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FOREIGN EXPERIENCE IN REFORMING THE NATIONAL PENSION SYSTEM: AS A CASE OF THE CANADIAN PENSION SYSTEM

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ANNOTATION

This article delves into the definitions economists have provided for pension systems, with a specific focus on the Canadian model. We have chosen the Canadian pension system as a foundational reference for our in-depth study of global pension provisions. Our exploration encompasses the structure of Canada's pension framework, the various programs it incorporates, and the distinct pension types under the Old Age Security (OAS) program. Additionally, we examine the unique characteristics of pension funds within this system, the demographic shifts impacting it, and forecasted changes in the income adequacy standards for Canada's basic pensions. The study culminates with conclusions drawn from the insights gathered on this subject.

KEYWORDS: *pension system, pension provision, Canadian pension system, Old Age Security (OAS), the Canada Pension Plan (CPP), and Individual Pension Plan (IPP) programs, pension funds, basic pension, Canadian pensioners, income adequacy standards.*

INTRODUCTION

The national pension system stands as a testament to a country's commitment to the well-being of its elderly citizens. It represents a promise of financial stability and dignity in the twilight years of life. However, as the global landscape evolves with shifting demographics, economic fluctuations, and increasing life expectancies, many pension systems worldwide are feeling the strain. The challenges of an aging population, coupled with younger generations facing uncertain economic futures, have brought the sustainability and adequacy of pension systems to the forefront of national debates.

Recognizing these challenges, numerous countries have embarked on the arduous journey of pension reform. These reforms range from structural changes, such as moving from defined benefit to defined contribution schemes, to fiscal adjustments like increasing retirement ages or altering contribution rates. Some nations have looked towards diversifying investment portfolios, while others have focused on enhancing transparency and governance of pension funds.

The foreign experiences in these reforms are as varied as the countries themselves. For instance, some Scandinavian countries have adopted flexible pension ages, adjusting to individual life expectancies and work capacities. Latin American nations, on the other hand, have experimented with privatizing portions of their pension systems, with mixed results. Meanwhile, Asian economies, with their rapidly aging populations, are exploring a mix of mandatory and voluntary contribution schemes to ensure broader coverage.

This comprehensive study delves deep into these foreign experiences, aiming to provide a holistic understanding of the strategies adopted, the challenges encountered, and the outcomes realized. By analyzing these diverse approaches, we hope to offer a rich tapestry of insights and lessons, serving as a valuable resource for policymakers, researchers, and stakeholders interested in pension system reforms.

LITERATURE REVIEW

Economists have conducted several studies on social protection, particularly pension system reform. We will delve into the perspectives of various economists on social protection, delving deep into the theoretical foundations of the pension concept.

In terms of global experience, the pension system is one of the fundamental social protection institutions that ensures the constitutional rights of citizens to material support in cases of disability, illness, loss of work capacity, loss of breadwinner, and unemployment in the context of the market economy. The amount of benefits provided depends on factors such as the duration of insurance (employment) history, the amount of earnings, and the degree of loss of work capacity, and is regulated by law.[1]

In practice, the sustainability of the pension system and the types of systems it is based on differ between generations and are linked to the social security system. Uzbekistan's pension system is based on these two systems.[2]

The pension system is an institutional framework that combines social, economic, and legal institutions, designed to provide benefits to various segments of society. The pension system is a form of social protection and assistance.[3]

The pension system is a field related to economic and social relations. Its activities are influenced by internal and external factors. In addition, the pension system itself affects various aspects of societal life, including labor force participation.[4]

RESEARCH METHODOLOGY

The main purpose of the research is to draw scientific conclusions based on the analysis of the current state of the pension system in Uzbekistan, in order to develop scientific-practical proposals and recommendations. This article uses general economic literature and scientific articles, interviews with economists specializing in pension system issues, discussions with experts and field representatives, analysis of their written and oral opinions, expert evaluations, monitoring of processes, and systematic analysis to gather theoretical and methodological foundations. During the study of the subject, methods such as comparison, compilation of theoretical and practical materials, and systematic analysis were used.

ANALYSIS AND FINDINGS

From an economic standpoint, pension insurance program systems serve two main functions. On one hand, they provide a source of income for elderly individuals who do not have earnings from work. On the other hand, they support the purchasing power parity of elderly population segments. According to Keynesian thought, pension benefits are considered a factor that stimulates demand in the national economy, as they contribute to the demand for goods and services by elderly population segments.

When studying pension systems in different countries, the Canadian pension system is considered of significant importance. This system was established in the country starting from 1951. Currently, the country operates its pension system based on various programs. In Canada today, the average life expectancy of the population is 82 years, and the retirement age for Canadians is set at 65 years. The country has implemented three types of pension programs in its pension system, which include the "Old Age Security (OAS)" program, the "Canada Pension Plan (CPP)," and the "Individual Pension Plan (IPP)" program.

When looking at the history of the Canadian pension system, the emergence of the first pension programs dates back to 1951. During this period, in order to provide appropriate living conditions for the elderly population in the country, the "Old Age Security (OAS)" program was introduced, which required individuals to be 70 years old to benefit from this service. In 1960, the age requirement for citizens to access this service was set at 65 years. The pension system, based on generational sustainability, continued its activities, and in 1970, when one pensioner was supported by seven workers, this ratio eventually decreased to two workers per one pensioner by 1990.[5]

Under the OAS pension program, pension payments are divided into four groups, which include Old Age Security Pensions, International Benefits, Guaranteed Income Supplement, and the Allowance program benefits..

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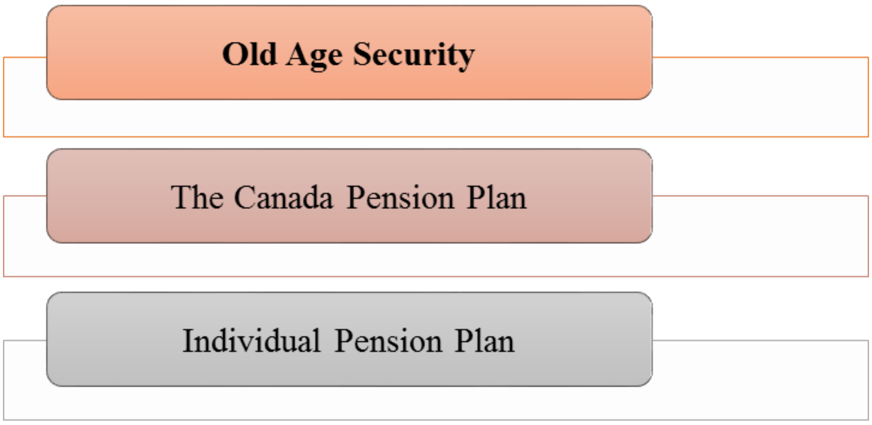

Figure 1. Composition of the Canada Pension Plan [6]

As per current legislation, the amount of pension paid under the OAS program in Canada is determined based on how long a pensioner has lived in Canada, with full pension payments being provided after 20 years. The OAS program, according to the law, provides minimal pensions to senior citizens and pays out a portion of the pension, equal to 50% of the full amount, if the individual has 20 years of residence and Canadian citizenship. After reaching the age of 18, if a citizen has resided in Canada for 40 years, the full pension amount is determined for them. If a citizen, after reaching the age of 18, has resided in Canada for 20 years and later moves to another country before reaching the pension age, they are still eligible to receive the OAS pension payment for the 20 years of residence in Canada.

Under the OAS pension program, pension payments are divided into four groups, including Old Age Security Pensions for senior citizens, International Benefits, Guaranteed Income Supplement, and the Allowance program benefits.

The Old Age Security Pension is considered a pension benefit paid to all Canadians. To receive this pension benefit, a pensioner must have contributed to pension funds during their working years and meet the above-mentioned requirements.

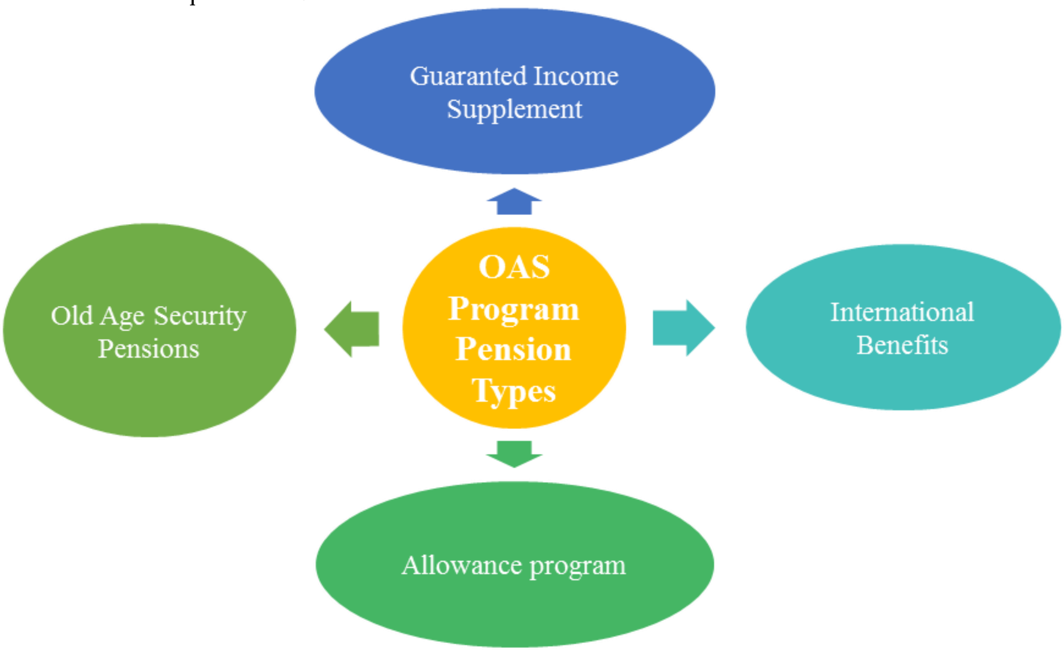

Figure 2. OAS Program Pension Types[7]

[6] A.V.Vaxobov, Sh.X.Xajibakiyev, B.B.Baxtiyorov, "Pensiya tizimini rivojlantirishning xorij tajribasi". "Iqtisod-Moliya" 2018

To qualify for international benefits, a pensioner must be 65 years of age or older and have moved to another country for a specified period. In this case, their pension payments are transferred to the state pension provision fund or relevant bank institutions of the country to which they have moved through a money transfer process. If a citizen acquires the citizenship of another country, they lose the right to receive these pensions.

In order to receive the Guaranteed Income Supplement (GIS) pension, citizens are required to pay additional contributions to the OAS pension plan in the amount they desire. This allows individuals to have the right to receive an additional supplement when they reach pension age. The amount of the supplement received is calculated based on the size of the additional contributions made by the pensioner. Currently, more than 500,000 Canadians benefit from this pension program.

Pension payments provided under the Allowance program are designed for individuals in social need categories, and these types of pensions are provided to individuals for a specific period of time. If an individual is widowed and between the ages of 60 and 64, then this type of pension is provided to them until they reach pensionable age.

The main portion of the revenue of pension funds operating under the OAS program is formed from insurance premiums paid by employed and self-employed workers. According to the legislation in force in the country, employees contribute to the pension fund at a rate of 4.5 percent of their monthly wage, while employers pay insurance premiums to the pension fund on behalf of their employees.

The Canada Pension Plan (CPP) is considered the state pension system in Canada and was established in 1966. In this system, in addition to age-based pensions, survivor and disability benefits are also provided to Canadian citizens. To receive benefits under the CPP program, individuals must reach the pensionable age and have at least 18 years of work experience. The contributions to the CPP pension fund by pensioners were originally set at 3.6 percent of the employee's monthly wage and 3.6 percent of the employer's wage in 1966. However, by 1987, this rate had increased to 9.9 percent, and since 2003, the contribution rate has been set at 3.6 percent. To this day, Canadians continue to pay these contribution amounts.

Individual Pension Plans (IPPs) are also a part of the pension landscape in Canada, where private pension funds operate widely. These types of pension funds operate in two main ways, namely as occupational-corporate pension funds and personal pooled pension funds.

Occupational-corporate pension funds are established by private companies, and in some cases, they are also set up by local authorities, government institutions, and organizations. These pension funds consider their founder's involvement in the securities market and investment programs as valuable assets. These measures are taken to encourage the establishment of occupational-corporate pension funds and ensure their financial stability. Additionally, the income of occupational pension funds can also be supplemented by contributions from employee associations based on labor agreements, with the amount of insurance premiums determined in the labor contract.

Personal pension plans are designed to provide individuals with financial security in their retirement years. In the country, these pension funds are not subject to taxation on the income of the population. These pension funds offer their services to enhance the well-being of citizens during their retirement years, and contributions to these funds are not subject to deductions from individuals' incomes. In these pension funds, citizens can invest in real estate and educational courses to improve their skills, even if they have not yet reached retirement age. This, in turn, encourages citizens to take advantage of these pension services. Citizens can also contribute their desired amount of insurance premiums to these pension funds.

In the Canadian pension system, according to the programs in place, citizens are entitled to receive a pension if they have a minimum of 18 years of work experience or 20 years of work experience if they are moving to a foreign country. As mentioned above, the Canadian pension system operates based on generational and collective contributions. Simultaneously, to encourage the establishment of personal pension funds, the possibility of using the financial assets created in the funds for the purpose of ensuring their financial stability has been provided. In the Canadian pension system, pension benefits are indexed based on inflation rates.

The assets of the Canadian pension funds are considered as a source of income for Canadians, and in the global economy, these funds' assets are recognized as investment capital. The Canadian pension system constitutes about 15% or 1.5 trillion dollars of the total capital of the Canadian financial system. Pension funds operating in the Canadian pension system, including large pension funds, are considered significant players in the country's domestic economy, accounting for 3/2 of the investment capital, or more than 1 trillion dollars.

[7] A.V.Vaxobov, Sh.X.Xajibakiyev, B.B.Baxtiyorov, "Pensiya tizimini rivojlantirishning xorij tajribasi". "Iqtisod-Moliya" 2018

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The strategy of entering long-term investments in the national economy is crucial for these funds, and they play a leading role in the investment market. The major pension funds in this group include the Canada Pension Plan Investment Board (CPPIB), Caisse de dépôt et placement du Québec (CDPQ), the Ontario Teachers Pension Plan (OTPP), the British Columbia Investment Management Corporation (bcIMC), the Public Sector Pension Investment Board (PSPIB), the Alberta Investment Management Corporation (AIMCo), Ontario Municipal Employees Retirement System (OMERS), and the Healthcare of Ontario Pension Plan (HOOPP). The volume of investment assets managed by these major pension funds ranges from 64 billion to 265 billion dollars.

All of these funds are among the world's largest pension funds, ranking in the top 100, with three of them being in the top 20.

After the global financial-economic crisis of 2008, there was a slight decline in the assets of the large eight pension funds that had joined the big eight list by 2009. This situation was attributed to the simultaneous increase in unemployment, economic instability, and a decrease in the inflow of insurance premiums to pension funds in developed countries. To address this situation, pension funds implemented annual oversight of the assets they owned. As a result, they subjected their pension funds' revenues and expenses, including the targeted allocation of investment capital, to rigorous scrutiny. Consequently, by the end of 2015, the total assets of these pension funds had reached 1.5 trillion Canadian dollars.

The characteristics of the pension funds operating in the Canadian pension system include the following:

- The presence of internal management aimed at enhancing the economic viability of pension funds;
- The establishment of investment strategies based on stability and precision, with a high degree of liquidity in the assets of pension funds;
- Diversification of investments based on investment conditions, geographic regions, and types of assets;
- High competitiveness of pension funds in both domestic and international markets.
- Rigorous oversight and monitoring of investment strategies, precision, and liquidity of pension fund assets;
- Diversification of investments based on investment conditions, geographic regions, and types of assets;
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Canadian pension funds also collaborate with major banks to purchase and re-purchase assets in the securities market, thereby increasing the liquidity of the installed income level of pension funds. In 2015, Canadian pension funds redirected a portion of their total assets, ranging from 15% to 30%, toward the activity of purchasing or repurchasing valuable securities and re-financing investment programs.

Due to the correct and purposeful implementation of the strategy for managing financial assets and directing them to investment programs, Canadian pension funds have achieved a high level of development. If we look at the global practice, over the past decade, this indicator has not exceeded 4% in other developed countries. Currently, Canadian pension funds are engaged in long-term investment programs and make significant investments in infrastructure projects.

The Canada Pension Plan (CPP) is considered a comprehensive program within the Canadian national pension system. This program provides assurance for Canadians in various income and social situations, addressing some challenging financial situations in their retirement and social lives. The Canadian pension system comprises various components, and these types of pension programs are specifically designed for Canadian citizens. Pensions and other forms of insurance provided through such schemes are generally exempt from taxation according to the applicable laws in the country.[8]

In 2006, as a result of reforms implemented in the CPPIB system, the obligation to allocate a certain portion of pension fund investment returns to pensioners was established. In this regard, agreements were made between the pension fund and insured citizens for the use of investment returns in exchange for an additional percentage added to pension payments, as stipulated in the agreements. This, in turn, led to an increase in citizens' interest in contributing to pension insurance. As a result, the investment opportunities of pension funds have continued to evolve over the years, improving their financial conditions.

Additionally, the Canadian pension system faces demographic challenges, as the elderly population in the country has been steadily increasing in recent years. In 2015, the total population of the country stood at

[88] Canada (1997). Information on the history, mandate, and performance of the CPPIB is available at http://www.cppib.com/en/home.html

35.9 million people, with the elderly population accounting for 23.7 percent of the total. According to expert projections, this percentage could potentially reach 42.0 percent by the year 2050.

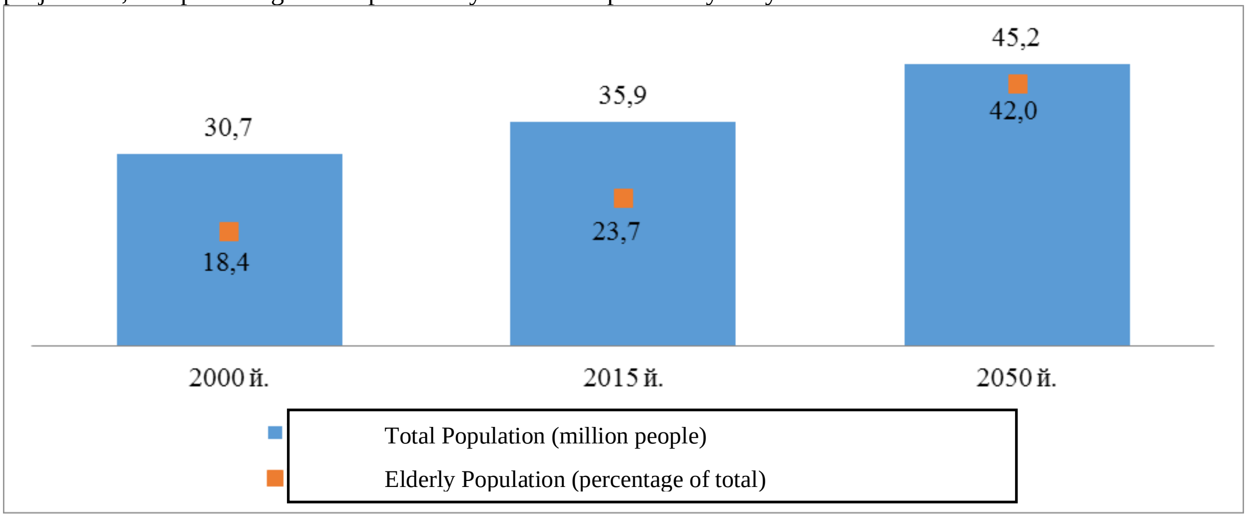

Figure 3. Dynamics of demographic changes affecting the Canadian pension system.[9]

Taking into account this situation, measures and initiatives have been developed in the coming years to increase the retirement age in the country. As a result, between 2023 and 2029, Canada is planning to raise the retirement age from 65 to 67. One of the significant reasons for this necessity to increase the retirement age is the steady increase in life expectancy for the population in the country after the age of 65. From 2000 to 2015, life expectancy at age 65 for women and men increased from 20.6/17.2 years to 22.1/19.1 years, respectively. According to forecasts by experts, it is expected that by 2050, this indicator will rise to 24.9 years for women and 21.4 years for men.

Further improvements to the component of the pension system in the country are expected as part of efforts to enhance the overall structure. In other words, there are plans to strengthen the transfer of a portion of supplementary pension benefits into individual pension savings accounts through the state pension fund. Currently, citizens are primarily provided with minimum pensions through the state pension fund, and this additional mechanism aims to further empower individual pension planning.

[9] CPPIB, 2008, 2015. For a timeline of important reforms and changes made to the CPPIB, see <http://www.cppib.com/en/who-we-are/our-history.html>.

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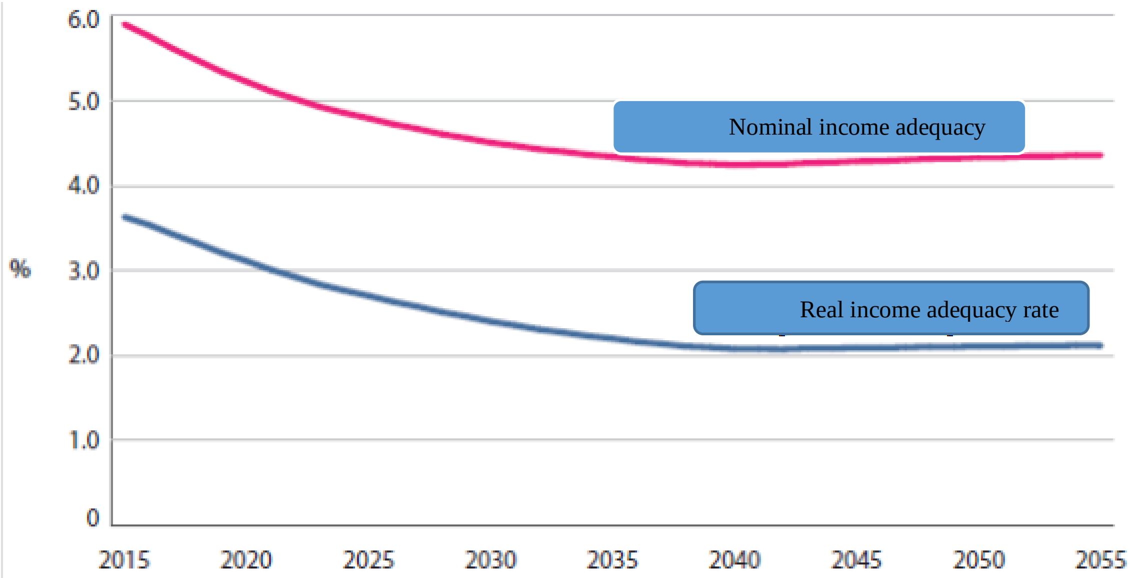

Figure 4. Projections of changes in the income adequacy standards for Canadian pensioners [10]

As a result, the income adequacy standard for base pensions may decrease.

According to calculations by experts, the nominal income replacement rate for base pensions may decrease from 6.0 percent in 2015 to 4.3 percent by 2055.

According to calculations by specialists, the decline in the income replacement rate of base pensions contributes to increasing the official poverty threshold in the labor market, thereby creating a specific incentive for paying pension benefits.

CONCLUSION

It can be concluded that the implementation of reforms aimed at ensuring the financial sustainability of the Canadian pension system is contributing to the further enhancement of the CPP program.

Nowadays, almost all countries are going through demographic changes. The aging population, in particular, increases pension system expenses while decreasing revenues. In such conditions, reforms are necessary in the pension system. In this situation, pension reform models have also been developed, and some countries experiencing demographic changes are implementing reforms through these models.

As mentioned above, Canada also faces challenges in its pension system. The country is undergoing demographic changes, with increasing life expectancy, which requires raising the retirement age and reevaluating the composition of pension benefits.

While Uzbekistan has not yet experienced demographic changes, the expected increase in life expectancy in the near future will necessitate reforms in the pension system. This article has explored pension system reform models and, based on international experience, suggests that Uzbekistan should continue implementing reforms in its pension system.

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