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PROSPECTS FOR THE USE OF INTERNATIONAL EXPERIENCE IN IMPROVING THE PENSION SYSTEM OF THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

The article deals with the evaluation of pension systems in the light of existing and recognized by leading economic scientists static indicators on a global scale: demographic load, replacement rate, government expenditures on pension payments, assets of the pension system, the efficiency of the pension system. Practical results of the experience and reforms of pension systems of foreign countries, mainly OECD countries, were taken as the initial data of the analysis. Developed recommendations and proposals for the possibilities of improving the pension system of the Republic of Uzbekistan at the level of modern requirements.

KEYWORDS

Pension fund, pension system, distributive pension system, accumulative pension system, pension contributions, replacement rate, demographic coefficient, state obligation, assets, efficiency, income, pensions, pensioners, social protection.

INTRODUCTION

Since the twenty-first century in developed countries throughout the world, we can observe the systematic and continuous improvement processes of the pension

systems. The necessities and directions of this determined by, first of all, sharp demographic changes, especially growth of the population age, and the

growing number of retirees in the population. The issue is further aggravated by the problem of declining growth of the world economy in recent years. The increasingly accumulation of such global problems led to an unprecedented downturn in the pension system in developed countries, in this regard, the issue of ensuring the stable and effective functioning of the pension system became a very urgent problem and the solution of these issues entered the sery of the top priority problems, which determine the national economy's security and competitiveness.

The pension system, which provides a decent standard of living for pensioners, and also encourages them to receive quality education for active and long-term employment, is the basis of social stability and economic security of each country, and is a socially and economically important factor of national sustainable development strategy.

In this regard, it is crucial to thoroughly investigate the experience of foreign countries, including the reforms of the pension system in the developed countries which are part of the Organization for Economic Cooperation and Development (OECD) for the development and modernization of the national pension system. Studying and analyzing this experience will serve as a basis for the formation of scientific and practical directions for the improvement of the pension system with a decent level of pensions in the Republic of Uzbekistan.

LITERATURE REVIEW

Pension provision is an integral part of social security and is one of the main functions of the state. In accordance with the structure and capability of the State, the right of citizens to social security is laid down in Article 22 of the Universal Declaration of Human

Rights adopted by the General Assembly of the United Nations on 10 December 1948.

Kasparyants (2014) argued that the term "pension provision" refers to various forms of social protection from the risk of aging, disability due to disability, and loss of breadwinner.

In a broad sense, pensions are a set of legal and economic measures aimed at providing citizens with material support if they lose their main source of income due to old age, disability and in other cases established by the legislation of the respective state. In the narrower sense of the pension system, it is just about the support of the most vulnerable groups of the population at the expense of the state budget and state funds. According to Pavlyuchenko (2007), the term "pension provision" means the financing of direct from budget and extrabudgetary funds, while the "pension insurance" means the financing by using special savings and based on insurance methods. Each country's national pension system has its own unique way of historical development. By summarizing the opinion of many authors, we can say that this uniqueness is determined by three types of factors - social, economic and demographic:

- Social factors determine the level of social and labor relations in the country. As examples of social factors, it is possible to present the historical and ethnic-cultural development aspects of the state, the national mentality, the religious aspects of social life, social policy strategies and tactics, the social structure of the population, the situation in the labor market, the level of remuneration and so on;
- economic factors determine the capacity of the state and the economic conditions of the pension system. Economic factors include the financial state of the state, the level of welfare of the society, the strategy and tactics of the economic policy carried out

by the state, the state's role in the economy, the level of development of production and others;

- demographic factors reflect the needs of the society for the pensions of the population and serve as an important indicator of the optimal quality and quantitative details of the pension system. Demographic factors include, among other things, the age structure of the population, the proportion of pensioners in society, the rate of growth of the population, the number of employed and pensioners, and so on.

The aforementioned theoretical generalization belong to most developed countries, and the most successful combination of the types of retirement benefits has been achieved in these countries, as Fedotov (2008) pointed out, the role of state, entrepreneur and citizen in the provision of pensions was clearly defined.

An analysis of the theoretical basis of the provision of pensions indicates that the scenarios that can be used to build national pension systems are excessive and varied in the experience of countries in the world.

Ivanenko (2002) notes that in ancient Greece, benefits were paid to senior citizens who had merits to the state and In the Roman Empire military pensions were also established in the form of lifelong maintenance of military personnel. However, comprehensive pensions appeared later - at the end of the 19th century.

The analysis shows that in the scientific literature, the issue of switching from the distribution to the savings system remains insignificant. "When the transition from the distributor system to the accumulative system, the first generation of pensioners can receive a very low pensions or not at all," say N. Barr and P. Daymon (2000).

As we have said above, the national pension system represents a complex socio-economic system consisting of complementary elements or subsystems. In addition to the opinion of Fedotov (2008), we assume the following three elements of combined pension systems operating in the world:

- element 1 - the subsystem of the state pension. This subsystem represents the basic level of the modern pension system in most countries of the world. It is designed to guarantee the payment of state pensions, providing a living minimum with disability;
- element 2 - the state pension insurance subsystem. This subsystem should provide a decent level of income, proportional to the former earnings, upon retirement. The size of the pension depends on the amount of insurance contributions deducted during the period of employment;
- element 3 - the subsystem of voluntary pension insurance. This subsystem is based on the personal initiative of citizens and is designed to provide an additional level of income for retirees after the cessation of employment through individual accumulation of funds using specialized institutions (non-state pension funds, banks, insurance and investment companies).

The world practice of pension systems construction has a huge experience ranging from the highly-distributed pension system to savings systems. This experience indicates that there is no retirement system with optimal equipment in either country, whether it is a one-time or permanent one, the macroeconomic and social environment in which the national pension system operates is constantly changing, and the pension system is dependent on the conditions in a

particular country, and is constantly improving, taking into account the capabilities and needs of the state and society. The optimal structure of a particular pension system in a given country should be in line with the demographic, economic, and social characteristics of a given period, and fully meet the goals and objectives of that government.

RESEARCH METHODOLOGY

Quantitative methods of analysis, economic analysis and statistical methods such as comparison, induction and deduction, analysis and synthesis, prospective forecasting, as well as graphs and pictures were used in order to express the results of the research in a general and integrated way.

ANALYSIS AND DISCUSSION OF RESULTS

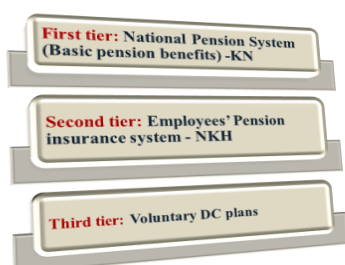
As is known, Japan, along with Australia, the Netherlands, Denmark, is one of the most developed countries in the world in the economic, social and cultural spheres. Japan plays an important role in the world community with its unique culture, huge economy, high intellectual potential and many other positive aspects.

But it is also worth mentioning that it is one of the oldest countries in the world by age. This is a negative situation. As the average age of the population increases, the proportion of people employed in the population will decrease, while the proportion of pensioners will increase, leading to a shortage of labor resources, and in public finances the share of social expenditures will increase relative to GDP.

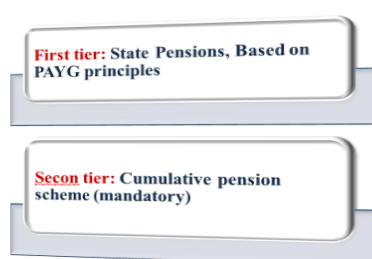
Currently in Japan, pensioners make up 26.4% of the population. The average life expectancy of the population is 83.9 years, and the average life expectancy after retirement is 22 years. The government of Japan spends 10.2 percent of GDP in paying for state pensions.

The state pension system of Japan consists mainly of two tiers, consisting of the basic state pension system and the pension system of workers, which is related to the income of payers of contributions. In addition, there are additional pensions in the framework of voluntary private pension programs, in addition to citizens aged 60–69 years, living in Tokyo, are additionally paid state social benefits (Figure 1).

Japanese pension system:



Pension system of Uzbekistan:



Picture 1: Pension systems operating in Japan and Uzbekistan.

A stable and characteristic feature of the basic state pension system in Japan is that the full amount of insurance contributions of citizens and pensions paid by the state are fixed. That is, the monthly pension contributions are 16,340 ¥ for 2018, and the annual pension is 779,300 ¥.

In the current funded pension system of Japan, pension contributions are distributed equally between the employer and the employee, and 8.914% of the total wage is assigned to each party. and also, to prevent excessive stratification among pensioners, the maximum amount of pension contributions is limited. Person who are unemployed or with income below a certain level are not obliged to pay pension contributions to the employees' pension fund, but they must pay contributions to the basic state pension system. Unemployed persons may be paid in quarters, half, three quarters or even in full, depending on the level of household income. At the same time, citizens who earned less than 570,000 ¥ last year are exempt from any payments. Persons with an annual income of less than 780,000 ¥ pay a quarter of compulsory pension contributions, an income of less than 1,410,000 ¥ - half of the contributions and income up to 1,580,000 ¥ - up to three quarters of contributions.

It is established by law that individuals receive half of state pensions for the period of full exemption from contributions, receive five from eight shares of state pension for the period of payment of a quarter of contributions, receive half of contributions for the period of payment of three quarters of state pension, and for the period of payment three quarters of contributions receive seven from eight shares of state pension.

The main feature of pension coverage in Japan is that state basic pensions provide a living wage for citizens, the pension system of workers and additional voluntary pension systems serve for the active participation of citizens in improving the welfare of the elderly, in other words, the state, the employer and the citizen are aware of their joint responsible for the welfare of old age and consciously raise funds.

Another prosperous feature of the Japanese pension system is the existence of the State Pension Investment Fund under the Ministry of Health, Labor and Social Security. This fund is one of the largest investment funds in the world. By attracting state pension funds to large financial investment projects, it makes the Japanese pension system more profitable. The value of the Fund's assets in the third quarter of 2018 amounted to 150,663.0 billion ¥, and every year it steadily grows and strengthens its position in the economic and social development of Japan.

How can we use the experience of the pension system of foreign countries, especially the Japanese pension system, for the development of the pension system of Uzbekistan, the conditions in which we should apply this experience in our country, what practical experience we have, what internal abilities we can vary when using the results of foreign reform?

In Uzbekistan, the income of retirees depends only on state pensions based on the principle of intergenerational solidarity, while the second subsystem, the accumulative pension, is very passive. The funds transferred to the accumulative system are accumulated on personal accounts opened in the Xalq Bank. Until 2019, a citizen of 2% of wages paid a contribution to the accumulative pension system. Xalq

Bank used the accumulated pension contributions as a financial source, but did not provide adequate return on savings. It was established that the funds accumulated on the personal account of the Fund can be withdrawn by a citizen only at the retirement age, death or when leaving the country for permanent residence. Due to the fact that the system does not justify itself, the size of monthly pension savings from January 1, 2019 was reduced to 0.1%, lost economic importance, in practice it became valuable only for statistical datas.

Based on the views expressed in previous chapters, and also having studied the experience of foreign countries including Japan, we conclude that Uzbekistan needs to develop a second element of the pension system. The principle of social justice is one of the basic principles of the organization of the pension system. In addition, every citizen at retirement age should, to a decent degree, replace his / her earnings for the period of working age with pension payments.

This study shows that the second factor in solving such problems is the reorganization of the accumulated pension system in our country. The focus is on financial markets. In other words, savings will need to be used as investment resources to increase incomes and ensure the profitability of accumulated savings of citizens. In addition, the management and implementation of this system by the state will reduce financial risk. For example, the creation of a fund associated with the citizens' cumulative pension system in a pension fund or the Ministry of Finance may be provided to commercial banks as a loan, or shares of enterprises with state-owned shares may be acquired with such funds. As a result, it is possible to increase the income of the fund and receive income in the form of interest payments to depositors. This will reduce in the future the social risk of potential retirees

and, most importantly, will create a huge financial resource for the development of the country's economy.

In order to substantiate the above proposals, it was necessary to conduct prospective calculations in order to assess how successful the pension system in Uzbekistan would be. For this purpose, we calculated that if a citizen starts investing in the accumulative pension system today, how much money will be accumulated before reaching the retirement age and how much additional income will affect the amount of pension.

When calculating the project results, the interdependence of such indicators as the average retirement age, average salary, average pension, average life expectancy, average life expectancy in pensions was taken into account.

According to the State Statistics Committee of Uzbekistan, the nominal average incomes of the country's population at the end of 2018 amounted to 1,822.2 thousand soums and increased by 25% compared with the corresponding period of 2017. The average retirement age for men and women in our country is 57.5 years. Thus, if we are counting on a citizen's savings, we must take into account that an ordinary citizen can accumulate funds at least 30 years before retirement age. At the same time, it is necessary to take into account interest income, taking into account the investment value of the accumulative pension systems. Therefore, we have determined interest income at the current refinancing rate of the Central Bank of the Republic of Uzbekistan, that is, 16% per annum. In addition, the average pension rate is 2% per month, more precisely, in the first decade from 1%, in the second decade 2% and in the last period 3%. The reason for different rates in different periods of

accumulation is that the citizen does not care about the retirement period at a younger age, but begins to think more about the amount of the pension as the age increases. Therefore, it is desirable to exceed this figure by more than one percent every ten years.

Thus, the average monthly salary of a working citizen as of January 1, 2019 is 1,822.2 thousand, it increases by an average of 25% annually, and, moreover, if you count on an annual yield of 16% for 30 years, you can calculate likely accumulated funds (Table 1).

Table 1

The calculation of the individual savings account of one person for 30 years, in thousands of UZS

Years	Average monthly salary	Average annual salary $C=B*12$	Percentage of monthly contributions	The amount of annual contributions $F=C*E/100$	Funds accumulated at the end of each year (with accrued interest)
A	B	C	E	F	H
1	1 822,2	21 866,4	1	218,7	253,7
2	2 277,8	27 333,0	1	273,3	611,3
3	2 847,2	34 166,3	1	341,7	1 105,4
4	3 559,0	42 707,8	1	427,1	1 777,7
5	4 448,7	53 384,8	1	533,8	2 681,4
6	5 560,9	66 731,0	1	667,3	3 884,5
7	6 951,1	83 413,7	1	834,1	5 473,6
8	8 688,9	104 267,1	1	1 042,7	7 558,9
9	10 861,2	130 333,9	1	1303,3	10 280,2
10	13 576,4	162 917,4	1	1 629,2	13 814,9
11	16 970,6	203 646,7	2	4 072,9	20 749,9
12	21 213,2	254 558,4	2	5 091,2	29 975,6
13	26 516,5	318 198,0	2	6 364,0	42 153,9
14	33 145,6	397 747,5	2	7 954,9	58 126,3
15	41 432,0	497 184,4	2	9 943,7	78 961,2
16	51 790,0	621 480,5	2	12 429,6	106 013,3

17	64 737,5	776 850,6	2	15 537,0	140 998,3
18	80 921,9	971 063,2	2	19 421,3	186 086,8
19	101 152,4	1 213 829,0	2	24 276,6	244 021,5
20	126 440,5	1 517 286,3	2	30 345,7	318 265,9
Table continuation					
A	B	C	E	F	H
21	158 050,7	1 896 607,9	3	56 898,2	435 190,4
22	197 563,3	2 370 759,8	3	71 122,8	587 323,4
23	246 954,1	2 963 449,8	3	88 903,5	784 423,1
24	308 692,7	3 704 312,2	3	111 129,4	1 038 840,9
25	385 865,9	4 630 390,3	3	138 911,7	1 366 193,0
26	482 332,3	5 787 987,9	3	173 639,6	1 786 205,9
27	602 915,4	7 234 984,9	3	217 049,5	2 323 776,3
28	753 644,3	9 043 731,1	3	271 311,9	3 010 302,4
29	942 055,3	11 304 663,8	3	339 139,9	3 885 353,1
30	1 177 569,2	14 130 829,8	3	423 924,9	4 998 762,4
Total savings				2034739,5	

As the table shows, one working person can save up to 4,998,762,4 thousand UZS in the form of personal savings over 30 years. At the same time, 2,034,739,6 thousand UZS of savings are net savings, and the remaining 2,964,029.9 thousand UZS are income as a percentage, 16% per annum.

As noted above, the average retirement age of men and women in Uzbekistan is 57.5 years. According to the Ministry of Health of the Republic of Uzbekistan, the average life expectancy in Uzbekistan is 73.5 years.

Thus, the expected life after retirement in our country is 16 years.

We have to predict what the average size of pensions will be after 30 years, upon retirement (indexation is taken into account) and how much it will be in the 16th year of the pension period (Table 7). As can be seen from the table, savings on a personal account for 30 years will be returned to a citizen with a 16% annual yield for 16 years as an additional pension.

Table 2

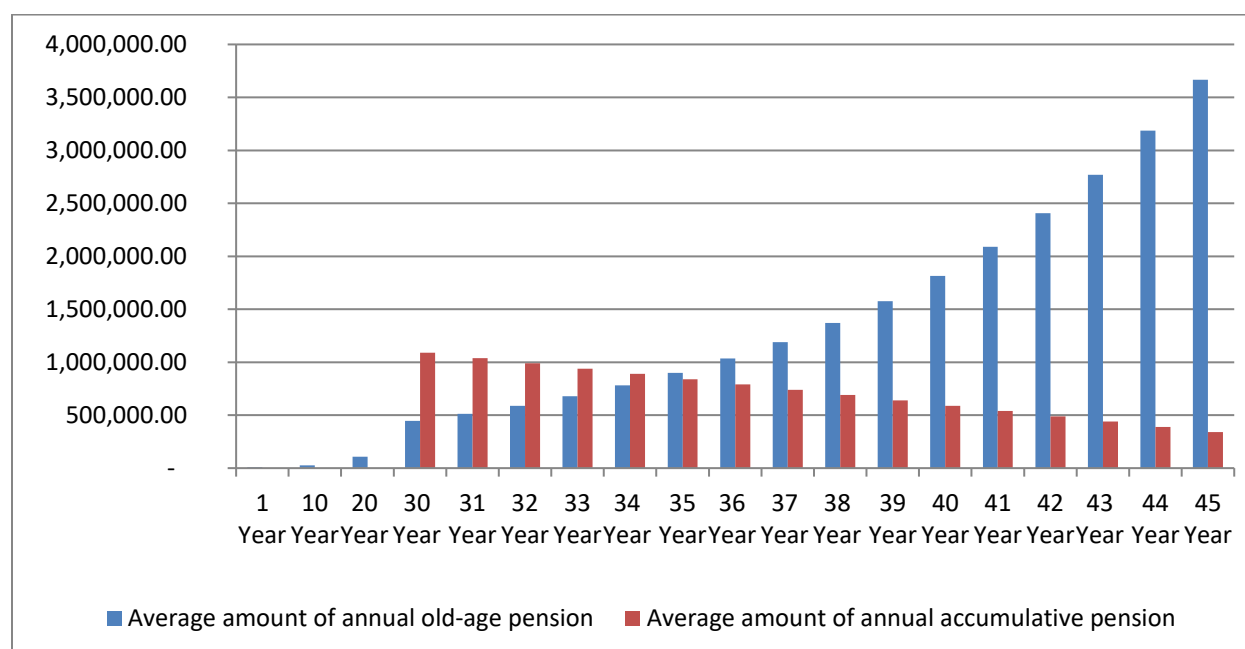
Calculation of additional pension payments under the cumulative pension system, in thousands of UZS

Years	Months	Residual amount of personal account	Residual amount of repayments	Percentage of fund income	Amount of yield	Total supplementary pension
A	B	C	D	E	F	G
1	1	4 998 762,4	26 035,2	1,33	66 650,2	92 685,4
	2	4 972 727,2	26 035,2	1,33	66 303,0	92 338,3
	3	4 946 692,0	26 035,2	1,33	65 955,9	91 991,1
	Table continuation					
	4	4 920 656,8	26 035,2	1,33	65 608,8	91 644,0
	5	4 894 621,6	26 035,2	1,33	65 261,6	91 296,8
	6	4 868 586,3	26 035,2	1,33	64 914,5	90 949,7
	7	4 842 551,1	26 035,2	1,33	64 567,3	90 602,6
	8	4 816 515,9	26 035,2	1,33	64 220,2	90 255,4
	9	4 790 480,7	26 035,2	1,33	63 873,1	89 908,3
	10	4 764 445,5	26 035,2	1,33	63 525,9	89 561,2
	11	4 738 410,2	26 035,2	1,33	63 178,8	89 214,0
	12	4 712 375,0	26 035,2	1,33	62 831,7	88 866,9
	1-12	4 712 375,0	312 422,7	16	776 891,0	1 089 313,6
2	1-12	4 399 952,4	312 422,7	16	726 903,4	1 039 326,0
3	1-12	4 087 529,7	312 422,7	16	676 915,7	989 338,4
4	1-12	3 775 107,1	312 422,7	16	626 928,1	939 350,8
5	1-12	3 462 684,4	312 422,7	16	576 940,5	889 363,2
6	1-12	3 150 261,7	312 422,7	16	526 952,9	839 375,5
7	1-12	2 837 839,1	312 422,7	16	476 965,2	789 387,9

8	1-12	2 525 416,4	312 422,7	16	426 977,6	739 400,3
9	1-12	2 212 993,8	312 422,7	16	376 990,0	689 412,7
10	1-12	1 900 571,1	312 422,7	16	327 002,4	639 425,0
11	1-12	1 588 148,5	312 422,7	16	277 014,8	589 437,4
12	1-12	1 275 725,8	312 422,7	16	227 027,1	539 449,8
13	1-12	963 303,2	312 422,7	16	177 039,5	489 462,2
14	1-12	650 880,5	312 422,7	16	127 051,9	439 474,5
15	1-12	338 457,9	312 422,7	16	77 064,3	389 486,9
16	1	312 422,7	26 035,2	1,33	4 165,6	30 200,9
	2	286 387,4	26 035,2	1,33	3 818,5	29 853,7
	3	260 352,2	26 035,2	1,33	3 471,4	29 506,6
	4	234 317,0	26 035,2	1,33	3 124,2	29 159,4
	5	208 281,8	26 035,2	1,33	2 777,1	28 812,3
	6	182 246,5	26 035,2	1,33	2 430,0	28 465,2
	7	156 211,3	26 035,2	1,33	2 082,8	28 118,0
	8	130 176,1	26 035,2	1,33	1 735,7	27 770,9
	9	104 140,9	26 035,2	1,33	1 388,5	27 423,8
	10	78 105,7	26 035,2	1,33	1 041,4	27 076,6
	11	52 070,4	26 035,2	1,33	694,3	26 729,5

	12	26 035,2	26 035,2	1,33	347,1	26 382,4
	1-12	26 035,2	312 422,7	16	27 076,6	339 499,3

Currently, according to the Pension Fund, the average monthly amount of old-age pensions is 627.89 thousand soums, which is 15.1% more than in the previous year.



Picture 2: Basic and funded pensions that a citizen can receive in the future

A citizen who has accumulated funds in the accumulative system for 30 years at a rate of 2% of the average monthly salary can provide an increase in annual basic pensions by 2.45 times in the first year of retirement age, and in the last year by 9%.

CONCLUSIONS

If we analyze the investment portfolio of pension funds of OECD countries, we note that at the beginning of 2015, 51.2% of investment funds were placed on acquisitions and bills of exchange, 25.5% - shares, 8.8% -

funds and deposits. Another tradition is that in recent years there has been a tendency to reduce the annual income of pension funds. This is primarily due to monetary policy, which is explained by lending at low interest rates by central banks of developed countries. Low incomes due to low interest rate policies pose serious risks for the investment activity of accumulated pension funds. As a socially-oriented state, the Government of the Republic of Uzbekistan should actively involve pension funds in investment activities, providing a free competitive environment in the financial market, thus providing a mechanism for



obtaining profit from pension funds from investment activities is an urgent socio-economic task. The current state pension system in our country will not be sufficient in the near future to meet the growing needs of the population. In parallel with the state distribution system, the systems of compulsory pension insurance and voluntary accumulative pension insurance should also be developed. This will help improve the efficiency and sustainability of the national pension system, ensuring a decent standard of living for pensioners.

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