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UKRAINE PENSION REFORM IMPLEMENTATION PROJECT
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Twentieth Quarterly Report
Ukraine Pension Reform
Implementation Project
October 1 – December 31, 2005

Submitted to
V. Yatsenko, Cognizant Technical Officer, USAID /Kiev

by PADCO, Inc.
Contract No. I21-C-00-00-00834-00

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LIST OF ACRONYMS

COM	Cabinet of Ministers of Ukraine
GOU	Government of Ukraine
MoLSP	Ministry of Labor and Social Policy
NSPF	Non-State Pension Fund
PFU	Pension Fund of Ukraine
PRI	Pension Reform Implementation Program
SCRFSM	State Commission for the Regulation of the Financial Services Markets
SRO	Self Regulatory Organizations
SSMSC	Securities and Stock Market State Commission
USAID	United States Agency for International Development
VR	Verkhovna Rada (Parliament of Ukraine)

GENERAL INFORMATION

PROJECT IDENTIFICATION

Title: Ukraine Pension Reform Implementation Project (PRI)
Contractor: PADCO, Inc.
Subcontractor: Barents/KPMG
Contract No.: I21-C-00-00-00834-00
Delivery Order No.: Not applicable

PROJECT PERFORMANCE DATES

Period of Performance: October 1 to December 31, 2005
Project Start Date: January 1, 2001
Report Date and Number: December 2005, Quarterly Report 20
Anticipated Completion Date: December 31, 2005

PROJECT MANAGEMENT

Project Management

R. Thirkell Project Manager
J. Benn Senior Contracts Officer
O. Vasilchenko Project Director

Key Technical Advisors

Greg McTaggart Senior Pension Advisor
Roger Vaughan Senior Economic Policy Expert
Willem Schuddeboom Actuary
Mitchell Wiener Actuary
Daniel Wartonick Pension Expert

PROJECT DESCRIPTION

The Pension Reform Implementation (PRI) project has as its major activities assistance to the Government of Ukraine (GOU) in finalizing the development of a new pension policy involving both a compulsory public pension system and voluntary private system and supporting the passage of the necessary legislation.

Once this legislation has been passed, the PRI project will have as its major tasks working with the Government to educate the population about the new pension systems, training the staff in the administrative bodies on the new system, enhancing the administrative capacity of the Pension Fund of Ukraine (PFU) and developing the supervisory body needed to oversee the new systems as well as antecedent activities.

I. PENSION SYSTEM.

I.1 SUPPORT FOR STRENGTHENING THE LEGISLATIVE FRAMEWORK FOR PENSIONS

PRI has preparing five analytic reports detailing recommendations for the future directions of public pension reform in Ukraine. These are summarized briefly in the subsections below:

I.1.1 Pillar 1 Reform

Because of the fiscal crisis caused by the enactment of high and fiscally unsustainable minimum pensions in December 2004 (and the failure of the 2003 law to raise pension ages), PRI prepared a detailed study of the steps necessary to create a fiscally sustainable Pillar 1). These steps include:

- 1) In 2005, issue a Presidential Decree (that could be followed by frame law) establishing the principles of social insurance and social assistance. This decree/frame law will also include provisions clarifying Article 46 of the Constitution of Ukraine, establishing the responsibility for state social assistance is to ensure that all household income is kept above the minimum subsistence level fixed in the law only after consideration of all family sources of income and state benefits. The Decree will also create a working group of experts that will prepare the reforms in social assistance and social insurance systems in Ukraine.
- 2) In 2006, amend the Law on the Minimum Subsistence Level to define subsistence levels for households taking into consideration size and demographic characteristics, using a weighting coefficient to be established by statistical analysis, effective January 1, 2007.
- 3) In 2007, introduce reforms in the state solidarity system to provide a simple labor pension based on length of service with an increase in the accrual rate.
- 4) In 2007, to deal with poverty among the elderly and all other households, introduce a comprehensive, state budget financed, social assistance program to replace all current social assistance benefits, that would provide means tested benefit to any household with total income from all sources that is below the subsistence level defined for that household size and structure (item 2). This new program would ensures that the combination of regular pension benefits and social assistance (and all other sources of income) is phased in to honor Article 6 of the Law on Mandatory State Pension Insurance (as amended) and Article 46 of the Constitution of Ukraine for all Ukrainian households through supplements to PAYG pension benefits as the means tested social assistance. This new program would become effective on January 1, 2008.

To address the long term problems of the falling ratio of contributors to pensioners, PRI recommends the following two steps:

- 1) In 2007, amend the Law on Mandatory State Pension Insurance to raise the pension age for women by 6 months every year, beginning in 2008 until their pension age is equal to 65 in 2027 and to raise the pension age of men starting in 2018 by six months every year until it also reaches 65 in 2027.
- 2) In 2007, enact a law setting up the State Mandatory Accumulation Fund (Pillar 2) to begin receiving contributions in 2008 or 2009 – provided that actuarial projections show a surplus in the PFU budget in that year and compliance to all other provisions included in the base law as pre-requisites for introduction of the Accumulation Fund.

Several of these proposals have been embodied in the strategy for pension reform that was adopted by the CM on December 15, 2005. The PRI experts provided serious input to finalizing the Strategy.

1.1.2 Reform of Privileged Pensions

Ukraine's pension system offers extensive privileged pensions – early retirement for workers in hazardous occupations – that are paid from the PFU budget. The draft law proposes to transfer the responsibility for paying for these early retirement pensions from the PFU to mandatory private corporate and professional pension funds financed by contributions by the employer.

PRI believes that the creation of many small NSPFs for privileged pensions may be a less satisfactory way of dealing with the issue than maintaining the current “temporary” system embodied in the Law on Mandatory State Pension Insurance. This requires employers to slowly adopt responsibility for directly paying privileged pensions – in 2006 they will be responsible for paying 40% of privileged pensions and this is scheduled to increase by 10% each year until 2012. The assumption of responsibility for paying privileged pensions may encourage employers to speed up the process of “declassifying” certain occupations that are no longer hazardous.

To adopt this approach some changes are needed in the way in which length of service is pro-rated among employers. It will also require improved administrative procedures in the PFU to allow the rapid identification of those receiving privileged pensions who have continued working.

1.1.3 Options for Reform of Special Pensions

PRI proposes that the GoU consider preparing a draft law that also address the issue of special pensions (given to some government employees, judges, prosecutors, members of Parliament and other categories eligible for these pensions granted under special laws). Special Pensions are special form of privileged pension and as such whatever action is taken in respect of privileged pensions should also be taken in respect of special pensions. This paper is prepared as a supplement to the PRI paper on Privileged pensions.

The Government of Ukraine has the right to establish a non-state pension fund for its employees. But would be better to establish one or more defined contribution, partially funded, non-state pension funds to provide supplementary pensions to civil servants over and above the benefits they would receive from the Mandatory State Pension System.

The Government should consider funding special pension benefits for civil servants using the current contributions paid by those with a special pension entitlement supplemented by a contribution from the state budget that would equal about 3% of wages for all participants in the scheme. To minimize the immediate impact on the budget, it would be possible not to fund the Government contribution while the employee contributions should be invested so as to maximize the return whilst minimizing the risk.

To cover the transition provisions the Cabinet of Ministers should draft and submit to the Verkhovna Rada a law on “Special Pensions”. This draft law should provide an incentive to encourage existing persons with special privileged pension entitlements to move out of the existing arrangement by offering them a lump sum option in the new arrangement. The draft law would amend the law on “Non-State Pension Provision” to provide that a participant only becomes entitled to the Government's contribution after 10 years of making their own contributions to the scheme.

All other provisions of the law on “Non-State Pension Provision” should apply. In addition the draft law should provide that a Fund Rada be constituted with equal representatives of the Government as the employer and Trade Unions as representatives of the participants. Up to 5 funds representing various sectors of Government employment could be established

Services to these funds should be awarded on the basis of competitive tender similar to the tender provisions for the Mandatory Accumulation Scheme as contained in the law “On Mandatory State Pension Insurance”.

1.1.4 Role of Insurance Companies in the NSPF System

Insurance companies have been lobbying to be allowed to participate in the profitable accumulation phase of the NSPF system. PRI prepared a detailed analysis of the types of products typically offered

by insurance companies that are related to NSPFs and listed policy recommendations to ensure that NSPFs and Insurance Companies compete on a level playing field from the perspective of taxes and regulations. PRI recommends that the GoU should:-

1. Amend the law on “Non-State Pension Provision” to allow insurance companies to participate in the accumulation phase of non-state pension provision providing they do so on a “level playing field” that provides equal tax and regulatory treatment for NSPFs and any pension products offered by insurance companies..
2. Amend the law on “Insurance” to remove inconsistencies between the way non-state pension fund provision by Life Insurance Companies to the way it is provided by non-state pension funds under the law on “Non-State Pension Provision”.
3. Insurance companies wishing to participate in the accumulation phase of non-state pension funds should be required to segregate the assets of contributors on non-state pension funds from all other assets of the insurance company.
4. The assets of non-state pension funds administered by insurance companies are the personal property of the individual contributor and shall immediately and fully vest in the contributor and shall only be subject to deduction of administration charges.
5. The assets of non-state pension funds shall not be included in the statement of the capital of any insurance company and under no circumstances can be sequestered by the insurance company or any of its creditors.
6. Life insurance companies wishing to provide services to their own or any other non-state pension fund must be licensed by the appropriate regulatory body.
7. The State Commission for the Regulation of the Financial Services Market (DFP) should draft regulations on the participation of the insurance industry in the non-state pension market covering the rules for the participation of insurance companies in the market including the types of products that could be offered, what guarantees if any would be appropriate for these products and the financial adequacy rules that should apply to these products.
8. DFP and the Ministry of Labor and Social Policy should agree to these provisions before their submission to the Cabinet of Ministers for approval.
9. The draft regulations should preclude life insurance companies from selling products that force contributors to take annuity products from the same company that provides the pension accrual process.
10. DFP should draft regulations on the marketing of insurance industry administered non-state pension funds including standard provisions for the licensing of persons to sell these products, the information to be given to potential participants and the advertising of these products in the media.
11. The State Securities and Stock Market Commission should draft amendments to the Law on Insurance requiring the disclosure of information to actual and potential participants on the investment of non-state pension funds to be administered by insurance companies.
12. The Government of Ukraine should develop amendments to the Law on Insurance defining the methods by which individual contributors are able to participate in the decision making process (Rada) of life insurance company administered non-state pension funds using as a basis the experience of mutual funds in the United States and Pension Funds in other countries such as Hungary.

1.1.5 Road Map for the Implementation of Pillar 2

The Mandatory State Accumulation system (Pillar 2) is a complex task – involving the development of IT systems, the creation of a legislative foundation, and significant changes in collateral aspects of

the pension system. At the request of the MoLSP, PRI prepared recommendations for the steps necessary to implement Pillar 2. These include equalizing pension ages (to narrow the gap between annuity pensions of men and women under the accumulation system), restructuring of the PFU (to ensure accountability and transparency), and amending the regulations of the National Bank of Ukraine to ensure easier acquisition of foreign assets.

During the final project quarter, PRI prepared a work plan for Pillar 2 implementation of the personified reporting system that is a key component for Pillar 2 (to allow the maintenance of accurate and timely data of the amount accumulated in individual accounts for all contributors participating in the system. PRI IT consultant Jon Tomar visited Kyiv to manage the process. Early in October, PRI provided counterparts with training in the use of Microsoft Project that will be used as the “platform” for the workplan. The Road Map report is accompanied by a preliminary list of tasks in Microsoft Project to assist counterparts in preparing the detailed implementation plan.

PRI used its actuarial model to make estimates of the fiscal impacts of implementing Pillar 2 under various scenarios. These are included in the draft Road Map.

1.2 ACTUARIAL MODELING

The actuarial model developed by PRI has been completed and was submitted to the PFU, MoLSP, Ministry of Finance and the Institute for Demography in December 2005. For accurate forecasts, however, it will require inputting accurate data on contributors, insured individuals and pensioners that the PFU has not supplied – despite repeated requests from PRI. The model is “open code” allowing users to change many aspects of the model and provides a foundation for disaggregated and flexible analysis of pension policy scenarios.

1.3 IMPLEMENTATION OF THE LAW

PRI provided expert advice to the MoLSP and the PFU on DIFFERENT issues related to the implementation of the Law of Ukraine “On Mandatory State Pension Insurance” .

- 1) Per request of the Ministry of Labor and Social Policy of Ukraine developed a Draft Procedure for granting pensions to individual categories of employees on account of employers’, state budget’s and targeted funds’ resources depending upon these employees’ labor conditions and according to the results of their jobs certification;
- 2) Provided assistance to develop the Draft Law by E.O.Girnyak, People’s Deputy of Ukraine, “About Amending the Law of Ukraine “On Mandatory State Pension Insurance” (regarding privileged calculation of the length of service in the Far North). The draft was submitted to the Rada on October 19;
- 3) In connection with N.Karpachova’s appeal, the Ombudsman of the Verkhovna Rada of Ukraine, and per the Ministry of Labor’s request developed a Draft Law “On Amending Articles 49 and 51 of the Law of Ukraine “On Mandatory State Pension Insurance” regarding the procedure for paying pensions to the individuals that immigrated;
- 4) Provided expert’s conclusion on the appeal of A.M. Moroz, People’s Deputy of Ukraine, regarding revocation of Annex #1 to Resolution # 1783 of the Cabinet of Ministers’ of Ukraine (on the appeal of primary trade union of Molis Ltd.’s Mikhailivsk branch);
- 5) Provided comments to the Ministry of Labor regarding the Draft Resolution of the Pension Fund of Ukraine’s Board and the Draft Procedure for drawing up and submitting the documents for pensions to be granted (recalculated) in compliance with the Law of Ukraine “On Mandatory State Pension Insurance”;
- 6) Provided expert’s conclusion to the Ministry of Labor regarding paying pensions granted under special laws to the individuals that resign due to the staff reduction;

- 7) Participated in refining the Road Map for Implementing the Mandatory Accumulation Pension System in Ukraine and the Diagram of Information and Cash Flow under Pillar 2 Pension System in Ukraine;
- 8) Per request of the Secretariat of the President of Ukraine prepared brief information regarding the procedure for paying insurance contributions by self-employed people, which have chosen a simplified tax system, as well as regarding the procedure for calculating their covered service period and pensionable wage. This material was discussed at the Task Force meeting in the Secretariat of the President of Ukraine.

2. PRIVATE PENSION SYSTEM

2.1 GENERAL INFORMATION ABOUT THE NON STATE PENSION SYSTEM

Private pension system continues to develop. By October 1, 2005, there were 48 non-state pension funds registered -- 38 open, 7 corporate and 3 occupational – that had collected 21 million UAH and enrolled 40,000 members. There are 27 licensed administrators. By December 2005, SSMSC has licensed 76 asset management companies and 86 custodians to transact NSPF-related activities.

2.2 DRAFTING NPF LEGISLATION

During the 4th quarter of 2005, the Project has been involved in activities related to finalizing amendments to the NPF Law.

A task force that included representatives of PRI under the leadership of the SCRFSM has been convened to develop amendments to the Law On Non-state Pension Provision. The task force worked actively in the 3rd quarter.

In the 4th quarter the need to address additional comments from the Ministry of Finance appeared. PRI experts participated in the discussions and finalizing amendments. The draft amendments were ready to be submitted to the COM in December.

Besides this PRI provided comments and suggestions to the people's deputies draft Law # 7690 to address security of NSPF investments.

2.3 SUPPORTING THE REGULATORS OF NSPFs (SCRFSM AND SSMSC)

During the quarter, collaboration with the SCRFSM continued on many issues, not limited to pension fund regulation. PRI continued to support the Commission with IT development, including web-site development and maintenance. PRI continued helping the Commission implement the notification system for financial services market participants, advised on the work with MS SQL Server, and also trained IT staff.

PRI completed the development of the analytical part of "Refus Report" and "Finzvit" (Financial reporting) programs for SCRFSM. These have been designed to analyze information collected about different types of financial institutions, but today it deals only with insurance companies' data.

We continued to involve the staff of both regulators in public education activities through which they explain their role and interact with the services providers regulated by Commissions. This has included training events in Cherkassy in cooperation with trade unions and Federation of Employers.

2.4 COOPERATION WITH THE TRADE UNIONS FEDERATION AND THE FEDERATION OF EMPLOYERS

During this quarter, PRI continued cooperation with the Trade Unions Federation and the Federation of Employers. Regional workshops on implementing voluntary accumulation pensions

(3rd pillar) in cooperation with trade unions and Federation of Employers were held in Cherkassy. Representatives of both regulators as well as an experienced asset manager and PRI staff delivered speeches and participated in the discussions.

Representatives of both Federations also participated in the observational tour to Bulgaria to study Bulgarian experience in pension reform, including cooperation with social partners.

2.5 THE ROLE OF INSURANCE COMPANIES IN PRIVATE PENSIONS

Recently there have been discussions and publications on the roles of insurance companies in non-state pensions. The Law on Non-state Pension Provision allows insurance companies a role in payment of benefits through the sale of annuities, but does not specify how or whether they could participate in the accumulation stage. Insurance companies consider this discriminatory and are lobbying for amendments to both NPF and Insurance Laws in order to participate in the lucrative accumulation stage. Because these issues are not covered by current legislation, insurance companies offer employers a wide range of pension-related products that are in the interests of employers rather than employees. The competition between NPF and Insurance companies is becoming unfair.

After extensive meetings with representatives of the insurance industry and regulatory Agencies and a discussion at the Foros Conference, PRI provided a paper that clearly defines the appropriate roles of insurance companies according to best international practice and the implications for the insurance industry, non-state pension funds, and for the activities of regulatory agencies (See Section 1.1.5 above).

3. TRAINING AND PUBLIC EDUCATION

PRI continued providing training and public education in collaboration with Government counterparts, the Center for Social Reform, the Federation of Employers of Ukraine, and the Federation of Trade Unions of Ukraine. PRI organized joint events and supported these counterparts with expert advice, methodological literature, booklets, brochures, informational compact discs etc.

PRI updated its brochure “The New Pension System” as of October 1, 2005 to reflect legislative changes and data on NPF operations (the number of NPFs, administrators and asset managers, and the number of NPF participants and amount of contributions collected).

The last 5th PSA on public pension system “The Legalization of Wages” was completed and passed to the PFU.

At PFU and Ministry of Education request PRI supported printing and distribution of 10,000 copies of a book explaining pensions to children entitled “Everyone has their own Wisdom.” It was distributed among secondary schools all over Ukraine through 25 regional offices of PFU.

3.1 TRAINING

During this quarter the focus of training was on the voluntary pension system, involving staff from regulators and market participants. Project experts also trained specialists from the MoLSP at a refresher course. The Pension calculation demonstration model was also presented there. A complete list of all training activities conducted by PRI since the inception of the project is provided in the final report.

PRI staff also conducted special training courses for DFP staff on the use of various computer programs. PRI supported new courses for employers being conducted in conjunction with the Pension Fund’s training division.

To address the fast growth of NPF market in December 2005 PRI organized training on management of NSPF assets designed for the needs of SSMSC as a regulator. Training addressed asset

management theory and international best practices, as well as practical issues and was highly evaluated by the audience – representatives of different SSMSC departments.

In October 2005, PRI trained counterparts from the PFU, MoLSP, SSMSC, Ministry of Finance, and SCRFMSM in the use of Microsoft Project that will be used as the “platform” for 2nd pillar implementation workplan design and project management.

Training activities during the quarter included:

#	Date	Topic	Performers	#
1.	October 20-22, 2005	PM2002 Microsoft Project 2003 (introductory and basics) for MoLSP, PFP, Ministry of Finance, SSMSC, PFU	PRI	9
2.	4 th quarter, 2005	Training for staff creating the web-site on information reflection system from the State Register of Financial Institutions on the Internet.	PRI, DFP	5
3.	4 th quarter, 2005	Training for companies accountants	PRI, PFU training center	499
4.	4 th quarters 2005	Training on the methods of building and managing Internet portals	PRI, DFP	4
5.	2005	Training course on Free BSD 5.4 system administration	PRI, DFP	4
6.	2005	Training DFP specialists in project management by the Project Management Academy (five training sessions and NCB Level D certification)	PRI, DFP	3
7.	November	Training for PFU training center staff “Specifics of presentations preparation for staff responsible to make presentations”	PRI, PFU training center	3
8.	November 29-30, 2005	Training to PFU “SPOV personification subsystem implementation on the basis of the PFU’s integrated complex information system”	PRU, PRI	32
9.	December 19, 2005	Training on Pension funds asset management	SSMSC, PRI, International Business Institute	22
10.	4 th quarter, 2005	Training for administering of reconstructed official PFU web-site, website of PFU training center, website of PFU newspaper “Pensiinyi currier” and web-site of PFU magazine “Visnyk Pensiinogo Fondu”	PRI, PFU, Softline, Finport	6

3.2 PUBLIC EDUCATION

A full list of all project activities related to public education is provided in the final report.

At the request of the MoLSP the PRI organized a visit of 2 Bulgarian high-level experts - Ivan Neikov, ex Ministry of Labor, currently – director of Balkan Labor Institute, and Jordan Christoskov, director of National Social Security Institute. During their visit to Kyiv, besides working meetings at the MoLSP, peoples’ deputies and social partners PRI organized a Roundtable on Accumulation Pension System: Development Perspectives in Ukraine and Bulgarian Experience.

The following issues were discussed at the roundtable:

- Current situation with development of non-state pensions in Ukraine;
- Bulgarian experience with the accumulation pension system implementation and functioning;
- Ability of the financial market of Ukraine to supply reliable financial instruments to non-state pension funds and the Accumulation Fund for investment of pension assets;
- Bulgarian Experience with Financial Instruments for Investing of Pension Assets:
- Preparatory actions for the mandatory accumulation pension system implementation in Ukraine;
- Professional pension systems: opportunities for Ukraine and experience of Bulgaria.

Participants of the Roundtable included high and medium level officials from CoM, MoLSP, PFU, SSMSC, DFP, Ministry of Economy, Verkhovna Rada, market participants, journalists etc.

People continued to use the telephone hotline extensively during the fourth quarter of 2005, with an average of 1,000 calls per week.

PRI has transferred the hotline to MoLSP – a reflection of how valuable this service is. The activity will continue to be supported by the Capital Markets Project for one year with the MoLSP assuming responsibility for providing space and dedicated lines for the activity.

The Pension Website was also extensively used. Traditionally users have a particular interest in forum, PRI both public and private pension legislation overviews, as well as special reports on issues such as pension reform in Kazakhstan and Switzerland.

Summary of 209 PRI Supported Public Education Events				
<input type="checkbox"/>	Date	Event	Performers	# of Participants
1.	September 29-October 2, 2005	International Conference "Pension Reform in Ukraine: Achievements, Problems and Opportunities" in Foros	MoLSP, PFU, DFP, SSMSC, PRI	152
2.	October 10-14, 2005	Training for Employees of the Social Protection Departments Responsible for Auditing Pension Payments	MoLSP, PRI	25
3.	October 27, 2005	Pension Reform and NPF Activity Seminar for representatives of trade unions and employers in Cherkassy	DFP, SSMSC, PRI	53
4.	October 25-26, 2005	Roundtable on actual questions of pension reform (crisis of solidarity system)	MoLSP, WB, PRI	
5.	October 27, 2005	Meeting of Cherkassy journalists' press-club "Pension Reform and NPF Activity in Ukraine"	DFP, SSMSC, PRI	27
6.	November 3, 2005	Meeting of journalists' press-club "NSPF Provision and mass-media" on "Critical Issues of NSPF development in Ukraine"	USMDI, PRI	32
7.	November 17-18, 2005	Work-group meeting on development of COM Strategy for further pension system development	MoLSP, PRI	10
8.	November 29, 2005	Roundtable "Accumulation Pension System: Development Perspectives in Ukraine and Bulgarian Experience"	MoLSP, PRI	63

3.3 INTERNATIONAL OBSERVATIONAL TOURS

PRI supported 3 observational tours during the 4th quarter. These were:

3.3.1 Observational Tour to USA, December 3 - 10, 2005

A 14-person Ukrainian delegation visited the United States of America between Dec 3 and 11, 2005. It included the Deputy Chairman of the PFU Board and five representatives from PFU regional offices, 2 representatives of the CM, 4 specialists of MoLSP and one official from MinEcon.

The delegation visited the Pension Benefits Guaranty Corporation that protects beneficiaries in the event of default, regional and central office of the US Social Security Administration, the Department of Labor (which regulates pension funds and pension plans), the Maryland State Retirement Agency (supplemental retirement plans in Maryland) and the Investment Company Institute (investment options for pension funds, trends in investment and regulation of investment companies activities). The delegation learned about:

- 1) Organizing citizen access to information, training for specialists within the social security system, and public information about new legislation in the social security system;
- 2) Eligibility criteria for the minimum special social security benefits;
- 3) Procedures for wage reporting by employers and control of the accuracy of information provided to the social security system;
- 4) The documents necessary for applying for pension benefits and procedures for paying pensions;
- 5) Formulas for calculating retirement benefits and benefits for early retirement at 62.

See Report in Attachment A

3.3.2 Observational Tour to Malaysia

At the request of DFP the PRI sponsored participation of 2 DFP representatives- M.Rusynsky, the head of Financial Services markets and European Integration department and O.Polishuck, key specialist of Legal Department in the 3rd International Forum on Education and Protection of Rights of Financial Services Consumers. The Forum took place in Kuala-Lumpur (Malaysia) on December 12-16, 2005 and provided a platform to explore emerging issues on consumer protection and education, to share knowledge and insights as well as exchange views in this area. (see Report in Attachment B)

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3.3.3 Observational Tour to Bulgaria

At the request of the Minister of Labor Ivan Sakhan from December 11 to 14, 2005 5 Ukrainian representatives visited Bulgaria to learn of the experience of pension reform in that country. They met with the senior representatives of Ministry of Labour, Parliamentary Committee, Employers' Federation, Federation of Trade Unions, National Institute of Social Insurance and the biggest Non-State Pension Fund of Bulgaria-Sofia.

The group of participants included:

Olena, Hariacha	Ministry of Labor and Social Policy of Ukraine	Deputy Minister of Labor and Social Policy
Maryna, Lazebna	Cabinet of Ministers of Ukraine	Senior Expert, Strategy for Social Relations Reforming Department
Mykhailo, Volynets	Verkhovna Rada, Fuel and Energy Complex, Nuclear Policy and Security Committee	People's Deputy of Ukraine, Member of Fuel and Energy Complex, Nuclear Policy and Security Committee
Galyna, Kolosyuk	Trade Unions Federation of Ukraine	Deputy Head of Trade Unions Federation
Vasyl, Piddubny	Employers' Federation of Ukraine	Deputy Head of the Employers' Federation

4. PROJECT ACHIEVEMENTS IN QUARTER 20

5. TANGIBLE RESULTS AND BENCHMARKS

These are summarized in the Final Report of PRI.

FISCAL INFORMATION

Total Invoiced through September 30, 2005	
Invoiced October 1, 2005 – December 31, 2005	
Total Invoiced through December 31, 2005	
Total Contract Amount	

ATTACHMENT A

**Report of the Ukrainian Delegation Study Tour of the Retirement Income System in
the United States
(December 3-10, 2005)**

Background

A delegation of Government of Ukraine officials participated in a study tour of the United States retirement income system from December 3 – 10, 2005. The study tour was organized by the contractor, PADCO|AECOM, as one of its deliverables for the USAID Ukraine Pension Reform Implementation Project. The purpose of the study tour was to understand better how public and private pension programs function in the United States. Ukraine currently is undertaking a far-reaching reform of its retirement income system and believes that the United States provides one of the leading examples for how public and private pension systems function efficiently and effectively in meeting the needs of workers and retirees.

The delegation consisted of 14 officials from national and regional offices of the Pension Fund of Ukraine, the Ministry of Labor and Social Policy, the Office of the Deputy Prime Minister and the Ministry of Economy (Attachment A, Participants List). Delegation members had indicated that they wanted a thorough discussion and review of issues concerning both the national, pay-as-you-go Social Security program and the private pension system. They expressed interest in the public system's administration and management, system coverage, benefit eligibility and determination, strategic planning, service, accountability, transparency, anti-fraud and abuse. Within the system of private pensions, they wanted an overview of regulation, worker and retiree protection and guarantees, plan management, funding and information disclosure as well as management and investment of fund assets.

In order to address these issues, study tour organizers developed an agenda that drew on the expertise and knowledge of various agencies and private organizations working in the field of retirement income programs (Attachment B, Agenda). Organizers made arrangements for visits to and presentations by the Pension Benefit Guaranty Corporation, Department of Labor, Social Security Administration, Maryland State Retirement Agency, Maryland Supplemental Pension Plans, Maryland State Legislature, and Investment Company Institute. The meetings with these organizations took place over the entire week at SSA headquarters in Baltimore, Maryland, and an SSA district office in Washington, DC, State of Maryland offices in Baltimore, MD, United States Government Agencies and private research organizations in Washington, D.C.

Meetings were held on time and as scheduled according to the attached Agenda. The exception was the next to last day of the study tour when a snow/ice storm caused the cancellation of the morning's schedule at the Maryland State Legislature and alternate plans were made for an early return from Baltimore, MD, to Washington, DC. Other than this rescheduling, no other problems were encountered with the program.

All participants and organizers expressed high satisfaction with the program, presentations and usefulness of the study tour. Two interpreters with simultaneous interpretation equipment and a representative of the study tour organizer accompanied the delegation and participated in all meetings. Organizers also developed a special program of cultural activities and dinners, so that participants had ample time to get a flavor of American culture and cuisine in both the Baltimore and Washington metropolitan areas (Attachment C, Itinerary). Special precautions were taken so that in the event one of the group (all non-English speakers) should become lost or need emergency assistance, they had contact information in Ukrainian/Russian not just for tour organizers, but emergency and medical services in the Washington and Baltimore areas (Attachment D, Carry/Info Card).

Briefings & Tours

Pension Benefit Guaranty Corporation – Two senior experts of the PBGC briefed participants of the agency's role and programs in overseeing and guaranteeing the defined benefits of workers and beneficiaries enrolled in private pension plans. The agency protects both workers and beneficiaries against default/bankruptcy and termination by employers of defined-benefit pension plans. It does not insure defined contribution pension plans. In the event of plan termination, it assumes supervision of plans and ensures that employee benefits are paid up to a certain maximum

amount and obligations are met up to the time of termination. It administers certain provisions of the Employee Retirement Income Security Act of 1974 (ERISA) in cooperation with the Department of Treasury's Internal Revenue Service (IRS) and the Department of Labor's Employee Benefits Security Administration (EBSA).

Social Security Administration District Office, Washington, DC – Participants were taken on a tour of an SSA District Office in Washington, DC. The District Office Manager who also supervises one additional district office in the Washington, DC, vicinity provided the tour. The DO is part of SSA's Philadelphia Region, which is one of 10 Regions throughout the United States. Applicants for and beneficiaries of Social Security retirement and survivors benefits may schedule an appointment and visit the DO to conduct business related to these benefits. Disability benefit applications and issues, however, are not taken up at the DO, but rather at the State Disability and Determination Service offices. Business processes and operations have been greatly assisted and expedited through both the Internet application and issue resolution process and through use of the nation-wide, toll-free telephone service (1-800-SSA-1213).

Department of Labor, Employee Benefits Security Administration – Two senior experts from the DOL office supervising private pension plans provided background on the EBSA's duties and oversight. The EBSA administers Title I of ERISA, which established participant rights and responsibilities and fiduciary duties for the nation's private pension system. This includes enforcing rules governing the conduct of plan managers, investment of plan assets, reporting and disclosure of plan information, enforcement of the fiduciary provisions of the law, and workers' benefit rights and responsibilities. The presenters gave historical background on the development of the private pension system and supervision in the United States as well as current issues concerning administration of both defined benefit and defined contribution type plans, providing plan participants with clear and understandable information, ensuring transparency and preventing fraud and abuse. The DOL, however, does not have jurisdiction over federal, state and local pension plans, international plans as well as those plans providing benefits in excess of those allowed under tax-qualified plans. As will be seen below, the Maryland State Retirement Agency, similar to other state agencies, provides pension plans for state and local government workers in Maryland.

Social Security Administration – A two-day series of briefings took place at the headquarters of the SSA in Baltimore, Maryland. SSA officials provided the following briefings on various aspects of the national Social Security program:

A specialist of this office provided A general overview of the history and development of the Social Security program office of Communications – The briefing was designed as an introduction to the program and short overview of the topics that would be taken up in the two days of discussions. It was useful in providing an historical context for the development of various program provisions under the Social Security Act, starting in the mid-1930s, to the 1950s and the 1970s. The specialist also discussed current issues facing the US social security program and possible reform that lies ahead.

Office of Disability and Income Security Programs – The analyst focused primarily on the development and revision of a minimum benefit under the social security program. A regular minimum benefit was eliminated for workers retiring after 1981 and a new, special minimum benefit was implemented in 1972 to replace the regular minimum. The special minimum also will be eliminated for workers retiring after 2013. The benefits were designed to provide a minimum amount to workers who had a long attachment to the workforce, but had very low earnings over their career.

Office of the Actuary – The Deputy Chief Actuary provided background on how benefit provisions have developed and benefit calculations are made with the primary goal of income support and poverty alleviation within the program. He also touched on the financing of the program and on actuarial assumptions and projections for medium and long-term stability of social security reserve funds.

Office of the Chief Strategic Officer – A Deputy Director and Analyst provided the group with an overview of the strategic planning process. This is the ongoing development of Strategic and Tactical Plans to guide the agency's activities and ensure that a vision, goals and priorities are being followed.

Office of Finance, Assessment and Management – Accountability for the Social Security program operations was discussed by an analyst tasked with ensuring compliance with standards of accounting and SSA's regulations.

Office of Operations – A program analyst provided a full range of program materials on service delivery to the public. This included an overview of information and resources for workers, applicants and beneficiaries to use in understanding the program and knowing how to access this information in different languages.

Office of the General Counsel – The Deputy Executive Director discussed SSA's compliance with both the Freedom of Information Act (FOIA) and the Privacy Act in safeguarding personal information and ensuring that maximum transparency exists in the program's operations. This involves determining what information can be released in ongoing investigations, while also being open and helpful in releasing information on how the program operates and information useful to workers and beneficiaries.

Office of Quality Assurance – An Associate Commissioner for Quality Insurance described SSA's approach to ensuring that the highest standards are maintained in program delivery and fraud and abuse are eliminated.

Office of Finance, Assessment and Management – A background briefing was provided on wage reporting and ensuring compliance with contribution requirements and record keeping.

Maryland State Retirement Agency and Supplemental Retirement Plans – A team from two Maryland agencies that provide pension plans to state and local workers provided an extensive briefing on how states may either opt out of the national Social Security program or provide supplemental plans for their state and local workers, such as teachers, law enforcement officers, emergency personnel, and legislators. The Maryland system currently covers over 250,000 such workers under its program, offering old-age retirement, survivor and disability insurance benefits. They provided an overview of program coverage and administration, how assets are invested, how benefits are paid and what assurances they provide against fraud and abuse within the program. The Maryland State pension system provides benefits in the form of deferred compensation plans under 403(b) and 401(k) plans, much as a private sector employer provides these types of plans. The State of Maryland also offers voluntary, supplemental retirement plans as well.

Investment Company Institute – Several members of the ICI research and advisory group provided very useful information on investments and asset allocations of private pension funds in the United States. ICI is the national association of investment companies numbering some 8,000 open-end mutual funds, 600 closed-end investment companies as well as other funds and unit investment trusts with assets of more than \$8.6 trillion. They advocate on the side of the fund industry and shareholders before Congress, the Securities and Exchange Commission, and other regulatory agencies. At the same time, though, they have been working for effective investor protection and respond to investor needs. Their principle goal is to enhance public understanding of the investment company business and encourage high ethical standards within the fund industry.

ATTACHMENT B

Report on Participation in the Financial Education Summit

**December 12-13, 2005
Kuala Lumpur, Malaysia**

and

In the Third International Forum: Protection of Financial Consumers' Rights

**December 14-16, 2005
Kuala Lumpur, Malaysia**

By M.P. Rusinskiy, the Chairman of the DFP Financial Services Markets Development and European and Euro Atlantic Integration Department and O.V. Polishchuk, Chief Specialist of the DFP Legal Department

I. Business Trip Purpose:

In compliance with the Law of Ukraine "On Financial Services and Financial Services Markets State Regulation" one of the main tasks of the State Commission for Regulation of the Financial Services Markets of Ukraine is to protect the financial consumers' rights by means of applying the enforcement measures within its power in order to prevent and to stop legislation violations in the financial services market. The Concept of Ukraine Insurance Market Development till 2010 approved by Instruction of the Cabinet of Ministers of Ukraine # 369-p dated August 23, 2005 sets the protection of insurance services consumers' interests to be one of the priority trends of the insurance market development.

In view of the above-mentioned the purpose of participation in the referred to events was to learn the leading countries' experience with financial (banking and insurance) consumers' rights protection, organization of work of the financial services markets state regulators as regards the financial consumers' rights protection and interaction of the financial services markets regulators with the financial consumers associations.

2. Basic Approaches to Resolving the Financial Consumers' Rights Protection Issues:

New technologies development, continuous growth of the quality of services on the financial markets, decrease of the number of regulatory restrictions and bans as well as high competition has cardinally changed the financial system and the overall economy. Modern financial sphere is remarkable for its broad public access to financial services, greater range of financial services, much more competitive financial industry and its complicated financial operations. Just these changes in the financial sector caused the vital necessity to improve the mechanisms of financial consumers' protection and to essentially increase financial awareness and literacy of public as well as to create conditions for the financial system normal functioning and also to ensure the potential for the modern economy to develop and to flourish.

One can make a conclusion that the consumers' rights protection consists of the following two major components:

- The first one is the protection mechanisms and legislative securing of the financial consumers' rights and interests;
- The second component is improving consumers' financial awareness, i.e. enriching their knowledge and experience in the financial sphere for the better management of their own finances.

The main task of the financial consumers' rights protection is to make transparent and equal conditions for all consumers of the financial services, to provide consumers with necessary information and knowledge, which will give them an opportunity to make better and more effective decisions when managing their own funds, as well as to create conditions for equitable and impartial disputes resolution between consumers and financial institutions.

In the modern financial environment the issue of financial awareness of financial consumers becomes one of the major problems that must be resolved especially in the emerging markets.

When running public education campaigns on the financial issues for financial consumers one should mind several important aspects. One of them is public apathy to such kind of information. The main reasons of such apathy are irrational conduct of people, their incapability to assimilate the integrated information as well as strong conviction that this information is unreliable and that it is worth neither attention nor time to study it.

When conducting public information campaigns it is also necessary to take into account that the information provided to the financial consumers should be simple and comprehensive and provided in the right time. For example, special programs implementation for financially different groups of consumers, who are at different stages of development and are pursuing different aims when managing their funds.

In order to achieve positive results in raising public awareness in the financial area it requires integrated and coordinated actions of various institutions as well as a well-considered approach to public education campaigns on behalf of the financial regulators, governmental authorities and the financial institutions that provide financial services. It is necessary to clearly define the goals and results that should be achieved in the result of public education campaigns for financial consumers.

Malaysia implemented such approach in order to raise the financial awareness of financial consumers. The overall plan of the financial sector development, which has being implemented since 2001, includes a 10-years program for raising the consumers' financial literacy. The plan also provides for creating a new infrastructure and institutions in the field of financial education, consultancy and antirecessionary management.

A series of programs regarding the financial consumers' rights protection and the financial awareness raising were presented at the forum such as "bankinginfo" regarding services provided in the banking sector and "insuranceinfo" regarding insurance services. These programs are implemented through various mass media.

The issue of raising the consumers' financial awareness as a component of the consumers' rights protection system should be resolved on the national and international levels in order to ensure a more dynamic economic development.

The experience with implementing programs of raising the consumers' financial awareness is very valuable for Ukraine. On the basis of this experience the corresponding programs for both present and future financial consumers can be developed by means of introducing these programs in the curricula of educational institutions. Canadian experience regarding organizing the financial consumers' rights protection system by means of creating a special institution such as the Financial Consumer Agency of Canada is very useful for Ukraine as well as Irish experience with the financial consumers' rights protection in terms of providing corresponding information to financial consumers.

3. Conclusions and Proposals

In our opinion participation in the events on the financial consumers' rights protection will facilitate the development of the conceptual framework for financial consumers' rights protection in Ukraine. The materials and information received at the forum would be used in preparation of the Financial Consumers' Rights Protection Draft Concept, which is being developed by the DFP along with CASE Ukraine experts.

**Chairman of the Financial Services
Markets Development and
European and Euro Atlantic Integration Department
Chief Specialist of the Legal Department**

**M.P.Rusinskiy
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