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## PROBLEMS OF SUPPORTING FINANCIAL STABILITY OF THE PENSION SUPPLY SYSTEM IN UZBEKISTAN

**Abstract:** The article deals with the current state of the pension system, the factors affecting the financial stability of the pension system, and the existing problems in the system. Scientific conclusions have been developed to ensure financial sustainability of the Uzbek pension system and scientific recommendations and recommendations aimed at strengthening financial sustainability have been developed.

**Key words:** pension, pension fund, pension, pension system, off-budget Pension Fund, financial stability, average life expectancy, wages, single social payment, demographic factors.

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### Introduction

Social protection and financial support of socially vulnerable segments of the population are important and indispensable part of the state social policy.

From the moment of human civilization to the present day, a system has been formed to ensure that the elderly, the disabled, the underage and other social welfare benefits society as a full-fledged member of society. In the current period, the system of social security and pensions is crucial and actual. In particular, according to the United Nations, 962.3 million people worldwide are over the age of 60 in 2017<sup>1</sup>, which accounts for about 13 percent of the world's population. In general, it would be obvious that this scale would be more significant if we understand that people with disabilities, such as the elderly, the disabled, the poor, the disabled, or those who have lost the bread-winner in society. All members of society are responsible for their social

security. In this regard, at some stage of development, pensions and social insurance funds that provide material and financial support for the elderly, persons with disabilities and the breadwinner have been formed.

Over the years, pension funds have evolved rapidly as a source of financial resources for the economy. Regular growth of the population and their involvement with the pension system became the main priority. However, factors such as the aging of the population as a result of the decline in birth and the prolonged lifetime of the mid-80s of the 20th century have had a negative impact on the financial viability of the world's pension system. The increase in pension payments to the working population in many countries has led to a deficit of pension funds. This problem was caused by the reduction of the ratio of the number of working people (coefficient of coefficient) to one pensioner. For example, in developed countries in the 50s of the 20th century, this coefficient amounted to 3.5 per worker per capita, while in the 1990's it was 2.5 [1]. Macroeconomic factors such as unemployment, inflation, and barter calculations have led to a lack of

<sup>1</sup>  
[http://www.un.org/en/development/desa/population/publications/pdf/ageing/WPA2017\\_Highlights.pdf](http://www.un.org/en/development/desa/population/publications/pdf/ageing/WPA2017_Highlights.pdf)

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accumulated pension funds at the expense of the state budget.

This, in turn, did not allow for the financial independence of the state pension funds. These factors have had a negative impact on the financial stability of pension systems in the world.

### Literature review

The countries have begun to take serious measures and changes to ensure the financial sustainability of the pension system and the effective organization of its activities.

In recent years, economists have accumulated extensive theoretical and practical research on studying the pensions and ensuring its financial sustainability. Many economists show the "dependency coefficient" as an important indicator of the financial sustainability and effective functioning of the pension system [2].

D.Rustamov emphasized that the Pension Fund is important to study the best international practices in addressing issues related to enhancing financial sustainability and activating investment policy, and promoting the provision of pensions to citizens in various countries around the world, while in some countries the priority is given to state funding of the pension system, others think that private pension funds will be created [3].

B. Mamatov acknowledged that "the financial stability of the Pension Fund is due to the timely and full implementation of payments for it and to the effective organization of pension management" [4].

Providing sustainability of pension funds is of great importance from macroeconomic point of view, as well as the following opinion of the American scientist Jun Peng: "... pension management does not only affect the financial sustainability of pension provision, but also the financial stability of the entire public sector, management must be bound to each individual who pays a pension to the state pension system and who receives pension benefits guaranteed by the government in the future"[5].

Ph.D., associate professor Z. Abdullayev has five factors that influence the financial stability of the pension system:

- Continuous decline of population co-population, slowing down of population growth rates;
- Improvement of living standards of the population and development of medicine;

- Decrease in the number of economically active workers in the total number of population;
- economic crises;
- Increasing the number of unemployed.

According to the scientist, simultaneous occurrence of the first three factors, in almost all countries of the world, has led to deficits in the state compulsory pension funds, ie, deficit cases, and its volume is increasing from year to year. The global financial crisis, which began in the first decade of the 21st century and covered the countries of the world, has a double negative impact on the budgets of public pension funds in almost all countries of the world, especially in European countries. As a result of the above five factors, states are forced to spend large amounts of gross domestic product (GDP) generated for retirement expenditures [6].

In this regard, Professor A. Vakhobov acknowledges that the following two issues are in place for the establishment of a state-funded pension system in co-ordination of the following two key issues:

First of all, to maximize the participation of all members of the society in the system of public pension system by expressing the social features of the system, thereby arranging the provision of pensions and other social benefits to the citizens as and when required;

Secondly, it is aimed at ensuring the balance of income and expenses, reflecting the financial aspect of the pension system. It is well-known that demographic, social, political and many other changes in the world have a direct impact on the financial stability of the pension system.

### Analysis and results

In most countries, pension schemes are the most important part of the pension system, and the accumulative pension is funded additionally to the distribution system (including Uzbekistan). In this context, the financial sustainability of the pension system focuses on a distributed pensions system, where emphasis is placed on the priority.

In Uzbekistan, a distributed pensions system is of primary importance in the system of social security of the population and the state pensions are entrusted to the off-budget Pension Fund. The state pensions and social benefits are assigned and paid by the Fund.

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**Table 1. Number of Retirees and Retired Retirees for 2012-2017.**

r/n	Indicators	2012	2013	2014	2015	2016	2017
1	Age related	2118186	2147549	2181771	2262990	2369317	2481488
2	Disability	397265	382757	371374	358572	351546	359291
3	Loss of the companion	169819	165317	160784	160056	161224	166842
4	Social pensioners	218413	225949	233938	244576	259069	289132
Total number of retired and retired people		<b>2903683</b>	<b>2921572</b>	<b>2947867</b>	<b>3026194</b>	<b>3141156</b>	<b>3296753</b>

Source: Information from the Off-budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan.

According to statistical data of the Pension Fund, by the end of 2017 there are approximately 3.3 million recipients of social benefits and about 10% of the country's population. At the same time, 2,481,500 retiree pensioners, 359,300 persons with disabilities retirees, 166,800 pensioners and 279,000 pensioners.

In the last six years, the total number of recipients of social benefits from the Pension Fund increased by 13.5%, while pension types increased by 17.2%, pensioners - by 32.4%, recipients of pensions - 1.8, the number of pensioners with disabilities decreased by 9.6%.



Source: Information from the Off-budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan.

**Fig 1. Changes in the number of retirement and social pension recipients (as% of the previous year).**

The number of retirement and retirees for the analyzes has increased by an average of 2.5 per cent annually. The main growth is due to retirement and retirement benefits. In particular, the average annual retirement age is 3.2%, and social retirement age is 5.7% per annum. Generally, absolute growth has grown to 393.1 thousand over the past six years, with the largest increase in pensions (363.3 thousand).

It is well known that Uzbekistan is a demographically young country in the world, with a high proportion of labor force in the country's young people, and the retirement age for other countries is at the lowest level. According to the Pension Fund's forecast, the average life expectancy in the country in the coming years will also increase.

**Table 2. Prognosis of average life expectancy and average retirement life expectancy of Uzbekistan's population in 2018-2025 (years).**

№	Indicators	2018	2019	2020	2021	2022	2023	2024	2025
1	Average life expectancy (males)	73,0	73,5	74,0	74,5	75,0	75,0	75,0	75,5
2	Average life expectancy (women)	78,0	78,0	78,0	78,0	78,0	78,5	79,0	79,0
3	Average retirement age for men retired at age 60	17,0	17,5	17,5	18,0	18,0	18,0	18,0	19,0
4	Average retirement age for women retired 55 years	24,0	25,0	25,0	25,0	25,0	25,0	25,0	25,0

Source: Information from the Off-budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan.

In particular, the average lifetime of men in 2018-2025 will increase from 73 to 75.5 years, and

the increase in females from 78 to 79 years. If the retirement age is not adjusted, the average retirement

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age for men in the country will increase to 19 years (+2 years) by 2025 and 25 years (+1 years) to women. According to the forecast, the proportion of retirement age population (by 1.2 million people) in 2018-2025 is expected, which, in turn, will increase proportionally the costs of the Pension Fund.

The aging population shows that the retirement age population has a tendency to grow (from 5.9 percent in 2010 to 7.4 percent in 2018). Starting from 2016, the number of annual appeals for retirement in the Republic of Uzbekistan (an average annual increase of 206,000) is expected to reach 300,000 by

2025. According to statistical data, the population of retirement age will increase by more than 9% in 2019 and will reach 11% by 2025. This necessitates a regular increase in pensions, which is obviously a necessity to increase earnings from the Pension Fund.

The legislation of the Republic of Uzbekistan stipulates that the Pension Fund's funds will be used to pay pensions for working and working pensioners, for the elderly and those who are incapable, to pay the burial allowance and other allowances.

**Table 3. Expenditures of the Pension Fund for 2012-2017 (in billion soms).**

r/n	Indicators	2012	2013	2014	2015	2016	2017
1	Unemployed Retirees	7144,7	8749,7	10334,4	12470,6	13894,6	15970,8
2	Employee pensioners	236,1	278,9	316,9	387,3	430,4	486,7
3	Older and disabled citizens, funeral allowances and other payments (PJ funds)	14,4	22,4	31,2	120,4	152,6	174,6
4	Other expenses	4,4	4,2	4,3	5,6	2,2	1,2
<b>Total funds</b>		<b>7399,6</b>	<b>9055,2</b>	<b>10686,8</b>	<b>12984</b>	<b>14479,8</b>	<b>16633,3</b>

Source: Information from the Off-budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan.

The total amount of pensions and social allowances funded by the Pension Fund's financial resources in 2017 was 16633.3 billion soms or 6.54% of GDP. It is expected that this figure will increase further in the coming years due to the increase in the number of retirement pensioners.

In order to implement the tasks outlined in the Action Strategy of the Republic of Uzbekistan in five priority areas of the development of the Republic of Uzbekistan for 2017-2021, defined by the Decree of the President of the Republic of Uzbekistan dated February 7, 2017, NPP-4947, wide-ranging measures are being undertaken to reform the system of state pension provision. In this context, retirement and funeral benefits for elderly and disabled citizens who do not have the required length of service at the expense of the Pension Fund in accordance with the Resolution of PQ-4086 of December 26, 2018, in the context of pension reform in the country, budget funds. In order to ensure social justice in the pension system, the average monthly wage for the retirement benefit has been increased from 8 to 10 times the minimum wage, which guarantees a higher retirement age at the retirement age.

By 2019, more than 50 per cent of pensioners were paid for the majority of working pensioners.

According to the Decree of the President of the Republic of Uzbekistan from December 12, 2018 "About additional measures on increase of efficiency of system of pension provision and increase of social support of pensioners" from January 1, 2019 it is planned to pay pensions to all pensioners.

The financial sustainability of pension funding is determined by the proportion of income and expenses. In establishing the public pension system, the government tries to create as little as possible the economy and not adversely affect economic growth, but the other side of the coin is that the pension and social payments are covered by the State's compulsory social payments and payments for replenishment of pension funds. The Public-funded pension funds are formed by payments from employers and employees. Where necessary, state pension funds may also be funded by state social transfers.

By 2018, the Pension Fund has been formed at the expense of allocation of the main financial support from the single social payment, compulsory insurance premiums, voluntary insurance payments, volumes of goods (works, services) realization.

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**Table 4. Income of the Pension Fund for 2012-2017 (in billion soms).**

r/n	Indicators	2012	2013	2014	2015	2016	2017
1.	Remaining per year	406,2	785,7	1472,4	2564,4	2118,7	2310,7
2.	Separation from single social payment	4786,3	5957,4	7338,6	7611,3	8774,7	10280,5
3.	Insurance charges	1091,7	1599,1	2036,2	2595,6	3121,5	3940,6
4.	Obligatory deductions from sales volume (service)	1403,3	1436,4	1505,8	1197,4	1354,7	1804,9
5.	Other Income	571,8	748,9	902,1	1130	1421	1681,4
<b>Total funds</b>		<b>8259,3</b>	<b>10527,5</b>	<b>13255</b>	<b>15098,7</b>	<b>16790,7</b>	<b>20018,1</b>

Source: Information from the Off-budgetary Pension Fund under the Ministry of Finance of the Republic of Uzbekistan.

The main share of the pension fund's revenues is provided by the single social payment, which is about 52-60% of the total income of the fund. In general, the allocations of employers are of primary importance in all the countries of the world in the pension system. During the period under review, the Pension Fund did not receive social transfers from the state budget but on the contrary, the compulsory insurance premiums collected from the citizens' salaries and the increase in mandatory deductions from the sale of commodities (works, services) resulted in a substantial positive balance between the income and expenditures of the fund. In 2012-2017, the compulsory insurance premium rate increased from 5.5% to 8%, while the mandatory allocation rate of goods (works, services) was determined as 1.6%. The positive balance of the Pension Fund at the end of 2017 amounted to 3007.0 million sums.

From the year 2018, radical transformation and large-scale reforms have started in Uzbekistan's public finance and tax system. As part of the reforms, a number of changes have taken place in the mechanism of financing the pension system. According to the Resolution of the President of the Republic of Uzbekistan from January 1, 2019 "About forecast of the main macroeconomic indicators and parameters of the state budget of the Republic of Uzbekistan for 2019 and budget parameters for 2020-2021" from January 1, 2019 it is planned to increase the material-technical base of off-budget educational and medical institutions under the Ministry of Finance Development Fund of the Irrigated Land Fund and Ministry of Finance the Fund for the Development of the Aral Sea region has been abolished, and their remaining funds will be transferred to the off-budget Pension Fund.

With the introduction of large-scale reforms and reforms in the tax system in Uzbekistan, structural changes have taken place in forming the financial resources of the Pension Fund. In particular, from 2019, the deficit caused by cancellation of compulsory insurance premiums, mandatory payments from the volume of goods (works, services), will be compensated by:

- subsidies from the state budget;
- Legalization of about 1.2 million workers engaged in a hidden economy;
- by allocation of 46% of total revenues of the single tax payment to the state budget through the Pension Fund.

The main source of income for the pension fund is Single Social Payment (GDP). This payment will be paid by the employer from the general wage fund. As of 2018, the GDP volume is 25% for all legal entities (24.8% - Pension Fund, 0.1% - Employment Fund, 0.1% - Federation of Trade Unions of Uzbekistan), 15% for micro-firms and small businesses and private farms (14.8% - to the Pension Fund, 0.1% to the Employment Fund, 0.1% to the Federation of Trade Unions of Uzbekistan). According to the Decree of the President of the Republic of Uzbekistan from December 26, 2018 of N PP-4086, since January 1, 2019, legal entities with budgetary organizations and state-owned enterprises, as well as 50% or more of the state-owned share capital, shall receive 25% (99.2% 0.4% - to the Employment Fund, 0.4% to Federation of Trade Unions of Uzbekistan) and other legal entities not eligible for 1 item - 12% (98.4% - Pension Fund; 0.8% - Employment Fund; , 8% - the trade union of Uzbekistan The Federation of Public Utilities (ICTs) has been selected.

**Conclusion/Recommendations**

1. Continuous decrease of population co-infant mortality rate, deceleration of population growth, improvement of living standards and development of medicine, decrease of economically active population in the total number of population, economic crisis, increase in the number of unemployed, etc.) factors.

2. Financial sustainability of the pension system is characterized by the fact that most of the economically active population is left out of the pension system, the practice of privatization of pension funds is not sufficiently successful in the pension system, the high impact of pension funds on economic growth, and moderate decline in average

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annual investment in countries with cumulative pension system effect.

3. For the effective and functioning of the pension system, the pension system provides a socially effective and individual justice, pensions covering the loss of earnings in proportion to the amount of insurance premiums paid in the labor activity, and economically feasible, with no deductions of economic benefits for business entities, should be established.

4. Pensions must be planned with clear and guaranteed financial resources and pension payments of insurance funds for effective long-term activity.

5. In order to increase the coverage of pensions, it is necessary to develop measures to ensure the involvement of the citizens in the system of pensions and systematically evaluate and monitor the financial sustainability of the pension system.

6. We believe that in the coming years, it is necessary to create conditions for expanding the coverage of social payments through the legalization of the informal economy and the conclusion of intergovernmental agreements with the countries receiving migrant labor from Uzbekistan to ensure the financial sustainability of pensions and increase the receipts to the Pension Fund.

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