

*Секция: Демография, экономика труда и управление персоналом*

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## **HOW TO MOTIVATE CITIZENS TO ACCUMULATE MONEY FOR RETIREMENT IN UKRAINE?**

The situation of older people who are retired is getting objectively worse; they have the feeling of dependence, insecurity, inferiority, reinforcing both passive and aggressive reactions. Through many phenomena of modern life, older people become the source of increased social tensions, entailing a threat to social security both for the individual and for his environment.

In the context of forming new, market-oriented mechanisms, there is a necessity to work in new ways, which means employers and employees should be able to adapt to rapid changing environment [1].

However, the current situation in Ukraine is such that only a small proportion of elderly people in the country can familiarize to new conditions. It happens very often that modern companies want to replace people who reached the retirement age with ones who are more active and adaptable to contemporary technology.

At this point, the main problem for old people arise. The pension payment that they receive is enough only to survive but not to live a normal life because the minimum pension payment is still less than the monthly cost of living. According to Ministry of Finance of Ukraine the minimum living cost in February 2017 is 1600 hryvnias while the minimum pension amount is 1247 hryvnias. Continuing or finding new job for pensioners in Ukraine, especially in

the current declining economy with the unemployment rate of 9.6%, is very difficult [2].

*Table 1*

The rate of official unemployment among countries such as Germany, United Kingdom, Austria, Denmark, and Ukraine during the period 2015-2016

Country	The rate of unemployment in 2015 (%)	The rate of unemployment in 2016 (%)
Germany	4.4	4.2
United Kingdom	5	4.8
Austria	5.9	5.7
Denmark	6.4	6.2
Ukraine	9.5	9.6

According to this table it can be seen that the unemployment rate in Ukraine is much higher than in the rest countries in the EU, which means that it is difficult to find job in Ukraine for active young people (in average 15 people applying for each position) and for retired people it is almost impossible [3].

It should be mentioned that there is also unofficial rate of unemployment (real rate) that equals 25 %. There are more than 18 million of economically active population, from them constant payers in the Pension fund are only 12 million. Therefore, it can be very simple to calculate that there are about 6 million unemployed in Ukraine.

Participation of pensioners in the labour force becomes an urgent problem of our time, which closely relates to the demographic aging of the population. On one hand, the problem lies in the availability of employment opportunities of pensioners, and on the other lies in the growth of unemployment.

While in many EU countries the three level pension system (solidarity, accumulative, non-governmental funds) is working for the benefit of the old generation, in Ukraine only the solidarity system is working now. The government has been trying to implement the accumulative system for several years and still this process is being extended. The solidarity system is an imperfect, old-fashioned system, because it does not guarantee adequate income in old age despite the period that person has worked [4].

The solidary pension system was adopted since 1956 when there was the post-war population explosion in the USSR. Its firm establishment in the economy and in people's minds is because everyone knew that he would be able to relax after 20-30 years of fruitful work, getting a well-deserved retirement. This system works only if the quantity of workers is more than the quantity of pensioners. As it turned out, such system could not cope with its tasks in times of crisis but the idea that the state is required to provide us in retirement has deeply rooted in the minds of most of citizens [5].

From 2000, people began to hear about the decrease in birth rate and that the Pension Fund lacked funding. Unfortunately, these realizations did not affect the deep conviction of the overwhelming majority of citizens that their previous deductions would equate having enough funding for retirement. However, monthly pension rate being lower than the cost of living demonstrates that this belief is not true in practice. When some people started to invest some part of their money in some non-governmental funds in order to provide financial support for themselves during the retirement period, others still say that the government has to provide us with good funding retirement.

In order to have enough money for retirement people should diversify their risks by investing in non-governmental funds and not rely just on the government. This non-governmental will accumulate people's money by buying shares or investing in fund indexes (S&P 500). That means that it is better to invest than just keep money "under the pillow" and people can be sure that they will not lose their money due to inflation or devaluation of national currency because the main goal of these non-governmental funds is not just to save money but also accumulate [6].

Famous economist Adam Smith considered that money is the only one motivating factor for people. According to his interpretation, people are purely economic entities, which work only for funding that is required for the purchase of food, clothing, or housing. Having enough money for retirement that should be a strong motivation to start thinking about their retirement from the beginning

of their career and not to wait for the government's rapid changes for a better life in a short time period.

The system of compulsory state pension scheme is not able to provide a high level of pensions at low amounts of compulsory pension contributions and unfavourable demographic conditions. Participation in private pension provision creates an addition to the obligatory state pension source of payments and provide a higher standard of living during retirement. Insurance companies, private pension funds, and authorized banks are market participants who serve the third level of the pension system [7].

There are many advantages of investing in non-governmental funds:

1. Compound interest on the balance of the money;
2. Protection against the effects of inflation;
3. Retirement does not depend on the retirement age;
4. Social protection;
5. The contract can be issued on the first day of life up to 69 years inclusive;
6. The contract has a flexible structure that allows each year to make changes to the terms of insurance, as well as to change the amount of the contributions;
7. The contract also has accumulative and protective functions (insures client's life and health);
8. The accumulated funds in the event of death will pass to the client's heirs;
9. Customer-taxpayer income tax returns to the tax credit rate of 15%.

Thus, voluntary pension insurance is a system of savings for retirement through a variety of financial institutions based on the same principles as compulsory pension insurance. The difference is that the voluntary pension insurance is additional to the mandatory [8].

In conclusion, in order to have enough money for living during retirement people should start to think as soon as they start their career, not rely completely

on the governmental pension system and diversify risk with alternative investment plans, or in other words, not putting "all eggs in the same basket."

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