receive wages and pensions in full.

– Increase of social standards

It is stipulated that in 2017 there should be a second increase of social standards by 5% – from the 1st of October. The minimum pension in this case will be equal to UAH 1373. The increase in pensions will affect 9 million pensioners.

Thus, the government took a step towards fulfilling one of the main requirements of the International Monetary Fund for Ukraine to get the next tranche. However, the further fate of the proposed reform will depend on the Parliament and it is expected that it will cause fierce battles.

Overall, the proposed reform is focused on the reduction of chronic shortage, modernization and increase of efficiency of functioning of the solidarity level of the pension system, including due to the unusual combination of elements of a funded system, however, it practically does not affect the problem of formation of the second and third levels of the pension system. Therefore, the reform proposed by the government can hardly be called a fully-fledged systemic reform that will radically change the existing pension reform. It is also worth noting that the formation of an effective pension system requires a series of reforms in related areas – financial, tax and social ones.

The pension reform proposed by the government can hardly be called a full-fledged systemic reform

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

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