

ClientAlert

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New Pension System in Ukraine Becomes Effective from October 1, 2011

On September 6, 2011, the Parliament of Ukraine passed the final change to the Law of Ukraine "On the Measures on Legislative Enactment of Pension System Reform" and this Law was signed by the President on September 9, 2011 (hereinafter "Law on Pension Reform").

The new Law on Pension Reform changed the current system of mandatory contributions to a three-pillar pension system:

First pillar – mandatory state pension insurance system contributions from all enterprises and insured individuals is deposited into the Pension Fund of Ukraine to be immediately paid out to today's pensioners.

Second pillar – accumulative mandatory state pension insurance is based on the current mandatory contributions, a portion of which is channeled into the personal accounts of contributing individuals.

Third pillar – the system of non-state (private) pension insurance is a voluntary system that both individuals and legal entities/employers may participate in.

According to the Law on Pension Reform the changes become effective starting from October 1, 2011.

Practical impact of the reform for employers will be as follows:

- Increase of the pension age for women. Current pension age is 55 years for women and 60 years for men. Pension reform will increase gradually the pension age for women to 60 years – over a 4 year period, provided that the retiree has working experience or social insurance period of not less than 15 years (currently 5).
- The minimum amount of the pension is established at 35 years of experience for men and 30 years of experience for women in the amount of one minimal living cost as defined by the law. For each additional year of experience (years during which social mandatory payments were paid) above 35 years for men and 30 years for women the amount of the pension is increased by 1% from the amount of pension calculated in accordance with the rules provided in the legislation, but not more than by 1% of the minimal amount of pension based on age.
- Upon reaching the pension age established in the legislation, an individual has decided to continue working and receive the pension from a later age, then the pension based on age shall take into account the number of years of experience or the number of years when the mandatory insurance payments were paid for such employee as of the date when such individual has applied for appointment of the pension with addition of the following:
 - 0.5% of the pension amount shall be added for each full month of working experience (when insurance payments were paid) in case of delaying retirement for the period up to 60 months;

- 0.75% of the pension amount shall be added for each full month of working experience (when insurance payments were paid) in case of delaying retirement for the period exceeding 60 months.
- Women who are subject to the pension age (born up to December 31, 1961) will have the option – either to retire and receive the pension under the previous system (however, provided that they have not less than 30 years of working experience, *i.e.*, the number of years when the mandatory insurance payments were paid for such employee), or continue working which will add to their pension additional 2.5% of the pension amount for each additional half a year of work starting from 55 to 60 years of age.
- According to the Law on Pension Reform, the second pillar (or savings) state mandatory pension insurance payments will be started from the year when there is no budget deficit in the Pension Fund of Ukraine (unfortunately there is no fixed date for this). The participants of Savings Pension Fund will include employees that are no more than 35 years old at the date of coming into force of the second pillar state mandatory pension insurance payments.
- Insurance payments to the Savings Pension Fund are treated as part of the single social insurance payment and shall be directed to the Savings Pension Fund in the following amounts: during the introductory year: 2% of the base of calculation of the single social insurance payment established for such payers and during each next year: in the amount increased by 1% up to reaching 7% and it shall be paid in such amount thereafter. Nevertheless, starting from the payment of insurance payments into the Savings Pension Fund the employers will be decreasing by 1% annually the amount of social payments paid as single social insurance payment imposed on the actual salary budget of the employer.
- Third pillar of the pension system will become active two years after second pillar becomes operational: social insurance payments into private pension funds will be paid in two years term after introduction of the social payments into the Savings Pension Fund.
- The Law on Pension Reform provides that the salary of employees shall not be decreased as a result of an increase of the single social insurance payment (due to requirement of payment to Savings Pension Fund) and employers shall adjust their expenses accordingly.

The Law provides only very general guidelines on how the new pension system will look and requires numerous additional legislative acts for its implementation. Thus, it is expected that many provisions of the Law on Pension Reform will be detailed and extended in normative acts and clarifications of the Ministry of Labor and Social Policy of Ukraine and the Pension Fund of Ukraine.

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