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**THE FUTURE AND REALITIES OF PENSIONS   
IN THE WESTERN WORLD**

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Any comparative and qualitative study of pensions in all in­dust­rial and developing nations will arrive to the obfuscating conclusion that there are no systems alike, mathematical rules do not apply, actuarial studies maybe swayed by conveniences of current political realities, and the range of coverage can include a variety of benefits. These realities may in the world of academia invite for deeper research that again will lead to inconclusiveness in the design of the perfect pension system. Hence this short discussion is not about mathematical or statistical theory, but rather about administrative, and legislative principles and practical solutions for the future.

**What are Pensions?**

Are they a governmental responsibility, an employer obligation or an employee responsibility? This argument in some nations may also include the notion than even persons that were never economically active in their lives should qualify for some form of pensions. This white paper does not include a discussion about this segment of society as typically they would be covered under some form of welfare program irrelevant of contributions.Other crucial questions point to determine whether pensions are a government subsidy that guarantees basic economic survival of people starting at ages over 55, or is it a realistic effort to provide pensionersan income level commensurate with their past contributions?

But perhaps, the most important question is what benefits are included in the monthly contributions employees and employers made during the active economic lives. In the great majority of countries, pension are a match ofcontributions by employer/ employee which may include a variety of insurance benefits and pensions that need to be separated for analytical purposes. Let us identify a few benefits that a ”pension” contribution may cover:

* Retirement benefit and survivor’s benefits (pure pension)
* Workers Compensation (work-related accident insurance)
* Medical Insurance
* Disability Insurance (Non-work-related disabilities)
* Life and Burial Insurance

**Supplemental Retirement Plans**

In some nation often employers and employees based on mutual agreements and to benefit from tax incentives to employers, and deferred income to employees; agree to contribute to special pension plans design to enhance government mandated pensions with the goal of increasing the quality of retirement life. While only some specific industries and organizations offer these supplemental pension plans, these programs are becoming more popular as means to attract quality employees that seek organizations with the best salaries and benefits. Deferred salaries in the formed of stock actions can indirectly also be viewed as a form of a pension plan. A warning about these programs is that a strong regulatory and fiduciary system is indispensable otherwise employers or fiduciary agents can easily evaporate with these funds. Models in the two extremes of these plans in the USA are: a) bankrupted ENRON that had a substantial number of employees who agreed to stock options as a form of employer sponsored retirement plan, and left many employees with worthless stocks, the same happened to US steel industry employees; there are surely examples of the worst supplemental pensions, and b) well-regulated municipal and state pension programs with strong investment policies and high benefits, are a model of these extra or supplemental pension plans.

**Future Pension Crisis**

In the western world there is nothing most miss-understood by politicians and legislators than pensions, from presidents to legislators, often the fastest way to solve revenue gaps in their bud­gets talk about increasing the retirement age and decreasing benefits. These solutions are never accompanied by sound metho­dologies that go beyond life expectancy analysis. These proposals also lack transparency and a foundation to properly evaluate the efficiency of postponing entry in the labor market by new generation. The reality is that pension analysis should not be at the macro-level but at the individual level. The fundamental problem of the deterioration of pension levels vs. the cost of living is that there is no rationalization of costs at the individual level creating incentives and penalties based on use of services.

**How to Maximize Pension Benefits**

The answer is simple, reducing the costs of all other benefits previously mentioned insurance forms, by increasing commitments by employees and employers commitments, and also by rationalizing costs and seeking profitability in certain segments of insurability.

**Rationalization of Work Related Injuries and Disabilities**

It is very unfortunate that in many nations, pension contributions and benefits are like a soup with many ingredients of unknown origin. Workers Compensation is often the least understood. The policy should be to account for it separate from the rest of insurances establishing employee classification based on the history of work related accident and deaths. Premiums will then be established based on history, for example an employer with high rate of injuries will be susceptible to being assessed increased premiums and penalties. Medical cost and disabilities directly related to work will now be funded directly from those who incur costs. The same will be applicable to death, disability, and compensation for time-loss due to work related injuries. Occupational health training is also an important factor ensuring that employees reach retirement with optimal health. This goal can be accomplished without governmental subsidies and it can be successful with the participation of respon­sible employers and employees.

**Health Insurance Contributions and Care Utilization**

Often citizens think that pension contributions are mostly for health insurance as it is the most costly part of this equation, but seldom policy makers and citizens realize that lowering medical costs will increase pensions, certainly in many countries health costs are so high that this proposition will be hard to sell, but certainly I hope that in this thesis readers see the relationship.

Controlling employee/employer contributed health insurance paid as part of a pension contribution are the most controversial and passionately discussed topics in every society. Medical organizations that over-charge the system, duplication of facilities with high profitability, over- use of services, illegal medical claims by insured individuals, over treatment, excessive application of costly medical procedures, etc.

Analysis of this area will take many experts and many volumes of materials to come to sound conclusions, but one often forgotten area is the lack of emphasis on personal health responsibility. For example pension medical insurance plans should penalize smoking, drug consumption, over-weight and unhealthy life style practices. Increasing co-pay fees for system use for the above and limiting the number of procedures could be a des-incentive to increase costs. On the other hand, increasing pension fund balances for low-use of medical services could help future pensioners in two ways: a) Increase pensions fund balances and future annuities, and b) have a healthier happier pensioner that can benefit society after retirement. Again this is not a discussion on health care delivery, but rather how pensions could be maximized.

**Disability Coverage Management**

It is important that governments, employers and employees admit and realize the nature of disabilities. Work- related disabilities should be managed and financed solely by employer premiums. Employer Workers Compensation Insurance is another operational cost just like the cost of a business track or a secretary’s salary. This is also important as many work-related disabilities are the result of emp­loyer negligence. Making an employer pay for the injuries or death of an employee who was asked to dig an improperly supported manhole maybe a negligent which cost should be properly ra­tionalized making the employer pay directly without affecting the health of a fund contributed by many employers that apply proper safety practices.

Non work-related disabilities obviously shall fall under the medical insurance contribution until the death of the contributor or his survivors.

Life and Burial Options

Often this coverage is also included as part of the monthly pension contributions. In these area there is a need to manage these funds with a complete apparatus of technicians and professionals that can apply marketing and profitability principles from the private sector. For example, offering grater benefits, extending benefits to family members with premiums that represent cost plus profit could be a great incentive to the pensioner and also to the pension fund. Profits from these insurance lines can also be reverted back to increase pension annuities.

**Other Lines of Services and Profitability Centers**

Given the large size of these funds it is possible to maximize revenues without increasing risks by allowing contributors to borrow portions of their contributions for home mortgages, and small bu­siness development at rates higher than what could be attained from lending to governments of banks. Lending for mortgages at 7 % to thousands of contributors may derive lower risks and higher profits than investing contributions in government securities or bank papers for less than 2 %.

There are multiple areas where profitability can be achieved with current resources, but that can only be executed if the proper legislative and regulatory system is enacted.

**Closing Thoughts**

The typical temptation by politicians and bureaucrats is always to provide the current government leaders a nice source of funding at a low interest rate to cushion their revenue gaps using pension funds. This practice may not be so transparent financially, and certainly is not a benefit for those who contribute these funds. Another danger of these funds, because they are not classified properly, is to use them for political advancement by offering extended coverage for non-contributors, or low premiums for full access to all services. To avoid this it is important to have professionals that can fully identify, classify and report all assets and liabilities of these funds. For example, the source of predictions of future insufficient pension funds often arise from improper reporting of costs. It is very impor­tant for example to recognize all current, as well as, all future costs, which are known in the industry as costs Incurred But Not-reported (IBNR). It is precisely the under-estimation of these costs and the ignorant bundling of these contribution and benefits that have created the current crisis that is only destined to get worse.

We purposely have avoided a quantitative or qualitative analysis given the complexity and diversity of pension contributions and pension benefits, my intent here is limited to provide a wider panorama and context of the different components of what a pension is and what benefits are expected.

**Edison Vizuete:** «Many of these ideas I developed a few years ago when I was Deputy Director on Workers Compensation for the State of North Dakota, USA. That experience, as well as, my long service in finance positions at the state, municipal and federal levels always pointed me to understand why some things do not work as intended, others just do not work and a few work only with the commitment of all participants in the system».