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Report

The Legal Framework for the Social Protection of Pensioners in the BSEC Member Countries

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I. INTRODUCTION

1. The Eleventh Meeting of the Cultural, Educational and Social Affairs Committee held in Sofia on 23 September 1998 decided, upon the proposal of the Ukrainian national delegation, to discuss "The Legal Framework for the Social Protection of Pensioners in the BSEC Member Countries" as the main subject on the agenda of its Twelfth Meeting in Baku on 7-8 April 1999.

2. The Assembly has broached the subject concerning the social protection of pensioners within the framework of its Report "On Social Problems of the Transition Period in the PABSEC Member Countries" (presented by Mr. Malkhaz Baramidze) and Recommendation 14/1996 "On Social Guarantees during the Transition Period in the PABSEC Member Countries" adopted by the PABSEC Seventh Session in Baku on 13 June 1996. These documents have provided a substantial basis and useful guidance in the process of drafting the present paper and the Rapporteur would like to express his profound appreciation to Mr. Baramidze for his important contribution.

3. The Rapporteur would also like to express acknowledgements to the national delegations of Greece, Romania, Turkey and Ukraine that have forwarded valuable information and proposals for this Report and the Recommendation on the subject, as well as to the PABSEC Secretariat for information received from international organisations and other sources.

4. In the 1990s, we have been witnessing very similar socio-economic processes both in the countries of the former Soviet Union as well as other transition countries in the Black Sea region. That is why the Rapporteur deemed it possible to place a somewhat greater emphasis on the information concerning Ukraine to exemplify some aspects of the subject while trying his best to supplement it whenever possible with data on other BSEC countries. The Rapporteur has also taken note of quite different situations in the countries with a developed market economy, namely Turkey and Greece, on the one hand, and in the transition countries of the Black sea region, which accordingly call for different solutions and approaches.

II. THE SOCIAL IMPACT OF TRANSITION

5. Reform in Central and Eastern Europe and in CIS countries towards a market-oriented economy has turned out to be far more painful and complex than previously thought. The transformational recession - economic decline, rising unemployment and high inflation - has worsened beyond expectations. In recent years, following the collapse of the USSR and formation of new independent states, as well as processes under way in Central and Eastern Europe, the social situation of the population has dramatically worsened. The deepening economic crisis, a fall of production in many industries and budget deficits are creating a favourable environment for aggravating the social hardships of the population.

6. Dozens of millions of people have found themselves surviving below the poverty line. In Ukraine, 27 million out of the 50-million population try to make ends meet below the poverty threshold. Poverty has affected not only traditionally disadvantaged groups of the population with limited possibilities for employment, but also a considerable part of individuals working in budget-financed establishments (those employed in education,

science, culture), pensioners, the disabled, as well as the employees in industries which are in a difficult financial situation.

7. Most transition countries have dealt with the pension problem by severely compressing benefits. During the initial, high-inflation, phase of the transition period, the lack of indexation mechanisms resulted in a significant erosion of the real value of pensions. Subsequently, the use of periodic indexation and modifications in the benefit structures, in particular changing the way the initial pension was determined, narrowed the gap between the average and minimum pension. In the case of Georgia, the traditional system of differentiated pensions was completely eliminated and flat pensions were introduced for all except for war veterans. In view of the tight budgetary constraints and the political opposition against a reduction in the number of beneficiaries, the compression of the benefit structure was the only viable option for governments to provide some degree of protection for the poor during the transition.

8. In many cases, pensions have fallen below the minimum subsistence level. In Ukraine, for example, the purchasing power of pensions decreased fivefold in the period from 1990 to 1997. In the beginning of 1997, 12.7 million pensioners or 87.6% of their total number received pensions in the amount below the established subsistence level (70.9 UAH (hryvnas) – an equivalent of 37 US$ at the exchange rate at that period).

9. During the transition period, arrears have accumulated both in contributions and in payments of pension benefits. In Moldova, for example, pension arrears, reached almost three percent of GDP in 1996. The Minister of Labour of Russia recently stated that the Pension Fund may collapse because of 25 billion roubles in arrears. The volume of pension arrears of the Pension Fund of Ukraine amounted to 1 billion 973 million UAH in February 1999. Since pension contributions are charged to the wages as a payroll tax, the wages arrears automatically reflect on pension contributions.

10. In the 1990s the older generation in the ex-USSR countries experienced a double financial blow: their savings in the accounts of the Savings bank were depleted by inflation when in Ukraine, for example, consumer prices increased 166,000 times in the period from 1990 to 1996.

III. DEMOGRAPHIC TRENDS

11. The rapid ageing of the population in most of the Black Sea countries in the next decades will put even more pressure on existing pension systems. Demographic trends in most of the Black Sea are similar to those in major industrial countries and in Europe as a whole, characterised by the ageing of the population and declining birth rates. Over the next 35 years the share of those aged 65 and over in the total European population will rise from 15 per cent to 25 per cent. This trend will affect most of the Black Sea countries

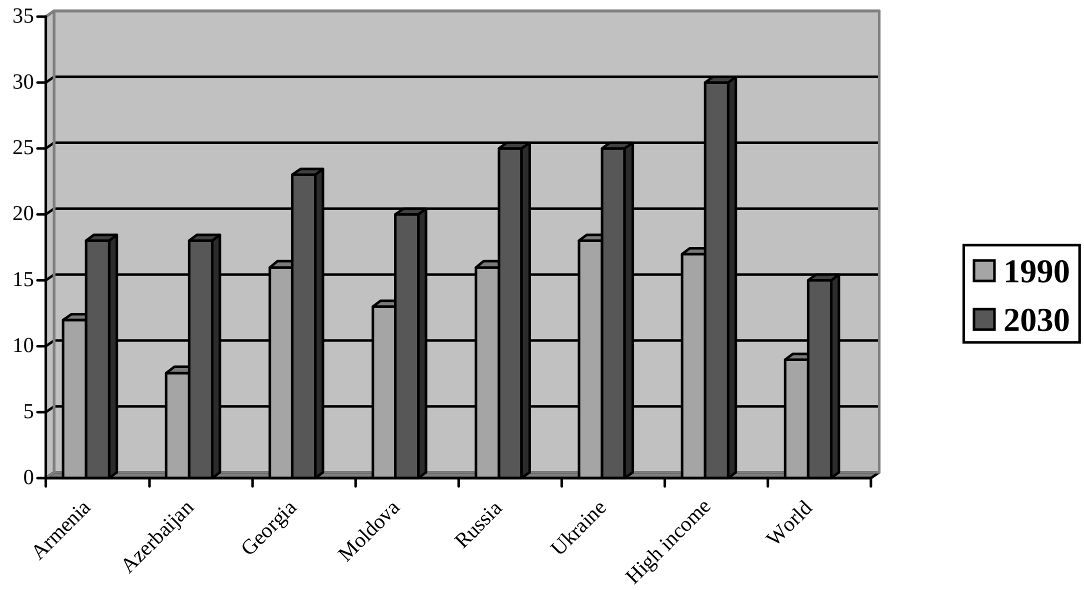
12. In Ukraine, demographic changes characterised by a sharp decline in the birth rate and an increasing mortality rate among the population of employable age gave rise to the increasing share of the elderly in the total number of the population. According to the 1959 USSR census, there were 227 people of pension age in Ukraine for every 1000 of the population of employable age, while in 1996 the figure was 405, that is 1.8 times greater. With the birth rate remaining the same, from the year 2010 on, the

situation will begin to change radically – generations of the post-war "demographic boom" of 1950-1965 will be replaced by generations of the 1990s when the birth rate was at its lowest. In 2025 there will be a predicted 561 people of pension age to every 1000 of the population of employable age, that is 1.4 times more than today.*

13. These demographic trends prevail in the majority of the Black Sea countries. In particular, the demographic forecast for some Black Sea countries is presented below (Figure 1):

Figure 1. Percentage of Population over 60 years old in 1990 and 2030

(In per cent of total population)



Source: World Population Projections, 1994-1995; World Bank

High income countries are Australia, Austria, Canada, Denmark, Finland, Ireland, Israel, Italy, Japan, Luxembourg, Norway, Portugal, Singapore, Spain, Sweden, United Kingdom, and United States

14. Even today, in all of the transition countries in the Black Sea region, the system dependency ratios (defined as the number of pensioners divided by total employment) are high and in some cases rising. In several countries, for each pensioner there are less that two employed persons (Table 1).

* Source: the Decree of the President of Ukraine "On Major Measures to Reform the Pension System", 20 April 1997

Table 1. Dependency Ratios, 1995

	System Dependency Ratio 1/	Demographic Dependency Ratio 2/
Armenia	45	26
Azerbaijan	46	20
Georgia	60	31
Moldova	51	28
Russia	55	36
Ukraine	66	34
Major Industrial Countries 3/	31	30

Source: Marta de Castello Branco, 1998, *Pension Reform in the Baltics, Russia and other Countries of the Former Soviet Union,* IMF Working paper 98/11

1/ Number of pensioners divided by total number of employed.

2/ Number of persons over 60 years divided by number of persons between 15 and 59 years.

3/ Major industrial countries are United States, Germany, France, Italy, Japan, United Kingdom and Canada.

IV. THE PRESENT PENSION SYSTEMS IN THE BSEC COUNTRIES

A. The Pension System in Greece

15. **General:** The social security system in Greece is compulsory and contributory. The social security institutions are divided into institutions of main insurance (27 entities), auxiliary insurance (53) and sickness insurance (19).There are also institutions which provide complementary protection. The public social security funds are established by law. Each fund has its own administrative structure with its own administrative bodies. There are also certain funds which have been created by private initiative or been qualified by legislation as belonging to private law (occupational - mutual funds). The Greek social security system ensures to insured persons protection for all social security risks (old age, invalidity, death, sickness, maternity, work accidents and occupational diseases, unemployment and family benefits). In the Greek social security system, there is a special scheme for civil servants. The state provides main aid sickness insurance for civil and military personnel as well as for persons assimilated to them. Farmers are affiliated to a special Organisation the Farmers' Insurance Organisation (OGA).

16. As a general rule, the social security funds are financed by employer/employee contributions or as regards the independently occupied and professionals, by the insured themselves. The method of financing is pay-as-you-go (contributory). State subsidies have been granted to some funds in order to cover any shortfall of income. The vast majority of funds are supervised by the Ministry for Labour and Social

Security, with the exception of the scheme for seamen (Ministry for the Merchant Marine) and a few funds for certain civil and military personnel (Ministry for Finance, Ministry for Defence).

17. **Employees in the private and public sector:** There is a large number of funds for salaried persons and self-employed and other categories of employees. The Foundation for Social Security (IKA) is the biggest insurance organisation in Greece and protects more than half of the population. IKA covers employed persons working in Greece or abroad for employers whose headquarters are situated in Greece, as well as other categories of employed persons on a non-permanent basis, such as loaders and dischargers, private nurses, newspaper salesmen etc. There are insurance funds for press owners, editors and press personnel or workers, as well as funds for personnel of banks and public companies for electricity, railways and telecommunications. The public companies in Greece operate as S.A. (Societes Anonymes) under the supervision of the state. Each company insures its employees in a corresponding fund. There is also a separate fund for seamen (NAT).

18. **Funds for the self-employed:** Apart from farmers, the most important category of self-employed are the independently occupied and professionals belonging to corresponding funds according to their professional status. The main characteristic of this group of funds is the insurance of the profession (merchants, professionals and craftsmen, owners of car in public use, engineers, medical personnel and juridical professions).

19. **New developments:** New regulations have been established for persons entering into the labour force after 1 January 1993. Unified principles have been introduced for all insured persons (except farmers and seamen) concerning retirement conditions and age requirements (65 for men and women) as well as percentages of contributions in relation to insurance period. Financing for the employees (main insurance for basic pension and sickness) is tripartite (proportionally 2/9 by employees, 4/9 by employers and 3/9 by the state), and for the self-employed bipartite (proportionally 6/9 by the self-employed and 3/9 by the state). For the auxiliary pension, financing is bipartite.

B. The Pension System in the Transition Countries

20. **Financing:** The pension systems in the transition countries are run on a “pay-as-you-go” (PAYG) basis, with pension benefits of current pensioners financed by current payroll contributions. This scheme was part of a public welfare system designed to provide “cradle-to-grave” protection to the population, including a great number of social protection arrangements, ranging from the provision of free health care and education to the delivery of subsidies, cash benefits (including pensions and various allowances) and benefits provided in kind (such as housing) as well as guaranteed employment.

21. These pension systems are financed through social security contributions (taxes levied on total payroll), in some cases supplemented by budgetary transfers. Statutory pension contribution rates are very high, often about 30% of the total payroll. As regards the split of contribution rates between employers and employees, workers contribution are either absent or very low, typically 1 per cent, although some countries have started to raise the employees’ share.

22. In Ukraine, the pension contribution rate is very high - 32 % of the payroll is to be paid by enterprises and 1 % of gross salary by employees. Contributions to the Social Insurance Fund, the Chernobyl Fund, the Employment Fund and the Pension Fund, adding up to a 49 % payroll tax (47.5 % paid by enterprises and 1.5 % by employees) compel the enterprises to look for illegal ways of paying wages, thus narrowing the taxation base.

23. Payroll tax revenues have declined sharply in real terms during the transition period reflecting falling real wages and also due to tax evasion. Under-reporting of the number of workers and their earnings as well as the practice of granting non-wage compensations have become common ways for enterprises to avoid high payroll taxes. As a result, despite the high contribution rates and, in some instances, significant budget transfers, the financial situation of pension funds has deteriorated considerably since they were created in the early 1990s.

24. **Benefit structure.** The initial pension benefit is typically based on previous earnings (on the basis of a short assessment period) and years of service. Old age pensions are granted to men after they reach 60 years of age and have a length of service of no less than 25 years and to women after they reach 55 years with a length of service no less than 20 years. Both the retirement age and length-of-service requirement are low by international standards. As a result of various occupational privileges, there is a significant incidence of earlier retirement, often with higher benefits than average. Several countries (in particular, Armenia and Azerbaijan) have started to raise the retirement age gradually towards international standards while Georgia has already increased it to 65 years for men and 60 for women. In Ukraine, out of the total number of 14.5 million pensioners (in 1997), 10.7 million retired at the usual retirement age, 2 million retired earlier, 1.7 million are disabled, 1.2 million are persons receiving survivors' benefits and 470,000 receive social pensions.

25. Most countries provide full pension benefits to working pensioners who constitute a large share of total beneficiaries in several countries (between 13 and 17 per cent in Armenia, Azerbaijan, Ukraine and Russia). In some cases, working pensioners may have their pensions recalculated on the basis of most recent earnings, so the value of their pensions is better protected compared to other pensioners. There is also a significant difference in benefit level received by "new" and "old" retirees since the pensions of the latter were sharply eroded by high inflation.

26. In many cases, pensions have fallen below the minimum subsistence level and represent only fraction of household incomes. These pensioners survive through extended family arrangements, informal activities and sales of personal assets. Pension systems have thus become crude social safety nets, providing small amounts of benefits to a large section of the population. In some of the poorer countries, the official social safety net has become largely irrelevant for household income. This might explain why a radical reform measure - an increase in the retirement age by five years - implemented in Georgia in 1996 did not meet with much public opposition.

27. **The disabled** face special problems during the transition period. Not only have their pensions lost value, but the services and special appliances they rely upon are in short supply. In Ukraine, the Fund for the Social Protection of the Disabled was set up in 1993 to finance national programmes for the disabled including their social and employment needs. In addition to the pension system for the disabled in Ukraine, there is an extensive network of home-care social aid centres and old age homes mostly

catering to the needs of the elderly, particularly those living alone, who are disabled and unable to care for themselves. Finally, there are enterprises which produce prosthetic appliances; there are programmes to develop the production of wheel chairs and specially designed cars for the disabled, as well as special rest homes, recreation centres and sports facilities. Unfortunately, the tight budget situation has made it very difficult to provide enough of these mechanical devices and facilities and there are long waiting lists for them.

28. **Fiscal burden.** Pension spending has been rising as a percentage of total government expenditure in most transition countries, for example in Ukraine, it has grown from 11.7 % in 1993 to 21.6 % in 1996. The growing burden imposed by pension expenditures implies that the pension systems in their present form are not fiscally sustainable, in particular considering the need for increased expenditure on health and education and investment in infrastructure after several years of severe spending cuts.

29. **Need for reform.** Despite the increasing fiscal burden they impose, the current pension systems are failing to provide adequate social protection during the transition period. On the revenue side, these systems stifle incentives to work and pay contributions. On the benefits side, they offer too little, are not adequately targeted and are thus falling short of their redistribution objective and of preventing absolute poverty. In the long run, a major issue is whether these pension systems will be prepared to face the costs of the ageing populations.

V. THE LEGAL FRAMEWORK FOR THE SOCIAL SECURITY AND PENSION SYSTEMS

A. The International Legal Framework: Multilateral and Bilateral Instruments

30. **Multilateral Instruments:** Greece as well as some other BSEC countries have ratified a series of international instruments of the Council of Europe, in the field of social security, such as the European Code on Social Security, European Social Charter (referring in Article 12 on the social security protection of the work force) and the European Interim Agreements on Social Security ("On Social Security Schemes relating to Old Age, Invalidity and Survivors" and "On Social Security other than Schemes for Old Age, Invalidity and Survivors"), as well as of the International Labour Organisation, such as the ILO Convention 102 on the Minimum Standards of Social Security.

31. Since 1 January 1981 (Greece's date of accession to the EU), the country falls under the Community Regulations. The Regulations 1408/71 and 574/72 of the EU regulate the social security rights of the work force and their families, moving within the EU. According to the above regulations, the citizens of a member state working in another member state have equal rights and obligations (from the social security point of view) with the citizens of the latter.

32. Some Black Sea countries are party to agreements in the social security field concluded in the CIS framework, in particular, the Agreement on guarantees of rights of citizens of the CIS Participating States in the sphere of pensions provisions (1992) and the Agreement among the CIS Participating States in the field of labour migration and the social protection of migrant workers.

33. **Bilateral Instruments.** Greece has contracted a series of bilateral conventions on social security (with Switzerland, Canada, Quebec, the USA, Cyprus, Argentina, Brazil, New Zealand, Uruguay, Venezuela etc.), covering salaried classes and other work categories with the exception of marines and civil servants for certain social security hazards (old age – disability – illness, etc.). Those conventions are of a classical type and are based on international social security principles, such as the equal treatment concerning social security protection, the preservation of the social security rights in case of moving house from a country to another and the inclusion of security periods both for founding the pension right and the calculation of benefits. Greece has recently entered negotiations for the contracting of bilateral conventions on social security- of a classical type - with many East European countries.

34. Turkey has signed Social Security Conventions and Administrative Agreements for the application of these Conventions with Albania and Georgia in 1998. The Turkey-Azerbaijan Social Security Agreement was also signed in 1998 while the Administrative Agreement for the application of this Agreement is to be signed in April 1999. The fundamental purpose of these Conventions, now submitted to the national parliaments for ratification, is to provide the rights to the citizens of a contracting party equal to those of the citizens of the other contracting party with regard to legislation and to take into account the insured periods of a person employed in the territory of a contracting party in order to determine whether he/she is entitled to a benefit. Furthermore, an Agreement was signed between Turkey and Bulgaria, which enables the parties to pay Bulgarian pensions in Turkey to persons who emigrated to Turkey after 1 May 1989 and who are entitled to receive pensions in accordance with the laws of Bulgaria. This Agreement will become effective after the parties inform each other about the completion of relevant internal procedures in accordance with their national legislation.

35. Bilateral agreements in the field of social security have been concluded by other Black sea countries as well. For instance, Ukraine has agreements on cooperation in the field of pensions with a number of CIS countries (Azerbaijan, Belarus, Kazakhstan and Moldova).

B. The National Legal Framework and the Pension Reform

36. While the relevant laws in Greece and Turkey make provisions for both compulsory pay-as-you-go (contributory) schemes and additional funded, occupational or private schemes, the pension legislation in the transition countries is still based to a large extent on the USSR Pensions Act of 1990 in the former Soviet Union countries or similar laws in other former socialist countries characterised by the dominance of the pay-as-you-go system. At the same time, there many acts or legislative amendments which provide additional benefits to certain privileged categories of pensioners.

37. In the 1990s, in the course of transition to a market economy, many Black Sea adopted various normative acts aiming to transform or improve certain aspects of social protection. For example, new regulations were adopted in Romania in the following fields:
- earlier retirement of persons receiving unemployment benefits;
- facilities regarding the retirement of handicapped persons by reducing the legal retirement age and the entire number of years of service;

- retirement at a reduced legal standard age for certain social or professional categories (teaching staff, miners, pilots, etc.);
- gradual integration into the system of social state insurance of some of the independent systems of social insurance whose budgetary balance was completely distorted by the changes imposed by the transition to the market economy (the Orthodox Church, the Armenian-Gregorian and Greek Catholic Churches, associations of artists, writers, musicians, co-operatives of craftsmen, etc.);
- compensation and correction of pensions and other social security benefits to diminish the effects of inflation. Since 1998, the level of pensions is automatically indexed.

38. The pension system in Ukraine is based on the Law on Pension Payments adopted in 1991. According to Article 46 of the Constitution of Ukraine, as well as to the Law “On Amending the Law on Pension Payments” adopted in 1997, pensions and other social benefits and allowances should not be below the officially prescribed subsistence level (73.7 UAH in 1998). However, under the severe economic crisis, most pensions fall far short of that requirement. With effect from 1 December 1998, the minimum old-age pension, together with a special cash benefit, has been set at 41 UAH (12 US$ at today’s exchange rate). Only several categories of pensioners receive pensions which are above the subsistence level (miners, those who had worked in hazardous or arduous conditions, Second World War veterans, persons with very long length of service and a few others).

39. The indexation of pensions in Ukraine is implemented in accordance with the Law “On the Indexation of the Money Incomes of the Population”. Assistance to families with children is provided in accordance with the Law “ On Public Assistance to Families with Children”. The Law “ On the Status and the Social Protection of the Citizens Affected by the Consequences of the Chernobyl Disaster” stipulates privileges for this category of the population. The Law “On the Status of War Veterans and the Guarantees of their Social Protection” has set increased pensions for veterans. The social protection of the disabled and the elderly is carried out in conformity with the Laws “On the Fundamental Provisions concerning the Social Protection of the Disabled” and “The Main Guidelines of the Social Protection of Labour Veterans and Other Elderly Citizens of Ukraine”. Some parts of the pension system are criticised as being socially unfair as they legalise an unjustified differentiation of state pensions granted according to “statutory” laws (“On People’s Deputy Status”, “On Public Service”, “On Office of Public Prosecutors”, “On the Status of Judges”, etc. Thousands of privileged pensioners receive ten times higher pensions than that of others, who worked for dozens of years in hazardous conditions.

40. At the same time, the process of comprehensive pension reform has been initiated or is being contemplated in all the BSEC transition countries. The key concept of this reform is that the pay-as-you-go monopoly needs to be replaced by a multipillar system where sources of financing future pensions are to be diversified.

41. The main elements of the **multipillar pension system** are as follows:

First Pillar (Mandatory)

1. Traditional social insurance scheme (pay-as-you-go).
2. Defined benefit (the pension is based on the number of years of service and the sum of the final salary)

3. Publicly managed.
4. Major conditions for improvement:
- creation of a new record-keeping system, based on taxpayer identification numbers;
- gradual increase in regular retirement age;
- insured period for full pension to be increased;
- payroll tax should be decreased;
- introduction of maximum earnings (social security ceiling).

Second Pillar (Mandatory)

1. Fully funded pension savings accounts or occupational pension plans.
2. Defined benefit or defined contribution (the pension depends on the size and rate of return to accumulated pension contributions).
3. Publicly or privately managed.
4. Major conditions for introduction (same as for the first pillar).
5. Minor source of retirement income for low-income workers; more important for middle and upper income workers.

Third Pillar (Voluntary)

1. Fully funded pension savings accounts in pension funds, insurance companies or other financial institutions.
2. Private savings.
3. Privately managed.
4. Major conditions for introduction - rules and regulations; state oversight over the financial institutions providing voluntary pension insurance schemes.
5. Minor source of retirement income for lower and middle income workers; more important for upper income workers.

42. Both the labour and capital markets are to play their roles through the pay-as-you-go and funded part of the system, respectively. A part of the mandatory retirement system will operate on a pay-as-you-go basis, while the other part will be funded. As each of the pillars is exposed to different types of risks, the system's overall risk will be better diversified. A pay-as-you-go pillar is highly exposed to risks of population ageing, increasing unemployment and political pressures. On the other hand, funded pillars cannot operate effectively in an environment characterised by a prolonged inflation or financial market crises.

43. Hungary is leading the process of pension reform in Central and Eastern Europe with a new multipillar system introduced on 1 January 1998. The Polish pension reform program sets to begin operation of a new multipillar pension system in April 1999. A group of Black sea countries, including Romania, Russia, Bulgaria and Ukraine set up task forces to prepare comprehensive reform programmes that include the introduction of the second pillar, major reform of the pay-as-you-go pillar and introduction of a legal reform for voluntary long-term savings. Albania, Armenia and Georgia have already restructured their first pillar while Azerbaijan is planning to restructure it and all of them contemplate a multipillar option.

44. Romania has focused on creating a comprehensive three-pillar system. The first pillar is the obligatory component which is publicly managed, while the other two components are to be privately managed - one is to be compulsory and the other is to remain optional, supplementing the basic social protection offered by the public

system. A draft law on pensions and other social insurance rights is to be analysed in Parliament. The bill aims towards:

- the realisation of a unified system of public pensions, integrating all independent systems including the system of social insurance and the pensions for agricultural workers;
- the efficient management of a unified system through a specialised structure at local and central level and in this respect the creation of the National House for Social Insurance;
- the gradual rise of the retirement age in the following period;
- measures for realising a correct relationship between the level of contributions and that of the pensions;
- financing pensions according to the principle of redistribution between generations;
- a new formula for calculating the pension which is to stimulate remaining in activity even after the standard retirement age;
- concluding bilateral agreements or joining international agreements on social protection with a view to ensuring mutual guarantee of the equal treatment of Romanian citizens who are working or residing in other countries than Romania, as well as the maintenance of their rights upon their return to Romania;
- participation of the representatives of employers, trade unions, the insured and pensioners as well as the government in the management of specialised institutions of social insurance

45. In addition, in view of exploring other possibilities of making supplementary retirement income and incentives to develop new means of personal savings for pensioners, draft normative acts on regulating the private system of pensions are being finalised. Introducing and developing a complex system of private pensions implies the necessity to define and design measures for supervising the social insurance market in order to monitor the compliance with the legal provisions in this field. Romania's adopted laws or legislative projects, as well as future institutional structures are designed bearing in mind the option for a democratic system and a market economy, as well as Romania's objective to join the European Union.

46. In January 1998 the Supreme Rada of Ukraine adopted the Fundamental Guidelines of the Legislation on Mandatory Public Social Insurance, which envisages the introduction of the following types of the mandatory public insurance:

- pension insurance
- insurance in case of temporary disability, and costs incurred by birth and burial
- medical insurance
- insurance against industrial accidents and occupational diseases causing disability
- unemployment insurance

47. The Decree of the President of Ukraine dated 18 August 1997 "On urgent measures to speed up reform and steer Ukraine out of crisis" envisages to start pension reform beginning from 1998. The main objective of the reform is a transition to an insurance-based pension system. The pension reform is to be carried out stage-by-stage (up to 2000) on the basis of adherence to the Constitution, according to which any new measures should not worsen the existing pension situation. The first stage (during 1998) envisages the delimitation of pension financing sources and introduction of personified employee cards instead of service certificates. The second stage (until

2000) involves ensuring a gradual compatibility of pensions with the subsistence level and differentiating their amounts according to contributions and years of service.

48. In April 1998, the President of Ukraine signed a decree on major measures to reform the country's pension system. The priority measures stressed in the decree are: the gradual rise of the minimum pension to low-income threshold; regular indexation of pensions with regard to growing consumer prices and, in the future, with regards to average wages; insurance is to play a bigger role in the pension system. To implement this transition, it is suggested to introduced personified accounts of the contributions by natural persons to the Pension Fund; to pass legislation which will condition the size of pensions on retirement age and on the size of wags (income) from which contributions were made; to differentiate the size of pensions depending on whether a person continues to work on reaching retirement age or not; to diversify sources of financing pensions allocated under various pension programmes, etc.

49. Pension security is among the most acute socio-economic problems of the transition period because it affects the vital interests of millions of elderly people, invalids and family members who lost their breadwinners. In Ukraine, for example, pensioners account for 39 per cent of the electorate which, owing to their heightened political activity, actually comes to over a half of all voters, so the problem gains an obvious political significance. Putting the pension reform packages together and getting them approved by parliaments and governments has been an extraordinary difficult task, primarily because of many special interest groups involved in defending the status quo. In Hungary and Poland, for example, it took several years of painstaking efforts and intensive debates before the comprehensive reform packages were produced.

VI. CONCLUSIONS AND RECOMMENDATIONS

50. Pensioners, the disabled and the elderly in the BSEC countries in transition have found themselves among the most socially vulnerable sections of the population adversely effected by the economic recession, growing poverty and hardships accompanying the transition period. There is an imperative need for urgent action to preserve minimum social protection, centred on the most vulnerable sections of the population, particularly on the elderly.

51. It should be pointed out that the social and economic situation in the transition countries of the Black Sea region and in its countries with a developed market economy are quite different and therefore demand different approaches.

52. Despite their increasing fiscal burden, the public pension systems in the transition countries of the Black Sea region are failing to provide adequate social protection. The typical responses of the governments to the increasing financial stress on pension funds have been to reduce benefits, increase social security contribution rates and accumulate pension arrears. These measures have caused social tension and wide popular discontent.

53. The demographic trends in many of the BSEC member countries are characterised by the rapid ageing of population, which leads to a marked increase in the ratio of pensioners in relation to the working population, a trend which is going to be even more pronounced in the years to come.

54. Diminishing social security contributions call for a pension reform in order to find ways of introducing sustainable systems that balance the ever-increasing demands on pay-outs from the state pension funds and financing other social expenditures with the need for investing in economic development as, in the long run, only economic growth will allow to improve social welfare.

55. Long-term policies should be adopted when determining the age at which pensions are payable, taking due account of the age of retirement, changes in the national demographic structure and of the national economic capacity. Retirement policies cannot be treated in an isolated manner as a separate phenomenon. The most visible relationship is that between arrangements for retirement and problems of unemployment, especially among young people about to enter the labour force. Whatever the apparent wisdom of lowering the age levels in order to open up opportunities for the young, such action may prove to be a short-term and partial solution of one social problem, through the creation of another, probably a longer-lasting one. More innovative actions are needed at both extremes of the labour force structures.

56. The Assembly could, therefore, recommend the following measures to the Parliaments and Governments of the BSEC Member Countries:

- to regard granting state-guaranteed pensions to elderly people as one of the priorities of social policies, ensuring that minimum benefits should be sufficient to meet the essential needs of the pensioners;
- at the same time, alternative social insurance schemes could be promoted as a longer-term measure within the framework of comprehensive pension reforms underway in many BSEC member countries;
- to bring national legislation in conformity with international social security standards by acceding to the relevant international legal instruments, particularly those of the Council of Europe and the International Labour Organization;
- to combat the deterioration of the public health systems in transition countries laying emphasis on ensuring the access of low-income elderly citizens to free or financially accessible health care;
- to explore ways to protect the savings of pensioners against the effects of inflation;
- to pay particular attention, in social security and social programmes to the circumstances of elderly women whose income is sometimes lower than men’s due to the fact that employment has often been interrupted by maternity and family responsibilities;
- to guarantee material security for pensioners and older people with reduced capacities for earning in rural areas, particularly in the less productive, subsistence farming areas, which already suffer from an escalating flight of the younger and more active sectors of the population towards the urban areas in search of wage-earning employment. Rural development should be seen as a key to the overall problem;
- to develop local services for the elderly and introduce or develop training for welfare workers; endeavour to reduce fiscal or other constraints on voluntary activities and eliminate or relax regulations which hinder or discourage part-time

work or use of volunteers alongside professional staff in providing social services or in institutions for the elderly;

- to stimulate a strong partnership between governments and non-government organisations designed to ensure a comprehensive, integrated, co-ordinated and multipurpose approach to the social welfare needs of pensioners;
- to promote further cooperation among the BSEC countries in the field of social security, in particular, by concluding bilateral and multilateral social security agreements to guarantee legitimate migrant workers full social coverage in the receiving country as well as maintenance of social security rights acquired, especially regarding pensions, should they return to the country of origin;
- to encourage common studies and information sharing with a view to improving the pension legislation in the BSEC Member Countries.

57. The pension reform, seeking in this or that form to lower expenditure and to limit the number of people dependent on social transfers, is now on the political agenda across Europe - both in European Union countries and countries in transition. It should be stressed, however, that the pension reform should not question the principle of maintaining a universal system which provides adequate protection to all those in need.