

# Prospect of Ukrainian large enterprises investments growth due the program for development of pension funds' elaborating

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**Abstract** – The article has been devoted to implementation of the program of development of private pension funds and its influence into increase of capital investments. The dynamics of capital investment rate in Ukraine and in CIS-countries has been analyzed. The benefits of the implementation of the program of development of private pension funds for each employed citizen and for the Ukrainian economy as a whole has been described. Positive results from the implementation of this idea in Ukraine has been proved using the U.S. experience. Effectiveness of implementation of the program of private pension funds in Ukraine in the long-term period has been substantiated by appropriate calculations.

Key words – capital investment, pension funds, competitive position, Ukrainian economy, CIS countries

## I. Introduction

As of today, the Ukrainian economy is facing the problem of unsatisfactory growth of investment capital. Thus, for the period from 2006 to 2011, capital investments has increased by 1,66 times, while inflation had been increased during the same period for 82,75% [1]. This indicates deceleration of growth of real indicators of equity investments, as well as weakening of Ukraine position among other CIS countries (for comparison, the equity investments in Russia in 2006-2011 increased by 2,33 times [2], in Kazakhstan – 1,77 times, in terms of inflation rate: in Russia - 64,45% [3] and in Kazakhstan – 64,67% [4] (Fig.1.).

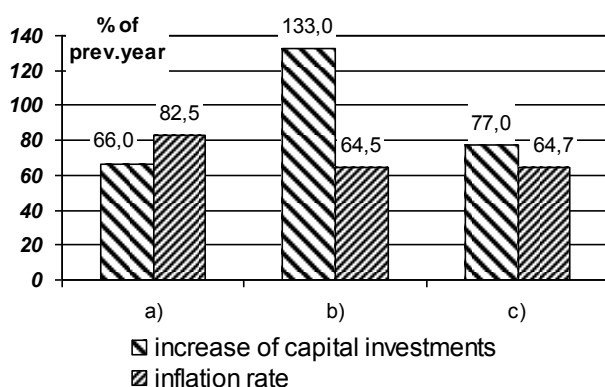


Fig.1. Dynamic of growth of capital investment and inflation\* in: a) Ukraine, b) Russia, c) Kazakhstan

\*Constructed figure is based on sources: [1-4].

## II. Advantages in private pension funds' creation

One of the possible measures to increase the capital investment in the long term is elaboration of the program for the development of private pension funds in Ukraine. Creating the competitive market of private pension funds will allow to invest hundreds of millions hryvnas into the national economy.

Advantages of this idea can be considered from two sides. Firstly, the creation of private pension funds is advantageous for every officially employed citizen in Ukraine. We know that the current system of calculating state pensions is unfair, because it almost ignores the work experience of citizens, harmfulness of working conditions, pension contributions, etc.

Private pension funds will fully overcome this problem, because its payments in the future will depend on the period of investing and on profitability of private pension funds. In addition, investment income of private pension funds is usually higher than bank deposits.

Secondly, costs accumulated by these funds will be invested into domestic companies, that allows to capitalize perspective branches and to increase the competitive position of Ukraine on the international market [5]. Investment capital, accumulated by private pension funds the most efficiently can be used by transferring them in assets with high income in the future.

The example of qualitative model of private pension funds work, which could be applied in many countries, including Ukraine, is the U.S. pension system [6].

Both public and private pension systems are operating in the U.S. Pension systems are also classified on distribution and accumulation systems. Informal name of distributive pension systems is pay-as-you-go system. This means that the money coming from taxes on social security are not retained in the pension accounts for a long time. Almost all of them go in the form of monthly pension payments.

In the 80 - 90's large popularity of private pension funds have established programs with defined contribution plan. These pension funds are usually financed by employers and the employed workers in equal parts. Also, each member has its own pension fund account. Managers of private pension funds offer their customers variety of retirement programs. This means that each member is responsible for the results and chooses size of future pension payments. Members of private pension program can be any employee of the company. The right to receive pension is available after employee worked there for 5-10 years. Popularity of funds with defined contribution plan contributed to the process of encouraging investment in the economy of the U.S.

Most private pension systems are based on accumulative principle. They haven't performed only social role, but also the role of investments in the economy [7]. The accumulated assets of private pension funds are among the main source of long-term investments in the American economy.

The investment policy of pension funds is based on the principles of reliability, profitability and liquidity. Special attention is devoted to the diversification of deposits. Deposits are diversifying by the type of securities and monetary instruments, sectoral and geographical features, etc. Structure of investments accumulated by pension systems composed of government securities, federal government bonds, treasury bills, stocks and corporate bonds, shares of mutual funds and money market instruments.

### III. Effectiveness of implementation of the program of private pension funds in Ukraine

A characteristic feature of this model is based on personal pension insurance of citizens. The success of private pension funds in the U.S. is adjusted by growth rates of assets of these organizations in the 80-90's, when there was growth of assets to 612,28%, from 676 billion dollars in 1980 to 4139 billion dollars in 1996 (Fig. 2). These years are characterized by the successful release of the U.S. economy from the oil crisis of the 70's, which in many ways resembles the current situation in Ukraine.

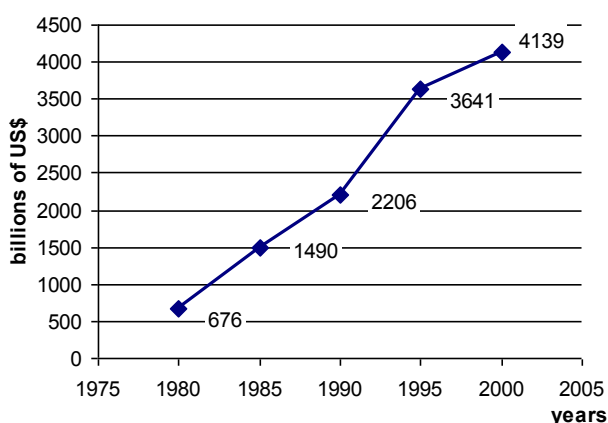


Fig. 2. Assets of U.S. private pension funds\* (basis for prognosis situation in Ukrainian (beg. from 2013))

\*Sources: Holland (1966); Kotlikoff, Wise (1987).

We took into account these positive tendencies of development of private pension funds in the U.S. and developed the accordance optimistic assessment of the prospects for their implementation in Ukraine.

In order to assess the probable impact of pension funds on the economy of Ukraine, we have considered a model in which the growth rate of assets of private pension funds in the period between 2012-2028 were taken at the level of 612,28% (which is considered in the model of U.S. pension funds), the cost of those assets – 1386,9 million hryvnas (at the end of 2011), the share of assets in Ukrainian equities at the level of 40%, which corresponds to the maximum level according to the Law of Ukraine "About Private Pension Provision".

As result of application the considered model for predicting the effects of the program of private pension funds we found that in 2028 probable value of assets would be 8491,71 million hryvnas, including – 3396,68 million hryvnas of Ukrainian equities. It is obvious that such a development will have a positive impact on the Ukrainian stock market and therefore on the economy as a whole.

### Conclusion

So, this publication examines the relationships between capital investments and the successful implementation of the program of private pension funds in the country. Examples from international practice about implementation of private pension funds in different countries and their positive effects on their economics had been investigated. The practical expediency of the program of private pension funds in Ukraine had been proved, its effectiveness is confirmed by calculations.

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