

PENSION SYSTEMS OF LITHUANIA AND BELARUS, THEIR SIMILARITIES AND DIFFERENCES

B. Kaniškauskaitė, 2nd year of studies, I.O. Grinevich, 3rd year of studies

Scientific advisers – L. Steiblienė, Master of Finance and credit, lector; A.S. Golikova, assistant

Vilniaus kolegija / University of Applied Sciences

Polessky State University

Pension schemes are the most important component of the social protection system, as for those who have reached a certain age the pension is the only source of livelihood in most cases. In addition, it affects the vital interests of citizens and those who "earn" their future pension by participating in the financing system.

The pension system of each country has been formed considering the peculiarities of its development and under the influence of the existing legislation defining the role of pension funds. There is a classification of pension system which is in terms of financing method, including unfunded and funded types:

1) Unfunded or PAYG (pay-as-you go) plan refers to those schemes that are paid on a current disbursement method. In the case of an unfunded state pension scheme, the government imposes a tax on the income of the working population and then using the tax revenue to provide retirement benefits for the retirees. When the current working population retires in the future, their retirement welfare will be supported by the next-generation's working group through taxation by the government.

2) Funded plan refers to those plans in which dedicated assets are cumulated to cover the scheme's liabilities. These assets are assigned by law or contract to the pension scheme and hence they must be used for financing the payment of pension benefit obligations.

a) In a fully funded scheme, assets are accumulated to pay the future obligations such that the total contributions plus investment returns are enough at any time to cover the present value of the entire flow of future pension responsibility.

b) A pension scheme may be partially funded. Partially funded plan refers to a plan in which the plan sponsor determines a funding level that is less than 100%. The remainder is unfunded (PAYG) or book reserved [1].

Improving the pension system is a matter of special social importance in every country. One of the most primary problems in social security that developing countries face is providing people with pensions. Increase in life expectancy, birth-rate decrease, the growth of elderly population year by year and many more reasons cause such a problem in countries all over the world. We have to face the fact that in the future this situation will become much worse than it is today so we have to take action in beforehand so it wouldn't be too late.

In most countries there is a minimum pension that is confirmed by the law, and each retiree receives it regardless of his work, salary or how many years he has been working. However, it is not enough to satisfy the needs of the elderly population. Pension provisions can be compulsory or voluntary. In some countries there are a lot of doubts about government pension system, but people does not want to take risk refusing it, so in this case system there are also private pension funds where people can save money voluntarily.

The current pension system of Belarus was inherited from the Soviet Union. The pension system is redistributive or PAYG. The pension age is 60 years for men and 55 years for women. These are the lowest pension ages in Europe, comparable only to those in Russia. The only reforms of the pension system during the years of the independence in Belarus were the restrictions of access to work pensions, which are now paid only for those who contributed to the Pension Fund at least for 15 years. If a person does not meet this criterion, she/he is only entitled to the social pension, paid after the age of 65 for men and 60 for women. As most developed countries have moved towards the same pension ages for both sexes, Belarus remains among the group of transition countries which still cling to the outdated policy of earlier retirement ages for women [2].

Obsolescence of the system and demographic situation in Belarus make pension system reforms inevitable. Under the current pension system the deficit of the Pension fund will reach 1.8% of GDP by 2020. The Social Security Fund deficit and the lack of budget resources do not leave the choice for the Belarusian authorities, who are likely to adopt raising the retirement age as of January 1st, 2017. The basic option is to raise the retirement age for men to 65 years for women – to 60 years.

The development of private pension insurance is one of the ways to resolve the pension crisis. For example, in Belarus there have already been several insurance companies and companies which carry out a supplementary pension insurance: the program "Pension +" proposed by Republican subsidiary unitary insurance enterprise "Stravita"; the supplementary pension insurance in JSC Insurance Company "Pension guarantees"; PriorLife Insurance Company. However, more than half of the population is not informed about the existence of supplementary pension insurance in the Republic of Belarus in general, and of the existence of the above programs in particular.

Transition of Belarusian pension scheme to the fully-funded pension system is not possible until macroeconomic stabilization is achieved. In the medium term only the parameters of current pension system can be reformed. World practice shows that pension funds are among the main institutions of the financial market.

In developed countries, pension funds play a significant role in the investment process. Pension funds are socially and economically responsible so we can state that they have two main purposes: from social perspective – to help to fill in social insurance pension system funds, which gives aged people the opportunity to receive larger amount of pension and convenient retirement in the future, and from economic view investing in private pension funds helps for country's economic development and also strengthens public financial market. Furthermore, pension funds encourage people to be more independent and take care of their social security for the future themselves.

In order to reform the pension system of the Republic of Belarus and to stimulate the creation of private pension funds, let's consider the successful experience of one of the neighboring countries – Lithuania.

Lithuania, as a state that didn't have much of experience how to create pension funds, took example from other world countries. Right after Lithuanian restoration of independence government took action to fortify pension fund system. As a result the basic law of Lithuanian republic government social system was created which empowered the budget independence of state social security. According to this law welfare state consists of state compulsory social insurance, social aid, social provision, but together with it private social welfare can be used.

Law entitles opportunity to transfer gathered funds from one pension fund to another within the same company, but there is also opportunity to transfer them to another pension fund if the current one does not

represent your expectations and if the results of the company does not look promising. But it should be at least 3 years since you have started to save pension in private funds. This is the reason why people should pay attention while choosing a company. There are three stages of pension system in Lithuania. The first stage is state social pension insurance, when pay-outs are financed by mandatory contributions, which are taken from the salary. It works smoothly but it satisfies the basic needs of a pensioner; it was suitable for the country, but not for the pensioners. However, private pension funds took initiative to improve this situation and started to create pension funds that would give real benefit. The second stage – part of national insurance contribution are gathered in pension funds. It is a system that allows Lithuanians, that have compulsory state social insurance to gather their pension in pension funds by investing part of their national insurance contribution in securities. People have opportunity to choose between state pension and state pension together with pension from a pension fund. The third stage is optional pension accumulation in pension fund. These funds are created for long-term pension accumulation. People who decide to accumulate pension on third stage pension funds have opportunity to receive higher pension than the state provides [3].

Finances that are accumulated in a pension fund are invested in order to reach mutual benefit both for the company and the fund owner. Most companies have diversified securities portfolio. The main reason why people chooses private pension funds is to ensure that after retirement they would not need to worry about lack of money if the state would not provide enough funds.

Accumulative pension system has some significant advantages in comparison with the distributive one. However, instant transition to this system is fundamentally impossible: only gradual transition is feasible, primarily the state has to start from the younger generation. In addition, the creation of a funded pension system in Belarus requires the development of the financial market and the long-term macroeconomic stability.

Based on the experience of Lithuania and the analysis of the available tools, we can make the following recommendation on the reform of the pension system in Belarus: the long term transition to a funded system. It is necessary to create the conditions and the regulatory environment for the emergence and development of private pension funds, as well as stimulate the population to the creation of long-term savings. Thus, the implementation of all these measures will help to ensure a modern approach, a decent level of pension coverage, high degree guarantees and freedom of decision-making by citizens.

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