



## DEMOGRAPHIC FACTOR AFFECTING THE FINANCIAL STABILITY OF THE PENSION SYSTEM OF THE REPUBLIC OF UZBEKISTAN

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### Annotation

The article analyzes the main demographic factors of the financial sustainability of the pension reform and substantiates proposals for increasing state pension obligations.

**Keywords:** Pension system, demography, equalization of retirement ages, pension reform

### Abstract

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### Introduction

The main motive that prompted the reform of the pension system for Uzbekistan based on insurance principles was socio-demographic trends that increase the pension burden on the working population and pose a serious threat to the financial sustainability of the provision of state pension systems.

These processes observed in the republic are a consequence not only of the demographic situation in the early 1990s (high birth rate, adherence to the traditions of large families, mass social protection of families), but also of the socio-economic reforms that took place during the years of independence. The demographic features of Uzbekistan that affect the financial stability of the pension system are:

**-Growth in the resident population** according to the State Committee of the Republic of Uzbekistan on statistics the number of permanent population of the Republic of Uzbekistan as of January 1, 2022 amounted to 35,271,300 thousand people and increased by 712.4 thousand people or 2.1 percent since the beginning of this year.

**- High proportion of the child population under the age of 18.** In 2022, the proportion of people under 15 years of age was 28.2% of the total population of the



country, the proportion of people aged 15 to 60 years was 62.6% of the total population of the country, the proportion of people over 64 years of age was 9.2% of the total population countries. In the context of free education in Uzbekistan, primary and child health care, this creates a high financial burden on the budget and society as a whole for the development and maintenance of relevant social sectors.

**-High, but sharply declining in recent years, the birth rate.** The number of men and women in the country is approximately equal: 49.9% - men and 50.1% - women, the birth rate and population growth rates are relatively high.

**-High population density in certain regions, alternating with areas with low population density.** As of January 1, 2022, more than 35 million people lived in the country, who were settled with a fairly high average density of 78.6 people per 1 km<sup>2</sup>.

-the predominance of the urban population over the rural-the urban population amounted to 17918.3 thousand people (51.9% of the total population), the rural population - 17353.0 thousand people (48.1%).

**-Growth of migration outflow of the population.** In the period for January-April 2022, the number of arrivals in the republic amounted to 72.0 thousand people, the number of departures - 84.4 thousand people. The balance of migration amounted to minus 12.4 thousand people and increased by 1.0 thousand people compared to the previous period in 2021 (in 2021, minus 13.4 thousand people).

**-High level of external labor migration.** For example, according to official data, there are more than 3.5 million citizens of Uzbekistan in the Russian Federation. If they paid only mandatory social insurance contributions, their amount in 2022 alone would be at least \$585 million (UZS 1,271 billion or 13% of Pension Fund income).

But at present, only labor migrants in Korea pay social insurance contributions (17 thousand people) due to the existence of an interstate agreement on bilateral exemption from paying contributions to the Pension Fund.

In terms of existing demographic characteristics, in particular the dependency ratio for the elderly population (the number of elderly people per 100 people of working age), the pension system of Uzbekistan is currently in much more favorable conditions than the pension systems of most other countries. Over the past two decades, the growth of the average pension has outpaced both the growth of the average wage and the growth of nominal GDP per capita.

However, the dynamics of the excess of population growth over the growth in the number of pensioners is not favorable from the point of view of ensuring the sustainability of the pension system and is temporary. In the next 5-6 years, the



number of old-age pensioners will begin to grow at a faster pace, which means a significant increase in the burden on the pension system.

The forecast of the demographic situation shows that the growth rate of the population of retirement age exceeds the growth rate of the working-age population, as a result of which the already forecast population by 2050 according to UNFPA will be 38.7 million people, and the number of pensioners in Uzbekistan will reach 19, 4% of the total population of the country. This, in turn, will worsen the financial condition of the pension system, since the growth rate of the expenditure side of the pension fund will exceed the growth rate of its revenue side.

Raising the retirement age is one of the ways to maintain the level of pension provision while reducing the ratio of the number of payers and pensioners.

In most of the former republics of the Soviet Union, the retirement age has either already been raised (for example, in Armenia, Kazakhstan, Lithuania, Latvia and Azerbaijan, Kyrgyzstan), or they plan to do so in the near future (for example, in Georgia, Moldova, Ukraine, Tajikistan).

Since 2004, consistent steps have been taken to transfer the state pension system to accumulative financing principles, and Starting in 2007, Uzbekistan gradually began to introduce a contributory pension. At the same time, guarantees for citizens to receive the minimum state pension were retained, and its insurance part began to depend on the amount of contributions on a personal account in the Pension Fund.

It is believed that the formation of significant pension savings will reduce the financial dependence of the pension system on the ratio of the number of people of working age and pensioners and thereby significantly increase its resistance to adverse demographic changes.

The reform of the pension system launched by the Government of Uzbekistan in 2004 did not provide for measures to raise the retirement age. The ratio of the total number of recipients of pensions to the total population over the long 10 years from 1994 to 2004 remained stable and fluctuated at the level of 10.5-10.6%. All this had a beneficial effect on the pension system of Uzbekistan in terms of existing demographic characteristics.

The reform of the pension system of Uzbekistan proceeded from the fact that the model proposed in it for the formation of state pension provision with the gradual introduction of funded elements will ensure a balance of income and obligations of the Pension Fund of the Republic of Uzbekistan during the entire period of reform.

As a result of an amendment to the Law "On State Pension Provision of Citizens", which excludes the right of almost 90% of applicants for early (preferential) pensions, from 2011 to 2014, a decrease in the number of pension recipients is observed. In





addition, benefits were canceled for the most numerous categories of beneficiaries: teachers of secondary schools, medical workers, mothers of large families. As a result, in 2010-2012. the total number of pensioners decreased by 144,449 people. In addition, the Main Control and Auditing Department of the Ministry of Finance revised the size of previously assigned pensions for all pensioners under the age of 90, and over 300.0 billion soums of pensions overcharged due to the fault of state bodies were returned to the budget.

This led to a reduction in the number of pensioners in relation to the total population, which reached a historic low in 2014 - 8.9% (less than in 1998 by 1.7 percentage points or 522 thousand people).

Also, one of the factors in the decline in the share of pensioners was an increase in the growth of informal employment and, accordingly, the impossibility of confirming the presence of the necessary length of service and paying insurance premiums. Due to the difficulty in confirming the length of service due to the presence since 1991 for objective economic reasons of numerous reorganizations, bankruptcies of enterprises, changes in the content of archives, the number of people not covered by pensions amounted to 10.5% of the population above working age.

Many countries are going through the process of equalizing retirement ages, for example, in Austria, Great Britain, Belgium, Greece, the retirement age of women is being raised to the level of the retirement age of men and will be 65 years. In the current situation in Uzbekistan, a 55-year-old woman on average receives a pension for 21 years, and a 60-year-old man for 12 years, the difference is almost 10 years. Thus, the amount of resources spent per woman in the pension system is, on average, about 1.75 times more than per man. And the ratio of paid ESP and mandatory insurance contributions and received pensions for men is 1.07, and for women - 0.49. These figures clearly demonstrate the significant difference between the participants of the pension system by gender in the implementation of pension rights. Given the higher life expectancy of Uzbek women, in order to improve the efficiency of the pension system, it is necessary to raise the retirement age for women to 60 years.

Increasing or equalizing the retirement age should be done in stages, for example by increasing it by 6 months each year. Then the transition will last 10 years. This could extend PF funding by 1/3 of the year. This effect is achieved both by reducing the costs of the PF and by increasing the income of the PF (people in this category will continue to work and pay social taxes).

Due to the fact that despite the fact that all possible options for solving the financial problems of pension systems in Uzbekistan have actually been exhausted, a further



decrease in the number of pensioners cannot be solved by raising or equalizing the retirement age, for the following reasons.

First of all, it is necessary to take into account the fact that in most developed countries, such as the USA, France, Germany, Italy, Spain, etc., which have implemented various mechanisms and terms for raising the retirement age, clearly focused on their demographic characteristics, but since, at the same time, not a single of these countries have not yet fully completed measures to increase the retirement age, it is considered premature to evaluate the effectiveness of the results.

The economic effect of raising the retirement age in countries such as Germany and Poland was observed only in the first 10-15 years of the reform, after which the pension system began to bear ever-increasing additional costs.

Secondly, raising the retirement age will lead to a decrease in the length of service for the younger generation due to a later entry into labor relations, as the elderly will take longer jobs due to higher competitiveness than the young, and the growth of unemployment among youth

In addition to objective demographic factors, raising the retirement age is limited for our country due to the peculiarities of the pension system.

Thus, in the domestic pension system, it is necessary to develop a program for the long-term development of the pension system that ensures a socially acceptable level of pensions compared to wages and at the same time excludes both a further increase in the rate of social contributions and an increase in the retirement age.

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