

*Chernenok K.P.,*

*cand.sc. (econ.),*

*lecturer of the department of finance and credit*

*Petro Mohyla Black Sea State University*

## **THE EFFECTIVENESS OF NATIONAL PENSION SYSTEMS IN EUROPE: ANALYSIS OF THE INFLUENCE OF SOCIODEMOGRAPHIC FACTORS**

### **ABSTRACT**

As the distributional principle is still dominant in many European countries today, the factors that mainly influence such a pension provision component as distributional financing are examined in the first place. It should be pointed out that the efficiency of the pay-as-you-go system depends on the rate between the quantity of tax payers and pensioners since pension financing results from contributions to a pension fund during the given period. Thus, while identifying the efficiency component in the pension systems grounded on the distributional principle, the ratio of the inactive pensioners to the active labour force has to be taken into account. This is why the role of social-demographic factors is crucial while analyzing the efficiency of pension systems based on the distributional principle.

The aim of this article is to analyze the influence of social-demographic factors on pension system efficiency in Europe.

The analysis of the basic approaches to the definition of efficiency can be generalized in two major aspects, i.e. the degree of resource usage and the ratio “results – resources”.

The current type of population reproduction is caused by the social-economic development and is characterized by a decrease in both birthrate and

mortality, as well as by an increase in lifetime duration, thus conditioning the growth of fraction of pensioners in the population structure.

In the short-term perspective projection the demographic support factor as the ratio of the inactive elderly population aged 65 and over to the labour force in the counties belonging to the Organization for Economic Co-operation and Development will reach the marginal magnitude.

Taking into account that the marginal magnitude of the ratio between inactive pensioners to the active labour force in the countries belonging to the Organization for Economic Co-operation and Development might be reached in the short-term perspective projection, the pay-as-you-go system that is based on the distributional principle cannot be considered as the only financial component in the pension provision. It is necessary to diversify pension systems with accumulation components being involved and used as investment resources.

It should be mentioned that the lowering of demographic factor influence can be maintained not only via rising the retirement age, but also by means of the growth in population economic activity in pre-retirement years.

European countries have the necessary resources to improve the population economic activity among people in pre-retirement years. These resources enable proper reactions on increasing demographic loading via enlarging the duration of tax payers' contributions and shortening the period of pension provision.

The need to improve pension provision systems is also predetermined by lifetime period growing, as well as changes in lifestyle (e.g. prolongation of education period, late employment). All these factors result in the decrease of tax payers' contributions to Pension Fund, from one hand, and on the other hand, the increase of Pension Fund expenditures (due to the rising ratio of the inactive pensioners to the active labour force in the population structure).

While analyzing the prolongation of the education period, it should be noted that late employment excludes students who have decided to continue their education from the active labour force and tax payers. However, the prolongation of the education period is a kind of investment project that can consequently lead

to higher income when being employed and for a longer term. If to analyze the changing social values, one may come to the conclusion that the population is getting more and more diverse on the grounds of different income levels, hence the pay-as-you-go system is getting more and more difficult to finance while actualizing the accumulation principle in pension provision (later employment is compensated with higher income). Moreover, with labour market changing people that have higher education in the majority of cases are able to work after retirement age and they get salary as a supplementary income resource.

Therefore, the need to improve pension provision systems in European countries via the intensive application of accumulation components is predetermined by lifetime period and life level growing which motivates the population to accumulate pension capitals (there is an increasing desire to independently choose retirement age, expenditure on pensions and future pension rate). Meanwhile, financing the basic needs of pensioners has to remain the function of the pay-as-you-go system. Thus, taking into account actual social-demographic conditions, the distributional principle has to stay compulsory in pension provision systems and economic activity of population has to be instigated.