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## **HARMONIZATION OF SOCIAL AND ECONOMIC DEVELOPMENT AND AGING. WHICH APPROACHES WORK IN UKRAINE?**

*The purpose of this research is to appraise an impact of population aging on social and economic development in Ukraine. The author has scrutinized the problem of further pressure on state budget stipulated by growing share of aged persons, and surveyed the pattern of mutual influence of aging and social and economic processes. It is overviewed the features of aging in Ukraine uin comparison with some European countries. The special attention is paid to the justification of system of measures for the implementation commitments in the framework of regional strategy of The Madrid International Plan of Action on Ageing, and for equitable and sustainable economic growth promotion. The author has estimated the level of intergeneration inequity in Ukraine for 1999–2011, and studied main dynamic tendencies in this area. The philosophy of the system of social support of aged persons was examined, with the system of social assistance and social services, and social servieeces usage. The author has proposed the lines of expanding of employment opportunities for aged persons, analyzed their structures of income, the poverty features and social exclusion of aged persons. Special stress was put on the challenges of pension system to-day, and specially, those which are growing more acute in connection with the progressive population aging.*

**Key words:** *population ageing; economical and social development, balance of generation, employment of elderly, social assistance, income structure, social inclusion.*

Population ageing is a global trend. It is both unavoidable and predicted phenomenon which is an integrated component of the natural demographic development process. The attempts to put it aside are the wasting of time. Society has no choice but to adapt itself to present and future changes in its age composition. At the same time, the fact that these changes are gradual in nature provides, in general, quite a good opportunity for adaptation. The phenomenon itself does not cause serious problems neither in economy, nor in society. However, the lack of an adequate policy, psychological climate, and economic opportunities aggravates the situation.

The fact that aging, which causes complex changes in a society, opens the new opportunities is a very important one. Old people cannot be considered as inactive beings, producing further burden for state finances because of necessity of ensuring their vital activities, and slowing down

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economic development finally. On contrary, they participate in life of a society actively, cement its transformation, and put into effect interrelations between traditions and innovations.

At the same time, the problem of social security in countries with progressive demographic aging became a “delayed-time bomb”. This is related, first of all, to the so-called demographic pressure, i.e. with ever-increasing ratio of the number of the retirement and working age individuals. Total unfunded pension obligations<sup>1</sup> of a significant share of European countries reach 20% of GDP. Furthermore, there are no prerequisites even for stabilization of this indicator, not mentioning its decreasing. Of course, the age distribution plays a decisive role, same as the retirement age legally established decades ago under absolutely different demographic and economic conditions. In other words, we are talking about exactly those demographic conditions which were formed as a result of the long-term purposeful mortality decreasing activities.<sup>2</sup> Probably, gradual worsening of situation during quite a long period of time would force the authorities to think about the risks of the «pay as you go» pension system and ensure its supplementation with mandatory and voluntary contribution schemes. However, rapid development of the global financial crisis put the challenges in the face of pension systems, and, consequently, problems related to demographic aging in general, are growing much graver. First of all, this is because of lack of demand for the so-called “long-term money”, since it is getting impossible to invest funds profitably enough. As a result, the problems of unfunded pension schemes chronologically coincided with the investment problems of saving funds.

**Budget burden**, which is usually considered as one related to the aging processes, is being significantly moderated by special measures of social policy, first of all, by the establishing of retirement age and system of pensioners’ social support. By no means, making any attempt to infringe the rights of old people for decent life, both their material and spirit welfare, we have to talk about the urgent need for bringing together the interests of various generations. The point is that socio-economic, political, and psychological challenges of aging fall beyond the limits of public finances. One can understand these challenges only from the point of view of fairness in relation to various generations. If persons of one generation (we mean young working-age subpopulations) would be forced to bear additional burden of supporting another generation (senior working-age and post working-age subpopulations), they would try to evade such a situation even through abuse of law. They would either demand to put an end of former promises, or stop to work, or cease paying taxes. The most talented people would just go abroad. All attempts to compensate the lack of monetary inflows (either to the budget, or to the compulsory social insurance funds) at the expense of raising taxes (including social insurance contributions) proved to be unsuccessful. That is why a practice of tax rate decreasing and, consequently, tax payers enhancing is the most widespread one now. We should mention that multiple studies of tax systems prove that relationship is not as plain one, as it looks at the first glance. Lowering the payroll tax rate involves growth of tax revenues only if the growth rate of the gross wage exceeds the tax rate slowdown<sup>3</sup>. For example, in the case of the gross wage of 1000 units and lowering of the tax rate from 36% to 18%, the effect will be achieved only if the wage will grow to 1190 units (i.e. by 19%).

Therefore, assessment of changes in tax systems, which are required to achieve “balance of generations”, is extremely important in the context of estimation of rather future than immediate needs. The following issues serve as the basis for estimations:

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<sup>1</sup> Related to current keeping of pensioners within the solidary pension system.

<sup>2</sup> Surely, preserving birth rate at a level which does not ensure even simple reproduction of generations is very important. But this phenomenon is a natural and unavoidable consequence of the civilizational progress, same as lowering mortality.

<sup>3</sup> see, forexample, [1; 2].

- existing demographic, economic, political, and socio-psychological conditions; and
- so-called “accounts of generations” which represent a sum of all future clean taxes (i.e. paid taxes not including received transfer payments) and which would be paid by persons of a definite year of birth through all their lifespan, if the present tax policy would be preserved.

Assessments made by Niall Fergusson [1] demonstrate that, for example, nine countries of the European Union have to cut public expenditures by more than 20% to achieve desired balance.

At the same time, as Laurence Kotlikoff and Scott Burns emphasize, one need to add total obligations on financing of social insurance systems, health services, privileges, benefits, and other social transfers to the so-called official debt in order to account financial liabilities of the state correctly [2]. At the same time, estimations should take into account future incomes and future expenditures of all living people currently. It means that it is necessary to account those material and spiritual goods which would be produced by all now living people in the course of their lifespan (let’s say till reaching 65–70 years of age) and those expenditures on their social and health support which would be required in the course of both labor and retirement period of life. It is clear that the lion’s share of expenditures under conditions of demographic aging unavoidably fall on the shoulders of persons of the youngest generations – those who just started to pay taxes and contributions, and those who would start to do it in the future.

**Mutual influence of population aging and of economic and social processes** is stipulated, first of all, by the role of population as producer and consumer of material and spiritual goods.

On the one hand, age composition of population, but not just its size, influences the structure and volume of social services’ needs, including educational, recreational ones, and health care, and the needs for housing, employment, etc. Consequently, changes in the age composition, particularly aging, change these needs.

The nature of intergenerational relationship changes over a time. In the case of 3–4 generations of a family living at the same time, linkages between them are being destroyed completely at present. Representatives of these generations often live in different countries and do not meet up for ages. Old people become lonely. It, respectively, enhances requirements to their support on the side of a community. Functions of younger generations in the polynuclear families are being transferred to younger generations in the society.

The share of the budget and of GDP social expenditures grows continuously. Therefore, other areas of the state activities suffer from the lack of financing. In particular, we are talking about activities directed at ensuring vital activities of younger generations.

Situation is surely being complicated by the economic crisis. Some of countries were successful in the accumulating resources during pre-crisis period and ensuring at least the minimum safety margin. Unfortunately, Ukraine was unable to seize the opportunities of economic growth period for some preventive accumulation of necessary means, reforming the system of social support, health care, education, etc.

Major areas of provision of old people with adequate living standard are the following:

- education;
- employment;
- pension benefits;
- social support;
- health care.

Fairness towards both old generations and working subpopulations depends on the efficiency of institutions in each of these areas, on efficiency of their interaction, and, respectively, on presence of any synergic effect. One should, however, understand that the only guarantee of success is high economic development, growth (physical but not monetary) of output of goods and services, since in any case meeting the needs of unemployed subpopulations is one way or another related to transfer of a share of consumption from today to the future. In the case if nothing is saved for the future and output (in a general sense) does not grow, the system of support of old people a priori cannot be efficient.

On the other hand, the economic development, particularly construction of a modern post-industrial economy, removes barriers to the expansion of employment of persons of the upper age – the physical efforts that elderly are incapable to provide anymore become less required. However, fast – and accelerating – process of aging of knowledge and skills demands a wide spreading of systemic vocational training, obtaining new knowledge, and even getting a new profession in the course of employment. This also assumes prolonging initial period of training and raises the age of the actual start of work. Thus, the changes in economy significantly intensify the aging of labor force.

At the same time, enhancement of social guarantees and support very often provoke some people, who has already earned the right to, let's say, retirement, to stop their economic activity, even in the cases when they still have ability to work to some extent.

Of course, society cannot provide any preferences to certain groups of people – ideas of social justice and sustainable human development and integration require provision of all groups and social strata with an equal access to all types of resources (economic, environmental, informational, political, etc.). That is why the requirements concerning meeting needs of the elderly have not to be in contradiction with similar requirements related to, for example, children or employed people.

Table 1

## Fertility, TFR

	Ukraine	Poland	Hungary	EU-27
1960	2.27	...	...	...
1965	1.94	...	...	...
1970	2.10	2.20	2.00	...
1975	2.06	...	...	...
1980	1.94	2.30	1.90	1.80
1985	2.02	...	...	1.63
1990	1.85	2.04	1.84	1.62
1995	1.40	1.80	1.57	1.47
2000	1.12	1.37	1.33	1.53
2005	1.21	1.24	1.32	1.57
2010	1.43	1.38	1.26	1.63

Source: [www.data.euro.who.int/hfadbf/](http://www.data.euro.who.int/hfadbf/)

**Aging Ukraine in the aging world.** History of humanity has never known such tectonic demographic shifts. To a greater or lesser extent, they affect all the countries of the world and all strata of a society without any exceptions. Over the twenty-first century, the share of the senior (over 60 years) and old (over 75) people will steadily grow. It is impossible to stop this process, as

an experience of the last few centuries proves. We also should note, that the process of aging will inevitably change our world at the family (personal), national, and international levels. It will change the areas of economy, finances, health care, services, and culture. It will also change the psychology and needs of humanity.

Exactly aging is usually being blamed for emergence of intergenerational problems of fiscal and social policies and for high social burden on public finances. In addition, in such cases people in Ukraine usually provide links to extremely high levels of population aging. Such high levels are said to be conditioned by almost the lowest fertility in the world which distincts the country for a long time. Indeed, the birth rate does not even ensure a replacement of generations in Ukraine since the mid 1960s (Table 1)<sup>4</sup>. As a result, the demographic pyramid turned into a demographic diamond over time.

However, extremely high level of premature mortality, particularly among males and rural population, leads to the situation, when relatively small portion of people lives to see true senility in Ukraine. Ukraine has lost its leading position in life expectancy at birth long ago (Table 2). Currently, the country holds the next to last position in Europe and Central Asia. Unfortunately, steady mortality growth trends (in the context of decades) in the most active age, from the demographic and economic points of view, are common only in Ukraine and Russia. It makes an impact on the age composition, in particular on the proportion of old people.

**Table 2**

**Life expectancy, years**

	Ukraine	Poland	Hungary	EU-27
1960	70.17	...	...	...
1965	71.51	...	...	...
1970	70.65	69.98	69.30	...
1975	70.05	71.10	69.48	...
1980	69.44	70.36	69.12	74.54
1985	69.81	70.64	69.15	75.36
1990	70.32	71.01	69.45	76.32
1995	66.70	72.01	70.05	77.37
2000	67.63	73.86	71.93	78.62
2005	67.25	75.12	73.02	79.85
2010	70.27	75.91*	74.45*	80.96

\* 2009

Source: [www.data.euro.who.int/hfad/](http://www.data.euro.who.int/hfad/)

While talking about the problems associated with population aging, one should specify age limits of population strata very precisely. In practice, it is important to make a difference between health and social care, ensuring employment opportunities, etc. The ability to be self-sufficient is crucial here, same as its transforming through lifespan.

In accordance with the classification of the WHO Regional Office in Europe, there are the following age periods: old age – for males lasts from 60 (for females from 55) to 75 years of age; senior age – from 75 to 90 years; longevity (senium) – beyond 90 years of age.

<sup>4</sup> Under current level of child mortality, the cumulative birth rate has to be equal to 2.12-2.15 to ensure simple reproduction of population.

Table 3

## Percentage of people aged 75+, %

	Ukraine	Poland	Hungary	EU-27
1960	2.12	1.67	2.78	...
1965	2.67	1.93	3.16	...
1970	2.96	2.25	3.47	...
1975	3.32	2.75	4.05	...
1980	3.87	3.43	4.51	...
1985	4.46	3.89	4.96	5.54
1990	5.15	4.16	5.58	6.12
1995	4.50	4.29	5.76	6.63
2000	4.86	4.42	5.83	6.95
2005	6.08	5.47	6.69	7.45
2010	6.14	6.39	7.33	8.21

Source: [www.data.euro.who.int/hfad/b/](http://www.data.euro.who.int/hfad/b/)

Definitely, the transformation of age structure in Ukraine is impressive. The share of the elderly has increased by 2.9 times over half a century (Table 3). However, the growth is not a less impressive one in neighboring Poland and Hungary (by 3.8 and 2.6 times, respectively). Moreover, until recently, the share of the population aged 75 and older was lower in Poland than in Ukraine (Table 4). In general, the share of old people – and here we mean exactly the group which really needs support of the society – in our country is much lower than in the EU Member States.

Table 4

## Percentage of people aged 60+, %

	Ukraine	Poland	Hungary	EU-27
1960	10.64	9.17	13.77	...
1965	12.19	10.86	15.52	...
1970	13.93	12.62	17.05	...
1975	15.79	13.83	18.50	...
1980	15.53	13.19	17.06	...
1985	16.23	13.77	18.03	18.05
1990	18.33	14.79	18.91	18.99
1995	18.43	15.78	19.54	19.89
2000	20.75	16.69	20.14	21.30
2005	20.76	17.13	21.31	21.77
2010	20.69	19.08	22.50	23.16

Source: [www.data.euro.who.int/hfad/b/](http://www.data.euro.who.int/hfad/b/)

Indicators related to the population of 60 and older are also very similar (Table 4). A significant portion of people of this age still has both capacity to work and vitality. The point is that 70.3% (Ukraine, 2010) of those people are 60–74. Many pensioners continue work for 5–10 years. Consequently, the problems stipulated by demographic aging are no more acute in Ukraine than in European countries. Quite the opposite, they are much less acute. Unfortunately, the country would inevitably lose these advantages, while opportunities of maximal utilization of potential of the older generations would vanish.

**Commitment 3 of the regional strategy for implementation of the International Plan of Action on Ageing** contemplates promoting equitable and sustainable economic growth in response to population aging. Such growth ensures availability of resources to meet the needs of the elderly. It helps to ensure financial stability of the social support system, including the pension component. Unfortunately, the global civilization crisis, which has affected first of all the financial and economic area, significantly narrowed the opportunities for sustainable development. Therefore, most countries, which are forced to cut down budget funds, resorted to a reduction of pension entitlements, limiting government funding of various social programs, including health care.

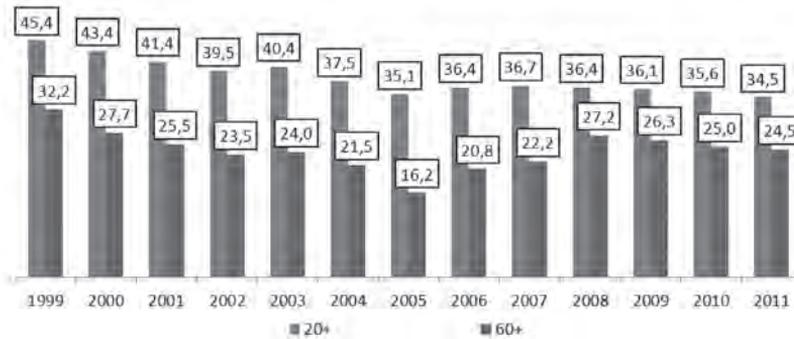
In Ukraine, despite really catastrophic (15%) drop in the already low GDP in 2009, there was no visible restriction of public social spending. This is partly because of low standards of living, especially those of the old people. However, it is also because of complicated political situation and traditionally active participation of all pensioners in the election campaigns.

It is difficult to assess the economic, social, and political consequences of the made decision to-day. However, one can trace the changes in employment, living standards, and social support of the elderly.

The need to cover the pension and other social expenditures in Ukraine determines hardening of the tax burden of both financial and non-financial corporations and households under conditions of quite a high demographic aging and coverage of social programs. This, in turn, both limits the investment development of the economy and stipulates the public debt growth with corresponding inflationary consequences.

The opportunities of restructuring and modernization of the economy during the economic boom of 2000–2007, unfortunately, were not exploited. The economic growth was fueled by the export potential realization. This potential was quite high due to global market conditions. However, the country used outdated – worn-out and obsolete – production capacities, and preserved inefficient economic structure, to which inevitably corresponded the structure of employment. In fact, the growth has been caused not by systemic reforms but by favorable world market conditions. Therefore, the growth dynamics was unstable [3]. The economic growth results were distributed unfairly. It was not always reflected by the official statistics. In particular, the inequality rate estimated according to the official statistics, including inequality rate of pensioners, has even decreased. Moreover, the correlation coefficient between these 2 parameters is 64.1%.

The share of intergenerational inequity as a whole ranges from 1.1% in 2009 to 7.2 in 2003 (Figure 1). It is obvious that economic growth is accompanied by an increase of this indicator, i.e. favorable economic situation is reflected in the outrunning growth of wages. The growth of pensions, however, lags behind the growth of wages. The authorities aim to gain a support of the most active part of the electorate during the election years and significantly increase pensions. Respectively, the portion of inter-generational variation of income within the total income variation notably decreased.



Source: Calculation by Proucha Institute for demography and social studies of the National Academy of Sciences of Ukraine on the Statistical office data

**Figure 1. Inequality of Ukrainian population, Gini-coefficient, %**

The economic processes in Ukraine were developing under combination of internal contradictions and unfavorable world market conditions since the beginning of the global crisis. Ukraine’s feature is deepening trade-off between capitalization of the economy, desire to enhance economic efficiency, on the one hand, and the objective necessity for strengthening social fabric, ensuring a more equitable distribution of direct results of economic processes but not only (better to say “rather than”!) resources, income, and property. The point is that invalidity and injustice of inequality are considered as a problem by the majority of Ukrainians rather than inequality itself (although it, definitely, also provoke social tension). This phenomenon adequately reflects itself in the social consciousness. Particularly, according to the Ukrainians, the factors for success in Ukraine differ radically from those efficient abroad (Table 5). For instance, a person, mainly, needs to have kinship and ability to circumvent the law in Ukraine, while in developed countries a person needs to be highly intelligent and have a good education. A conviction that inequality is unfair in Ukraine is an inevitable consequence of such confidence.

**Table 5**

**Evaluation the main success factors by Ukrainians**

	In Ukraine	In developed countries
Influential relatives	51.1	12.9
High social status origin	37.9	24.3
Rich parents	36.5	15.5
Get around a low ability	33.1	5.4
High intellect	30.3	56.4
Good education	25.8	49.3
Money order ability	14.4	23.9
Good health	27.6	23.1

Source: Ukrainian society 1992–2010. Sociological monitoring

The worsening of economic situation in Ukraine in 2008–2009, already mentioned above, caused aggravation of the social situation. In particular, high level of Ukrainian economy’s perception of global crisis resulted in the narrowing of external and domestic demand for domestic goods. Furthermore, even the improvement of the structure of the world market of metallurgical

goods in 2010 did not lead to any significant improvement of position of domestic metallurgy. At the same time, narrowing of export potential significantly limited financial capacities to perform declared social commitments. The share of machines and equipment, and durables decreased, i.e. domestic market volume narrowed, as a result of drop in the effective demand in the domestic consumer market.

Contraction of capital expenditure volumes, first of all the foreign direct investments, significantly complicates overcoming crisis. This inevitably exacerbates risks of limiting opportunities for productive employment and respective decreasing of incomes from employment, same as filling of mandatory social insurance funds, first of all the pension one.

A limited number of solvent borrowers in the financial market creates the conditions for flows of bank funds into the state securities but not into real sector. The instability of economic development market, the narrowing of taxation base, and the decreasing of tax revenues are natural consequences of that phenomenon.

Finally, the budget revenues significantly decreased against the background of increase in its expenditures [4]. Impossibility to decrease the volume of the state social commitments stipulated natural under such circumstances decrease of expenditures on economic activities.

**Social support of old people.** In Ukraine, the system of social support of the old people consists of social security, privileges, social services, including health care, and maintenance of employment availability (Figure 2). Unfortunately, the system of the old people's education is just at the first stages of its development. There is also no practice arranging contacts and leisure of the old people. The same is true for draw the elderly into volunteer activities, even though it proved to be efficient in some pilot projects.



**Figure 2. Components of the age people social assistance system in Ukraine**

An emphasis on the social support of namely old people leads to a situation, when the functional structure of the state expenditures on social protection differs significantly from that in the EU (Table 6) even against the background of their high level in general (21,3% of GDP in 2011<sup>5</sup>). The share of expenditures related to support of the elderly is disproportionately high. First, we are talking about the financing of pensions. However, the expenditures on the other various multiple privileges also play an important role. Definitely, in absolute terms, this assistance is not even near to the benefits received by elderly in developed countries. Nevertheless, the distortions within the social transfer structure mean provision of an insignificant support to, for example, ill, socially excluded, and unemployed people.

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<sup>5</sup> Preliminary data

Table 6

## Functional structure of social transfers, %

	EU, 2009	Ukraine, 2010
Sickness/healthcare	29.6	18.3
Disability	8.0	1.2
Oldage	39.0	66.6
Survivors	6.0	0.8
Family/children	8.0	9.0
Unemployment	6.0	1.8
Housing	2.0	2.0
Social exclusion n.e.c.	1.4	0.3

Source: Statistical office

**Privileges.** The sector of privileges is the least considered and controlled in Ukraine. There are a lot of different privileges which are provided to quite a broad range of users. The most spread ones are the privileges on fees for public utility services, electric power, gas, telephone, private security services, health care and medications, recreation, free of charge passage via the territory of Ukraine by all types of transportation, etc. For example, the state provides full reimbursement of households' expenditures on housing, utilities, electric power and gas, and stationary telephone to individuals with special endeavors to their country or labor endeavors and to disabled World War II veterans. All these privileges are fully applied to all their family members living with them.

Privileges are provided to labor veterans, war participants, persons born in time of war, lonely old age people and so on. The total value of all types of privileges exceeds financial resources of the state. Therefore, some portion of the privileges is provided not in total volume or actually is just declared. Usually, restrictions are introduced for certain categories of recipients but not for certain types of privileges. Actually, by no means always people in the greatest need get the priority in this process.

Discussions on basing majority of the privileges on the targeting principle last for a long time in Ukraine. The point is that at least the working pensioners are quite able to pay for significant portion of privileges. However, some features of Ukrainian Constitution make it impossible to bring down the social standards. Ukrainian courts repealed all the multiple attempts of various governments to suspend or terminate privileges provided earlier.

**Social services.** Old people (21 categories of recipients) can make use of 26 types of social services out of 34 provided in Ukraine (76.5%). The most common are the following:

- annual medical testing and health survey (15 categories);
- free of charge dental prosthetics (14 categories);
- placing to the state/communal hostel type social protection institutions (11 categories);
- free of charge social welfare facilities (10 categories);
- free of charge or privileged supply of prosthetics (5 categories);
- free of charge or privileged supply of technical or other means (4 categories);
- vocational guidance/vocational educations (4 categories);
- residential nursing (3 categories).

Labor veterans (375 thousand individuals) constitute the largest group of the old age recipients of social services. At the same time, disabled people and lonely old age persons appropriately receive the highest number of social services (19 and 9 respectively).

Mostly state institutions provide the social services in Ukraine. The unemployed are being actively engaged to these activities based on the public works programs. Recently, the movement to pass a portion of functions of social services provision to non-governmental, first of all non-profitable, organizations has started. In this case, the services would be provided on the basis of public-private partnership or public contracts. The participation of private suppliers is supposed to provide an opportunity to enhance the range of services and to raise their quality and accessibility.

It is especially important issue in the rural settlements and small towns. The standard of provision with diligent personnel is much lower there. The distance from a supplier of a service to its consumer is longer. Finally, people's income is lower. All these factors make rural inhabitants and inhabitants of small towns unable to purchase a necessary service.

Therefore, state support of the old people in small towns and villages does fill with much less optimism against the background of more or less satisfactory average indicators of availability of social services.

**Ensuring employment of the elderly.** Labor participation prevents social exclusion of the old people and related to it systemic stresses, psychological dissatisfaction, and, finally, premature death but not just promotes their economic self-sufficiency. On the other hand, exactly during the period of employment the knowledge, professional and life experience of the older generation, i.e. all the existing potential to build-up social capital, are utilized to the maximum extent. Therefore, Lisbon Strategy for the EU countries sets up a target employment benchmark of persons of 55–64 at the level of 50%<sup>6</sup>. In Ukraine, it is almost impossible to reach such employment standard with no legislative changes due to lower retirement age (55 for females and 60 for males)<sup>7</sup>. In cases of wholesale redundancy, typical for the economic crisis period, presence of a guaranteed income source is, usually, taken into account, even though there are no formal restrictions of pensioners' employment. Moreover, an employer cannot fire an employee because of reaching the retirement age. It is difficult to find a new job even for those of pre-retirement age not only for the pensioners. Furthermore, individuals having satisfactory pensions often voluntary leave their job when they reach the retirement age. Such a practice is especially common for the females with family obligations. Therefore, much lower official retirement age in Ukraine needs a change accordingly to standards set for the EU countries.

*Table 7*

**Employment of old age people**

	2005	2006	2007	2008	2009	2010	2011
<b>Employed, ths</b>							
Female, 55-59	534.5	553.0	578.4	611.5	669.6	673.2	660.5
Male, 60-64	296.5	240.1	229.3	239.5	275.3	299.9	339.5
<b>Employment rate, %</b>							
Female, 55-59	37.4	35.5	35.6	36.3	38.5	39.0	38.4
Male, 60-64	32.0	30.6	31.0	31.5	32.6	31.6	32.0
<b>Share of informal employed, %</b>							
Female, 55-59	33.7	34.7	35.1	33.4	35.1	32.8	34.4
Male, 60-64	44.8	47.4	47.5	44.7	44.4	44.1	44.8

*Source: Calculation by Ptoucha Institute for demography and social studies of the National Academy of Sciences of Ukraine on the Statistical office data*

<sup>6</sup> Ec.europa.eu>social/ajax/Blob Servlet.

<sup>7</sup> Actual retirement age is equal to 58.5 years of age for males and 54 years of age for females.

<sup>8</sup> The official retirement age in Ukraine is 55 years of age for females and 60 years of age for males.

According to the data of the Survey of Population Economic Activity, the employment standard of persons 55–64 was equal to 39.7% in 2011, including 49.5% of 55–59 (64.1% for males)<sup>8</sup>. In general, as the data of the Labor Force Surveys (conducted by the State Statistics Service of Ukraine on the monthly basis) shows, the employment standard of so-called “the first retirement five years” remains a quite stable one. Moreover, the global crisis is accompanied by some growth of employment (Table 7) mostly due to maintaining their jobs by people. Therefore, one may talk about an accomplishment of the set goal at least formally.

The situation, however, changes cardinally after one considers diversified data. 34.4% of the employed females of 55–59 and 44.8% of the employed males of 60–64 are those working in the informal sector. It means much lower standard of social protection in job, extremely low wage, and unsatisfactory labor conditions.

The lion’s share of those employed in the informal sector consists of individuals living in the rural areas. They actually have no job and live owing to selling the goods produced at their subsidiary personal plots. In other words, these people are employed in agriculture at their own subsidiary plots. Unfortunately, the ILO methodology is not applicable in this case of Ukraine, same as of other former Soviet republics.

Ironically, the maximum share of people employed in the informal sector was observed during the pre-crisis 2006–2007, when the unsatisfied demand for labor was quite high.

**Pension system.** The problems of pension system in Ukraine are the most acute ones among the whole complex of the social support problems. They are caused by the following reasons:

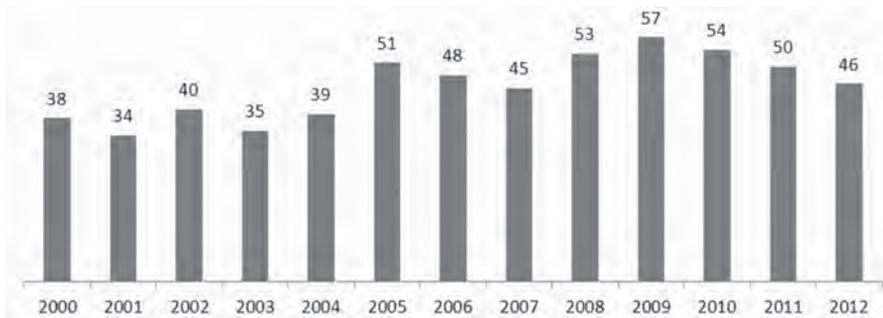
- 1) high level of demographic aging;
- 2) low retirement age (average life expectancy after retirement age exceeds 23 years for females and 14 years for males);
- 3) wide spread entitlement to early retirement (known in the national lists of professions №1 and №2 allowing a 10 and 5 years early retirement respectively and the list of professions setting the so-called “long service pensions”);
- 4) wide spread of entitlement to enlarged pension compared to the insurance contributions (the list of 21 professions, belonging to which ensures obtaining pension of 80% – till recently 90% – of the last earnings prior to entering into retirement; pension for some of these professions are being systematically re-estimated along with the increase of salaries);
- 5) high shadow economy and earnings out of which the mandatory pension insurance contributions are paid;
- 6) low legal earnings not allowing suitable living standard of pensioners even under high rates of the mandatory social insurance contributions;
- 7) nearly total deficiency of other sources of incomes for pensioners, except for «pay as you go” system and various types of social assistance.

Altogether the 100% coverage with pension programs<sup>9</sup> involves very hard problems in the field of state finances in the context of both taxation and expenditures.

2 pillars of pension system are de jure in effect in Ukraine: «pay as you go” and voluntary defined contribution. However, their parity proves that de facto the support of pensioners still is limited to benefits under the “pay as you go” system. If the total assets of the NSPF amount to UAH 1.5 bln, then the budget of the Pension Fund of Ukraine (PAYG system) reaches UAH 200 bln.

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<sup>9</sup> In the case of absence of an entitlement to so-called labor pension, old-age individuals receive social pension, which cannot be lower than the minimum subsistence income, same as the labor pension.

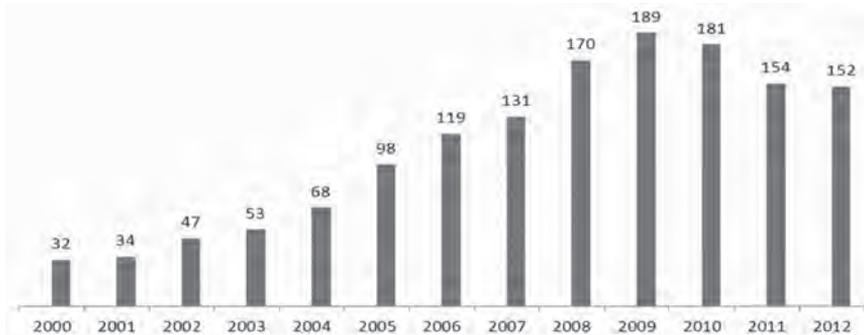


Source: Calculation by Ptoucha Institute for demography and social studies of the National Academy of Sciences of Ukraine on the Statistical office data

**Figure 3. Replacement ratio, %, on the year beginning**

The replacement rate of lost incomes related to retirement<sup>10</sup> is not sufficiently high in Ukraine (the maximum of 57% was registered at the beginning of 2009, while as of the beginning of 2012 it is equal to 46%) considering that only the PAYG system is in effect in the country (Figure 3). Since the number of pensioners is almost equal to the number of contribution payers (i.e. each insured worker at the expense of his/her incomes provides full funding for a pension to one pensioner), and the actual rate of the mandatory pension insurance contribution is equal to 33% of wage, payments from the PAYG system can ensure the replacement rate at 33%. The rest (13% at the beginning of 2012) is sponsored by the state budget.

Pensions of the majority of individuals of 70+ differ insignificantly in size, since a service record is composed under conditions of mandatory employment that caused the excess over the so-called standard service by 15–20 years and more or less equal wage. Pensions of so-called “young” pensioners are much higher (especially males of 60–65) who earned much higher wages. In general, 35.6% of the total pension payments are spent on the relatively high pensions (over UAH 1500) of 18% of pensioners. They are mostly the individuals who obtained pensions under the so-called “special” laws, including those who were employed earlier at the underground works.



Source: Calculation by Ptoucha Institute for demography and social studies of the National Academy of Sciences of Ukraine on the Statistical office data

**Figure 4. Ratio average pension to subsistence level, %, on the year beginning**

<sup>10</sup> Ratio the average pension vs average wage.

The average pension of working pensioners is higher by almost one quarter than the average pension of the non-working pensioners. This is because having a job with a wage lower by 23–24% than the average in the country allows periodic re-estimation of a pension in accordance with a new wage and longer insurance record. Such practise was cancelled just in 2012. Now, re-estimation can be performed only after termination of labor activities.

The changes in pension system established in 2012 decreased its expenditures to some extent due to a package of measures limiting pension entitlement. In particular:

- raising the retirement age for females is initiated (from 55 to 60 years of age during 10 years, i.e. by 6 months each year);
- the baseline duration of service is prolonged (from 5 to 15 years);
- the so-called standard duration of pensionable service, exceeding of which by one year leads to a 1% increase in pension, is prolonged (from 20 to 30 years for females and from 25 to 34 years for males);
- the so-called ceiling age of civil service (60 years of age for females and 62 years of age for males) is changed;
- 30 (35) years of pensionable service requirement is established for early retirement in case of firing 1.5 years prior to the retirement age because of reasons which lie beyond worker's influence;
- pensions granted under special laws (On Civil Service, On Procures, On Status of People's Deputy of Ukraine, On Scientific and Technical activities, On Pension Schemes for Individuals fired from Military Services, and On Judicial system and Status of Judges) decreased from 90% to 80% of earnings;

At the same time, some enhancement of pension entitlement is also ensured. In particular:

- monetary compensations of 2.5% of granted pension for every 6 months of raised retirement age are foreseen for the 10-year period of raising the retirement age (therefore, the maximum raise in pension will be equal to 25% for the individuals born from April 1, 1961 to December 31, 1961);
- insurance contribution from the minimum wage is taken into account (previously, a zero insurance contribution was set) during registering periods of the unemployment benefits that, naturally, raises pension;
- the maximum income from which the insurance contribution is paid is increased from 15 to 17 minimum subsistence incomes for able-bodied citizens.

These measures are aimed at balancing of the pension fund budget. They would somewhat decrease its deficit. However, with no effective increase of incomes, first of all with the aid of de-shadowing of earnings, it would be difficult to obtain any significant effect.

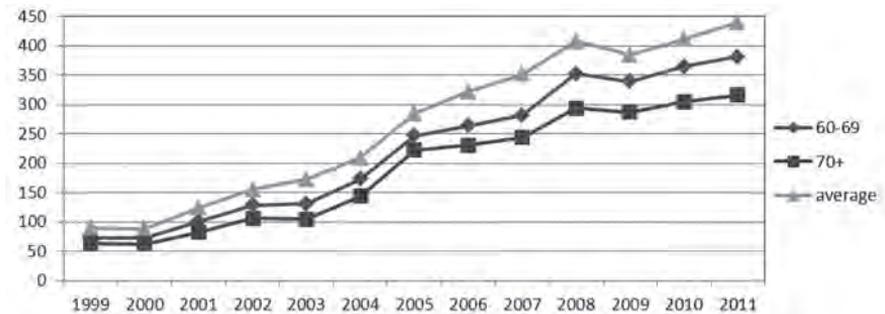
**Incomes of the old people.** Traditionally, the old people do not live in misery, even though they are balancing close to the poverty line<sup>11</sup>, at least prior to reaching senior age (75–80). Largely, there are chances to continue labor activities after formalization of pension, that prevents poverty. These opportunities allow receiving both full pension and wage. The fact that the minimum pension, including social pension, cannot be lower than the minimum subsistence income for the persons who had lost ability to work also plays a certain, though less significant, role.

The dynamics of incomes of the senior age persons in Ukraine roughly corresponds with the situation in the country in general (Figure 5). At the same time, incomes of individuals of 70+ are equal to around 70% of the average incomes. Incomes of the relatively younger people (60–69)

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<sup>11</sup> According to the Ukrainian level of living standards.

exceed incomes of those of 70+ by 10–20%. The lowest disparity was registered in 2005, when the minimum pension reached the minimum subsistence income level for individuals who had lost ability to work for the first time.



Source: Calculation by Ptoucha Institute for demography and social studies of the National Academy of Sciences of Ukraine on the Statistical office data

**Figure 5. Incomes of Ukrainian population, by the old groups, HUA per months, in 1999 prices**

Unfortunately, pensioners spend the lion's share of incomes (78% in 2011) on food, medications, and housing. At the same time, if the average households' with non-working pensioners expenditures on food and housing are significantly lower than those in other types of households, old people spend on medications more than any other people. Such a situation reflects the specific skew in prices and insufficient security in relation to health care.

**Poverty and deprivation.** In general, the poverty level of persons 60+ is significantly lower than the average (Table 8). However, if this difference for males is very significant (it is 21% under the relative poverty), for females the difference is minimal (8%). Correlation between poverty levels for persons of age 75 and older is more complex: among males the relative poverty level is 9% lower than the average ratio for all males but it is 18% higher for females. Such gender distinction reflects the outrunning growth of wages – and, consequently, pensions – for males in the recent years.

The old people living in the families with younger members are in hardest situation. Typically, it is just very case when the lack of money stipulates joint residence of 3 or even 4 generations.

Traditionally, even monetary poverty is significantly higher among the rural population: the risk of poverty in rural settlements is 55% higher than that in urban settlements (47% higher among the people of age 75 and higher). However, the point is, obviously, not just in income difference. Monetary poverty is far from covering all problems caused by inaccessibility of high-quality health care, basic personal services, and social assistance. Rural inhabitants especially often suffer from the inaccessibility of medical emergency service and the lack of money to pay for treatment or surgery. This is especially harmful taking into account prevalence of various illnesses among the old people of Ukraine. According to the data of 2011, 92.3% of people 60+ fell ill in the last 12 months and 78.3% have chronic diseases (which last over half a year)<sup>12</sup>.

<sup>12</sup> Household Living Conditions Survey- 2011, State Statistics Service of Ukraine.

<sup>13</sup> Household Living Conditions Survey – 2011, State Statistics Service of Ukraine.

<sup>14</sup> Interviewing of Ukrainian pensioners by way of in-depth interviews, conducted by the NGO “Youth Democratic Initiatives” under support of the United Nations Population Fund in 2011.

Table 8

## Poverty rate, %, 2011

	Criteria of the objective poverty	
	Absolute – subsistence level	Relative – 75% of the equal adult median expenditure
People 60+	13.8	21.2
Male	12.2	19.6
Female	14.7	22.0
People 60+, urban	12.4	18.9
Male	11.4	17.8
Female	13.0	19.5
People 60+, rural	16.2	25.1
Male	13.5	22.8
Female	17.7	26.4
People 70+	13.3	23.8
Male	12.0	22.4
Female	13.9	24.5
Single persons 70+	10.7	20.2
Male	12.3	22.4
Female	10.4	19.8
People 70+, which live in households with children	23.1	36.0
Male	20.9	32.8
Female	24.0	37.4
People 70+, urban	12.3	21.1
Male	12.2	20.6
Female	12.3	21.4
People 70+, rural	14.8	27.7
Male	11.8	25.2
Female	16.2	28.8
Population	14.6	24.3
Male	14.8	24.8
Female	14.4	23.9
Urban population	11.7	20.7
Male	11.9	20.9
Female	11.6	20.5
Rural population	20.6	32.1
Male	20.7	32.8
Female	20.5	31.5

Source: Calculation by Ptoucha Institute for demography and social studies of the National Academy of Sciences of Ukraine on the Statistical office data

Quite pessimistic evaluation of personal living standard gives the evidence of general socio-psychological disadaptation and unsatisfactory health of the elderly. If 60% of people in the country consider themselves as the poor ones, among the persons of 60 and older their share is 69%, and among those who are 70 and older – 71%. 38.6% of Ukrainians are forced to deprive themselves. Among the persons of 60+ their share is 46.6%, while among those of 70+ they are 49.3%.<sup>13</sup> Dissatisfaction of senior generations with social policy is conditioned, mainly, by low pensions and also by lack of privileges for pensioners in health care (rural inhabitants) and growth of housing and utilities services fees (urban inhabitants)<sup>14</sup>.

**Conclusions.** Living standard of Ukrainian old people more or less goes along with the average economic parameters of a poor in general country.

The pension system, which is financed at the expense of insurance contributions and budget subsidies, some privileges (housing and utilities services fees, transportation, medications and so on), and quite branched (even though not sufficiently efficient) social assistance system altogether meet the minimum needs.

There are no age-related employment constraints, and employed pensioners receive full pension and wage. Nevertheless, their employment significantly declines even in the first five years after the retirement age.

The system of organization of leisure activities for the old age people is almost nonexistent in the country, and the system of their education just started to develop.

The elderly are being involved into volunteer movement aiming at ensuring interpersonal contacts and utilization of residual labor potential. This has a quite notable social effect.

The situation with lonely old people living in rural areas is extremely unsatisfactory.

Problems of state finances of Ukraine stipulated by demographic aging, remain to be quite acute.

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*ЛІБАНОВА Е.М.*

## **ГАРМОНІЗАЦІЯ СОЦІАЛЬНО–ЕКОНОМІЧНОГО РОЗВИТКУ ІЗ ПРОЦЕСАМИ СТАРІННЯ НАСЕЛЕННЯ. ЩО ЗДІЙСНЮЄТЬСЯ В УКРАЇНІ?**

Стаття присвячена дослідженню впливу тенденції постаріння населення України на соціально-економічний розвиток країни. Детально проаналізовано проблему додаткового тиску на державний бюджет, що зумовлений зростаючою часткою осіб похилого віку. Розглянуто закономірності взаємозалежного впливу постаріння та соціально-економічних процесів, що відбуваються у суспільстві. Дано порівняння сучасних особливостей постаріння населення в Україні та в окремих країнах Європи. Особливу увагу приділено обґрунтуванню системи заходів, що покликані впроваджувати в життя зобов'язання в рамках регіональної стратегії реалізації Міжнародного плану дій з питань постаріння населення, сприяти забезпеченню сталого та справедливого економічного зростання. Автором здійснено розрахунок рівня міжпоколінної нерівності в Україні за період

1999–2011 років, досліджено основні динамічні тенденції в цій сфері. Розглянуто основні засади функціонування системи соціальної підтримки населення похилого віку, включаючи систему виплати соціальних допомог та надання соціальних послуг, користування соціальними пільгами. Запропоновано напрями розширення можливостей зайнятості для населення старших вікових груп, проаналізовано структуру їх доходів, особливості бідності та соціального виключення літнього населення. Наголошено на проблемах, з якими стикається чинна система пенсійного забезпечення, та які актуалізуються у зв'язку з прогресуючим постарінням населення.

**Ключові слова:** постаріння населення, соціально-економічний розвиток, баланс поколінь, зайнятість населення старшого віку, соціальна підтримка, структура доходів, соціальне залучення.

ЛИБАНОВА Э.М.

### **ГАРМОНИЗАЦИЯ СОЦИАЛЬНО-ЭКОНОМИЧЕСКОГО РАЗВИТИЯ С ПРОЦЕССАМИ СТАРЕНИЯ НАСЕЛЕНИЯ. ЧТО ОСУЩЕСТВЛЯЕТСЯ В УКРАИНЕ?**

Статья посвящена исследованию влияния тенденции старения населения Украины на социально-экономическое развитие страны. Детально проанализирована проблема дополнительного давления на государственный бюджет, обусловленная растущей долей лиц пожилого возраста, рассмотрены закономерности взаимозависимого влияния старения и социально-экономических процессов, происходящих в обществе. Проведено сравнение современных особенностей старения населения в Украине и в некоторых странах Европы. Особенное внимание уделяется обоснованию системы мероприятий, призванных внедрять в жизнь обязательства в рамках региональной стратегии реализации Международного плана действий по вопросам старения населения, содействовать обеспечению устойчивого и справедливого экономического роста. Автором произведены расчеты уровня межпоколенного неравенства в Украине за период 1999–2011 годов, исследованы основные динамические тенденции в этой сфере. Рассмотрены основополагающие принципы функционирования системы социальной поддержки пожилого населения, включая систему выплаты социальной помощи и предоставления социальных услуг, пользование социальными услугами. Предложены направления расширения возможностей занятости для населения старших возрастных групп, проанализирована структура их доходов, особенности бедности и социального исключения пожилого населения. Акцентируется на проблемах, с которыми сталкивается современная система пенсионного обеспечения населения, и которые особенно актуализуются в связи с прогрессирующим старением населения.

**Ключевые слова:** старение населения, социально-экономическое развитие, баланс поколений, занятость населения старшего возраста, социальная поддержка, структура доходов, социальное вовлечение.

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