

Formation of the pension system of the Kyrgyz Republic and problems at the present stage of its development

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Abstract. This article is devoted to the study of key moments in the history of the formation of the pension system of the Kyrgyz Republic. Based on the results of the analysis of the factors of development of this system at the present stage, the problems associated with its development have been identified. The authors note the need for an integrated approach to improving all areas of social security. The purpose of the article is to study the current state of the pension system of the Kyrgyz Republic and identify ways to improve and modernize it. The problems that accompanied the process of formation and development of the pension system, models of pension reform are highlighted. An analysis was carried out on the expediency of the system of conditionally funded pension provision chosen in the Kyrgyz Republic. Labor migration and its high level among the working-age population are indicated by the authors as one of the urgent problems of the current pension system of the Kyrgyz Republic, the relevance of which is due to the impossibility of receiving deductions from the income of migrants to the country's pension fund. The authors also identified various factors that have a serious impact on the situation in the pension system of the Kyrgyz Republic. The conclusions of the authors of the article are presented in the final part.

Keywords. pension system, pension provision, conditionally funded system, migrants, living standards of the population, contributions to the pension fund, able-bodied population.

1 Introduction

At present, the problems of social security financing systems around the world are becoming more and more acute. In every country of the world there is a goal of consistent and cardinal reforming of the pension provision system in accordance with constantly changing economic conditions, which demonstrates the undeniable fact of reforming the activity of the social protection system of the population. The main scientific debates on the organization of the activity of the named sphere are conducted around the methods of modernization, especially in the field of pension provision. However, in any case, the main

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objective of the modernization process is to improve the standard of living of the country's population. The solution to this problem requires a comprehensive approach to improving such spheres of social security as social institutions, education, health care, culture, labor market, youth policy and, of course, the pension system.

2 Materials and Methods

This article is based on methods of analysis containing analysis of scientific and practical publications in the field of scientific problems, as well as economic and statistical methods involved in the analysis of the subject area. The article also uses a comparative legal approach to studying the development of the pension system of the Kyrgyz Republic and the problem at its current stage of development.

When Kyrgyzstan acquired independence all guarantees and rights of a social nature were enshrined in the country's Constitution.[2]. The birth of the Kyrgyz state pension system is inextricably linked to the history of the formation and development of the pension system of the USSR. Like many other economic and social changes in the life of Kyrgyz society that took place at all stages of the republic's existence within the USSR, the Soviet pension system, which finally took shape in the 1950s and 1960s, included two main components: pension provision for workers and employees of state enterprises and pension provision for collective farmers [8].

The acquisition of independence and the development of market relations led to changes in the pension system in 1991 and the Kyrgyz Republic Pension Fund was established. At the same time, the solidarity pension systems that had existed during the Soviet period faced serious limitations, such as a worsening demographic situation, tax evasion, and a lack of investment resources in the economy. In such a situation, the young Kyrgyz state within the framework of the old pension system was unable to provide its citizens with decent pensions. Social expenditures of the Kyrgyz Republic in 1991 amounted to 6% of GDP, before that the republic received significant subsidies from Moscow. Kyrgyzstan's GDP after the collapse of the USSR fell sharply to 52% of its 1990 level; subsidies from the center also ceased; the share of informal trade and services, agriculture, which contributed the least to the pension fund, grew significantly in the country's GDP structure; and the share of industries such as industry, transport and communications, and manufacturing, which previously had been serious sources of pension fund budgetary resources, declined.

In 1994, the average size of pension payments in the Kyrgyz Republic dropped to 70% of the 1990 level, the reason being the deficit in the pension fund's budgetary resources. Pensions began to be issued in the form of services and goods; this, and also such a phenomenon as delayed payment of pensions, became commonplace. Such a state of functioning of the pension system was a heavy burden on the state, despite the fact that the number of pensioners in the Kyrgyz Republic was relatively low - about 10% of the total population.

In the current critical conditions, the need to reform the system of distributive pension provision of the Kyrgyz Republic inherited from the USSR became obvious and very urgent. In order to provide a guarantee of income in cases of social risks on the part of the state, the general approaches of models of social support of population with holistic, systematic policy of state social support of population are application of universal principles of formation of rights on obligatory social insurance of employees (solidarity mutual aid, social justice, equalization of income of insured).

Under such conditions, the role of the state was reduced to establishing such a procedure for the functioning of the pension system, which would allow:

- reduce and compensate social risks for citizens, i.e., create and maintain conditions for a stable and acceptable standard of living for the population;

- adjust the distribution of insurance resources over time and between the subjects of legal relations;
- exert legal and organizational influence on the material and non-material motivation of employees and employers to the optimal reservation, redistribution and consumption of pension resources;
- form institutional infrastructure of pension insurance: target state and non-state pension funds, centers of medical, social and professional rehabilitation of incapacitated people, actuarial centers, etc.

3 Results

For the Kyrgyz Republic, the choice of a pension reform model was limited by an underdeveloped financial market and a shortage of money. Since independence, the republic has faced many problems in both foreign and domestic economic policies. A considerable number of reforms have been initiated and implemented, including in the most vulnerable, the social sphere. As part of these reforms, the legislation was changed and transformed accordingly, and with it the socio-economic relations between the state and society, established since the Soviet times. The pension reform in the Kyrgyz Republic began with the choice of the so-called "conditionally funded system" (NFS). Under the terms of this system, pension contributions were "accumulated" in an employee's so-called virtual personal pension account, but they were not saved, but only used for current payments of pensions to pensioners.

In 1997, a number of significant changes were introduced in the current pension legislation of the Kyrgyz Republic:

- Increasing the retirement age for women from 55 to 58 and for men from 60 to 63, which would be gradual;
- a number of benefits were abolished, in particular, early retirement was abolished for certain professions and groups of the population;
- A three-pillar pension system was introduced, the first of which consists in granting a guaranteed basic pension to any pensioner who has enough work experience; the second in granting a pension proportional to the employee's contribution, calculated as a percentage of the average wage he or she had earned prior to 1996; and the third in the form of individual pension contributions, which will accrue in the future pensioner's account.

The measures listed above made it possible to reduce pension arrears. In 1996, pension expenditures of the respective funds decreased from 6.9% of GDP to 5% in 2008. Delayed payments of pensions have ceased. The pension system's efforts to protect the elderly from extreme poverty have become more effective: compared with families without pensioners, families with pensioners have become 20% less vulnerable to poverty. This improvement was primarily due to the overall recovery of the national economy. However, pensions were still low, and the replacement rate was half as low as it had been in 1990.

Thus, the main goal of the reform, the financial stability of the pension system, has not been achieved. The inconsistency of the current pension policy played a role in this, as there remained a large gap in the rates of insurance contributions on the salaries of various groups of workers. For example, a tariff rate of 25% was established for workers in the formal sector (32% prior to 2003), and only 1-2% for those employed in agriculture and commerce, who make up two-thirds of the labor force. Many politicians still see the provision of benefits and exemptions from insurance contributions to the pension fund as an easy way to earn popularity with their voters.

4 Discussion

The Government of the Kyrgyz Republic has taken steps to further reform the existing system of notional defined contribution pensions. According to the reformers, the problem of protection of contributions from inflation, provided the system of notional savings, equivalence of income and liabilities, will remain in perspective for a long time. The amounts in individual personal insurance accounts are not accumulated and are not used for investment purposes; they are used to permanently fund pension payments. The nature of the notional accumulation system is expressed not in the accumulation of pension assets, but in the accumulation of pension liabilities. Thus, since January 1, 2010 in the Kyrgyz Republic for several years after numerous public discussions, debates, consultations with various international financial institutions (World Bank, IMF, etc.) the pension system with a notional funded component was introduced, which is calculated at 2% of the average salary of the employee, having previously increased it to 10%.

The introduction of the cumulative component in the current pension system solves the problem of the direct dependence of the existing pension system of the country on demographic and political problems, this situation under the distributive pension system was a significant problem. According to the developers of this system, the cumulative pension system should ultimately help to reduce tensions and increase pressure on the redistributive system of pension provision. At the same time, it is expected that the accumulated pension funds can generate income that is equal in size to the investment income from these funds. In the cumulative system of pension provision the funds in personal accounts of pensioners will be invested through management firms operating in this sphere, through non-state pension funds, banks, etc. in various kinds of investment portfolios.

It is assumed that the introduction of elements of the cumulative pension system will ensure high pension payments when citizens retire, increase the share of savings in the economy, form the capital market and stabilize its condition, and ensure the growth of the country's economy through investment in pension assets. Accumulation of pension assets, which are characterized by the market nature of capital, will increase the level of savings in the economy, will stimulate the development of financial markets, contribute to the growth of national savings for the long term and condition the creation of financial institutions such as banks, management companies, enterprises, which are necessary for the development of the economy. Besides it is supposed that this pension system increases responsibility of domestic financial institutions for formation, preservation and increase of assets of pension funds which should meet the requirements of the market. The mechanism of the funded system is fully combined with the systems of competing pension funds, and this, in turn, makes it possible to introduce modern market principles in pension insurance. Competitive management makes it possible to place the accumulated pension funds in accordance with the criteria of the economy, to get the maximum return from the funds accumulated in the pension fund, to reduce risks due to diversification of such investments.

All of the above served as the main incentives for the subsequent steps of the pension system reform. At the same time when developing the Concept of introducing the funded pillar the main problems were also considered, such as lack of stable macroeconomic environment, insufficient preparedness of such main participants of the funded pension system - state, business sector and population of the country to protect financial services providing pensions, weakness of investment market, limited state budget, manifested in covering possible deficits of the pension system.

The pension system, after the introduction of the cumulative component, now consisted of the following three components:

1. a state compulsory solidary system of pension provision;

2. compulsory cumulative pension provision system;
3. a professional (occupational) and individual cumulative system based on voluntary contributions.

At present, the total pension, which is paid from the state pension insurance system, consists of the solidary (basic + insurance pension) and cumulative parts. This does not include the survivor pension, which consists only of the basic part and the insurance part.

Let us consider the nature of the basic part of the pension. Today it is a certain basic minimum provided by the state budget, and assess the changes that have occurred in it by today. The basic part of pension payments is guaranteed by the state and is provided to persons who have a sufficient length of service, fixed in the pension legislation on state pension social insurance. This length of service is currently 25 years for men and 20 years for women). The basic part of pension payments is annually indexed in proportion to the growth of wages.

For all pensioners of the country the basic part of pension payments is set in the same amount. Initially it was equal to 200 soms, and since October 1, 2022, the basic part of pension is set at 3 thousand 170 soms (by the Cabinet of Ministers of KR № 504 from September 9, 2022) [2], increasing almost 16 times. Persons who do not have the required length of service for the assignment of an old-age pension, the basic part of pension payments is calculated in proportion to the length of service he/she has. Thus, such pension is paid to practically all pensioners, without exception, who have some length of service.

The insurance component of the pension is a part of the pension determined by taking into account the length of insurance service, average monthly salary or insurance contributions accumulated by a citizen. The legislation of the Kyrgyz Republic provides for indexation of the insurance component of the pension as well. The conditions for indexation of the insurance component of pensions are indicators of growth in the average wage and the index of established consumer prices for the calendar year preceding this indexation. However, experience accumulated in previous years has shown that the insurance component of current pensions in the country is indexed in accordance with the financial capabilities of the Social Fund of the Kyrgyz Republic or the political will of the elite "from above.

The accumulative part of the pension provision is a part of the pension, which is accounted and accumulated in the personal insurance account and is set for the insured person depending on the amount of their accumulated contributions for the pension. This part of the pension is an innovation designed to serve as a safety cushion for the state pension system in the future.

There are also weaknesses in the current pension and social legislation. Insufficient coverage of rural producers and private entrepreneurs by the pension insurance system refers to such a problem, whose contributions to the pension system are several times lower than those of the production sector of the economy. The tariffs of insurance pension contributions for peasant farms, established without forming a legal entity, are calculated on the basis of the basic rate of land tax for the current year. Individual entrepreneurs in the form of individuals without forming a legal entity, operating on the basis of a patent, the amount of insurance contributions paid by them to the Pension Fund is set regardless of the income they receive on a monthly basis in a fixed amount.

In addition, the current pension legislation provides for citizens of the country to receive state social and pension insurance on a voluntary basis.

Labor migration and its high level among the working-age population remain among the urgent problems of the current system of pension provision in the Kyrgyz Republic. According to various cited data, currently more than 10% of the entire population of Kyrgyzstan live and work in foreign countries. As a result, it becomes impossible to take their income into account, since they currently do not contribute to the state social

insurance system and will not be able to receive a pension in the future. Various solutions to this problem have been proposed in recent years, in particular it was proposed to conclude interstate agreements with the countries where the largest inflow of labor force from our country takes place.

In particular in such agreements it is proposed to take into account the income of migrants by the relevant fiscal or other authorities of such countries in order to implement the collection of tax payments from citizens of the Kyrgyz Republic, this should also include the collection of insurance and pension contributions, which should subsequently be transferred to the Kyrgyz Republic. Such a proposal was once discussed with the state fiscal authorities of the Russian Federation and the Kyrgyz Republic. However, due to the lack of relevant international norms between our countries that regulate such agreements and given the complexity of such procedures, the Russian Federation did not undertake such obligations. Based on this, the issue of pensions for migrant workers has not yet been resolved.

Further, a general analysis of the growth rate of the total population of the republic by age (Table 1) [3] shows an upward trend in the trend line of all categories (Figure 1). That is, in recent years the number of population, including the elderly, albeit at a small rate, has increased.

Table 1. Number of resident population by main age groups

Name of indicators	2018	2019	2020	2021	2022
The entire population	6 256 730	6 389 500	6 523 529	6 636 803	6 747 323
including age, years:					
younger than working age (children and adolescents under 16)	2 119 502	2 188 462	2 254 754	2 299 186	2 338 157
in working age (men - 16-62 years, women 16-57 years)	3 665 077	3 701 891	3 742 738	3 787 820	3 832 650
older than working age (men - 63 years and older, women – 58 years and older)	472 151	499 147	526 037	549 797	576 516

Source: Compiled by the authors on the basis of data from the National Statistical Committee of the Kyrgyz Republic [5]

So, for the examined 5 years the number of population increased by 490 593 persons, increasing by 7.8%. By categories the picture is as follows: the number of children and teenagers till 16 years old increased by 218 655 persons (growth rate - 10,3%), the number of working-age population increased by 167 573 persons (growth rate - 4,8%), and the number of population over working-age increased by 104 365 persons (growth rate - 22,1%). An interesting indicator is the ratio of the number of working-age population, at the

expense of whose deductions mainly accumulates the means of the pension fund to the number of the population of retirement age. So, while in 2018 this ratio was 7.8 (i.e., there are 7.8 working-age people per pensioner), in 2022 the ratio is 6.6. (Fig.1.) This indicates that the burden of the working-age population to provide for pensioners is increasing year by year. In other words, the current situation makes it increasingly difficult for the working population to provide for pensioners, and they are no longer able to support the growing number of pensioners in the country.[8]

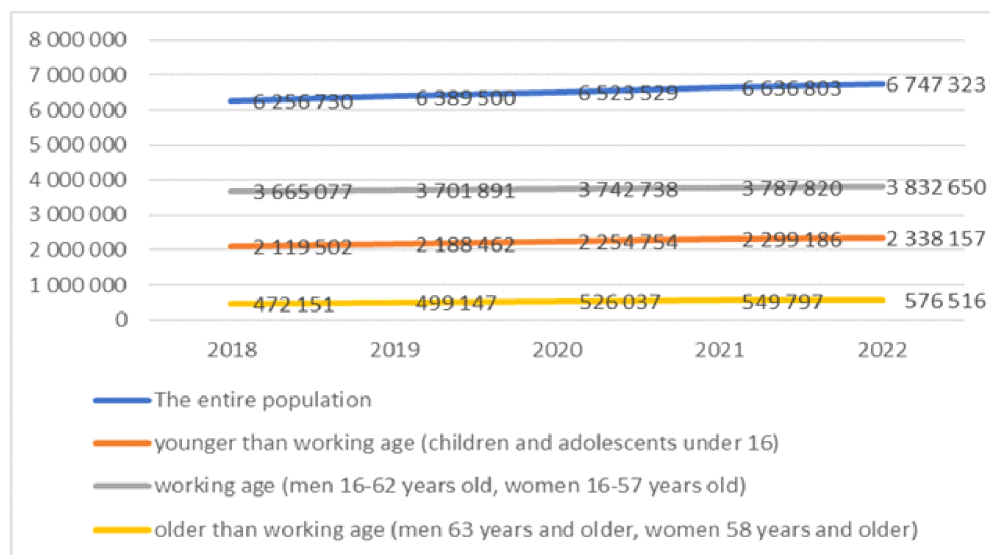


Fig. 1. Dynamics of population growth in the Kyrgyz Republic by age [5]

According to the recommendations of the International Labor Organization (ILO), in order to provide a pensioner with a decent pension, the number of contributors per pensioner should be at least three. On the face of it, it appears that the Kyrgyz Republic's figures in this regard are almost twice as high as this requirement. However, if we consider the fact that almost one-third of the able-bodied population is in migration, and that they do not pay pension contributions to the Kyrgyz Republic, we can conclude that the ILO requirement in our country is met almost one-to-one.[4,6]

According to the National Statistical Committee of the Kyrgyz Republic, life expectancy at birth has gradually increased, while life expectancy after retirement has remained approximately unchanged in recent years and averages 13.3 years for men and 20.5 years for women.[5]

Today, a number of factors of social, demographic, financial, economic, and organizational nature have a serious impact on the current situation in the pension system of the Kyrgyz Republic (Table 2). Some of them have a relatively long history, while others are newer and appeared in the course of economic reforms in the country. Even an ordinary simple glance at this list reveals that the current situation of the pension system of the Kyrgyz Republic is caused, along with the general macroeconomic situations in the country, by such internal reasons as imperfections in the organizational, legal, information bases of the pension provision system activity.[7,9]

In this regard, there is a reasonable question whether it is possible to consider the problems of pension reform without touching the issues of changes in workers' incomes, including their remuneration policy, and how legitimate is this?

This question requires additional research.

Table 2. Information about the main factors affecting the pension system of the Kyrgyz Republic

"Old" factors	"New" factors
Low level of wages and their share in GDP as a basis for deducting pension contributions	Migration and a reduction in the number and share of employed in the working-age population, an increase in unemployment, including hidden, leading to a decrease in pension income
Low level of pensions and their share in GDP	The decline in the purchasing power of pensions due to the outpacing growth rates of prices for goods and, especially, services, the prevalence of "preferential" state pensions that provide the possibility of early retirement
The prevalence of "preferential" state pensions, providing the possibility of early retirement Preservation of the socio-psychological orientation of a part of the population towards the state as a guarantor of the constitutional right to social protection and social security, including pension.	The use of Pension Fund funds for purposes not directly related to pension provision (compensation payments: payment of social benefits for burial, etc.)
The presence of several parallel "departmental" pension systems (military personnel, etc.).	Lack of an effective system for forecasting the development of the pension system and the fulfillment of obligations The widespread prevalence of informal employment, which significantly reduces the financial base of the Pension Fund, preserving the right to a pension for all
	The emergence of new socio-psychological attitudes among a large part of the population associated with tax evasion, a decrease in confidence in state and, especially, non-state financial institutions / organizations
	Imperfection of the pension system management structure, in particular, repeated attempts to divide the functions of collecting, assigning and paying pensions between different organizations

Developed by the authors based on the research materials.

It should be noted that each time there are new factors that affect the pension system. The growth of digitalization, and the development of the financial and credit system are causing constant improvement in this area [10].

5 Conclusion

The Kyrgyz Republic should not abandon the existing traditional pension system, which is based on the principles of continuous financing and solidarity; moreover, there are no convincing arguments for such abandonment. However, we should not agree with the views of financiers who want to convince people about the benefits of a privately financed cumulative pension system, which in essence can be called privatization of the state pension system, either, because there is neither sufficient experience nor convincing evidence for this. After all, they assure us of the ability of the funded system to provide a high level of investment income and economic growth.

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