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Nataliia Spasiv

*Doctor of Economic Sciences, Professor,
West Ukrainian National University, Ternopil, Ukraine
n.spasiv@wunu.edu.ua
ORCID ID: 0000-0003-0797-7220*

Olga Kneysler

*Doctor of Economic Sciences, Professor,
West Ukrainian National University, Ternopil, Ukraine
o.kneisler@wunu.edu.ua
ORCID ID: 0009-0004-1521-923X*

Iryna Huzela

*PhD,
West Ukrainian National University, Ternopil, Ukraine
i.huzela@wunu.edu.ua
ORCID ID: 0009-0008-2274-8788*

PENSION PROVISION IN UKRAINE: THE STATE UNDER WAR CONDITIONS

Наталія Спасів

*доктор економічних наук, професор,
Західноукраїнський національний університет,
м. Тернопіль, Україна*

Ольга Кнейслер

*доктор економічних наук, професор,
Західноукраїнський національний університет,
м. Тернопіль, Україна*

Ірина Гузела

*доктор філософії,
Західноукраїнський національний університет
м. Тернопіль, Україна*

ПЕНСІЙНЕ ЗАБЕЗПЕЧЕННЯ В УКРАЇНІ: СТАН В УМОВАХ ВІЙНИ

Abstract. *Under national realities, the role and significance of scientific developments in the field of pension provision are increasing more than ever, as an effectively functioning pension system is capable of mitigating the challenges and threats faced by internal socio-economic policy during the period of full-scale war. The state of pension provision in Ukraine indicates the presence of numerous unresolved problems that constantly threaten the financial stability of the pension system and negatively affect social justice, intensifying tensions in a society already exhausted by war. Accordingly, the*

assessment of current trends in pension provision in Ukraine and the tendencies in the functioning of the domestic pension system in order to substantiate ways of replenishing the budget of the Pension Fund of Ukraine under current conditions represents a pressing problem requiring resolution.

Key words: *pension system, pension fund, solidarity system, accumulation system, social policy, financial stability, demographic challenges, state regulation*

Анотація. *В умовах національних реалій підвищується значення наукових досліджень у сфері пенсійного забезпечення, оскільки ефективне функціонування пенсійної системи дає можливість пом'якшити виклики й загрози, що постають перед вітчизняною соціально-економічною політикою в період повномасштабної війни. Стан пенсійного забезпечення в Україні свідчить про наявність численних невирішених проблем, які постійно загрожують фінансовій стабільності пенсійної системи та негативно впливають на соціальну справедливість, посилюючи напруженість у виснаженому війною суспільстві. Відповідно, оцінювання сучасних тенденцій у сфері пенсійного забезпечення в Україні та тенденцій функціонування вітчизняної пенсійної системи з метою обґрунтування шляхів поповнення бюджету Пенсійного фонду України в сучасних умовах є актуальною проблемою, що потребує вирішення.*

Ключові слова: *пенсійна система, пенсійний фонд, солідарна система, накопичувальна система, соціальна політика, фінансова стабільність, демографічні виклики, державне регулювання.*

In the context of contemporary economic challenges and financial instability, the causes of which are war with its irreversible consequences, social security for the majority of Ukrainians becomes a permanent necessity. For the unprotected and most vulnerable segments of the population – citizens of retirement age, the low-income, persons with disabilities, veterans – social protection becomes virtually the only source of «survival» in the context of intensifying social risks in society. Consequently, it is precisely this category of citizens that requires effective financial provision through the improvement of the functioning pension insurance system in Ukraine, which, given domestic demographic realities, finds itself under existential threat as a key direction of the state's social policy.

The pension provision system of Ukraine has faced two key problems throughout its existence: a chronic deficit of the Pension Fund budget and a rapid growth in the number of pension payment recipients. This necessitates prompt legislative changes and the adoption of frequently «unpopular» financial decisions to prevent the transformation of the pension system into an excessive burden on the state budget.

In such circumstances, the task of formulating practice-oriented recommendations for reforming pension provision as the primary source of support for socially unprotected and vulnerable segments of the population becomes increasingly pertinent. Indeed, effective modernisation of the pension system must ensure the welfare of citizens, contributing to compliance with the norms of the Constitution of Ukraine, in which Ukraine is defined as a social state.

In the context of the aforementioned points, it is imperative to emphasise that the establishment of the national pension system commenced from the moment of gaining independence and the adoption of the Law of Ukraine «On Pension Provision» Subsequent development was marked by the adoption of the Laws of Ukraine «On Compulsory

State Pension Insurance» and «On Non-State Pension Provision» in 2003 [1; 2], which established the foundation for the implementation of a three-tier model of the pension system, predicated on the accumulation of personal savings by citizens. Legislators are of the conviction that the three-tier model will enhance the efficiency of pension provision and guarantee a decent standard of living after retirement.

The first-tier is a solidarity system that functions according to the «intergenerational solidarity» principle and provides for the accumulation of funds in the Pension Fund of Ukraine. However, as practice demonstrates, financial resources under such a system are limited, and the deficit of the Pension Fund is systematically covered at the expense of state budget funds. The dominant cause is that revenues from the unified social contribution are declining due to the permanent reduction in the number of officially employed persons, while the number of pensioners remains substantial, although in recent years there has been a tendency toward decrease (Fig. 1). At the beginning of 2024, the number of employed persons in Ukraine was 11.5 million, while 10.5 million citizens were receiving pensions [3]. This indicates that the pension provision system is in a critical condition, as the ratio of working to retired population is one to one. This is an absurd situation from a practical standpoint, as it undermines the effectiveness of the solidarity pension provision system. Furthermore, the absence of a transparent system of individual accumulations deprives citizens of the opportunity to form additional sources of income for the future and to diversify them. In the current conditions, this can be considered a «relic of the past».

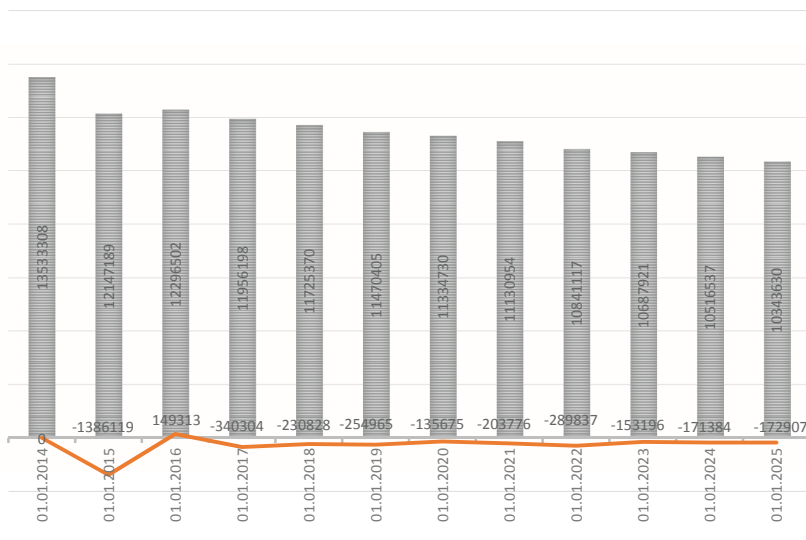


Fig. 1. Dynamics of the number of pensioners in Ukraine in 2014-2024

The second-tier constitutes an accumulative system that provides for the opening of an individual pension account for each working citizen. The accumulation of funds is achieved through employer contributions, state contributions (on a parity basis with the employer),

and voluntary contributions from the citizen. The use of resources is only possible after reaching retirement age, and pension accounts can be transferred by inheritance.

The third-tier is constituted by non-state pension provision, which is predicated on voluntary contributions from citizens. The quantity of subsequent payments is decided exclusively by the magnitude of personal savings [4].

In accordance with the provisions stipulated within the Law of Ukraine «On Compulsory State Pension Insurance» (Clause 2, Article 2), the initial and secondary tiers are recognised as constituting the system of compulsory state pension insurance. Conversely, the secondary and tertiary tiers are recognised as forming the accumulative pension provision system [1]. However, in terms of national practice in the present day, it is evident that merely the first and third tiers are currently operational. The prevailing legislative framework stipulates the disbursement of monthly pensions to citizens who have attained retirement age, in addition to those experiencing disability, the loss of a breadwinner, or as a lifetime provision or lump-sum payment. Given the pivotal role of the Pension Fund of Ukraine in this domain, a comprehensive examination of the dynamics of its revenues and expenditures is warranted (Table 1).

Table 1

**Dynamics and structure of revenues and expenditures
of the Pension Fund of Ukraine between 2021-2024 (billion UAH)**

Indicators	2021 p.		2022 p.		2023 p.		2024 p.		increase / decrease 2024/2021
	billion UAH	%	billion UAH	%	billion UAH	%	billion UAH	%	
PFU income, total of which:	512,8	100	620,4	100	780,2	100	860,7	100	395
own income including the balance of funds, total	334,2	65,2	403,9	65,1	463,1	59,7	566,9	66	233
funds of the State Budget of Ukraine, total	174,8	34,1	209,3	33,8	249,8	32,1	248,2	29	74
PFU expenses, total of which:	520,9	100	590,1	100	854,5	100	770,8	100	250
own financial expenditure	367,2	71	403,9	69	450,6	53	533,7	70	167

Source: compiled based on [3; 5; 6; 7].

The data in Table 1 demonstrate positive dynamics in the revenues of the budget of the Pension Fund of Ukraine (PFU) during 2021-2024. Over this period, revenues increased by 395 billion UAH (by 1.1 times), despite the reduction in the working-age population from 25.1 million persons as of 01.01.2020 to 11.5 million persons as of 01.01.2024, and an insignificant increase in the minimum wage was observed, with a nominal increase from 4,723 UAH to 7,100 UAH (during the corresponding period). The main factors contributing to such growth were the increase in revenues from the unified social contribution (USC) in connection with monetary remuneration payments to military personnel, partial recovery of employment among the economically active population, as well as a certain economic revival against the backdrop of international financial

support. Thus, beginning in 2023, USC contributions provided 87.6% of all revenues to the PFU budget. In absolute terms, incomes from USC increased by 184.65 billion UAH compared to 2020, which became possible due to the increase in minimum wage and timely payment of contributions by military personnel, thereby ensuring the stability of pension payments.

An examination of the PFU budget revenues during the period under study reveals that own incomes predominate, with a percentage ranging from 65.2% in 2021 to 66% in 2024, indicating a propensity for expansion. In absolute terms, their volume increased by 233 billion UAH (2-fold increase) and reached 566.9 billion UAH in 2024, which attests to the effective policy of the government regarding the replenishment of the PFU budget even under conditions of martial law and permanent shortage of financial resources. The second dominant position is occupied by funds from the State Budget of Ukraine, which represents an objective situation in the context of permanent subsidization of pension payments precisely from this financial source.

Simultaneously, regarding the expenditures of the Pension Fund of Ukraine (PFU) during 2021-2024, it is worth noting a tendency toward their growth by 250 billion UAH (2-fold increase) in 2024, which is conditioned by the revision of minimum social standards enshrined in Ukrainian legislation and the implementation of indexation, representing an objective process against the backdrop of increasing the revenue base of the PFU budget.

Based on the conducted analysis, it can be concluded that the key source is the PFU's own revenues in the form of USC, the share of which in the structure of revenues constantly increases throughout the period under study, signalling processes of eliminating hidden employment, legalizing the accrual and payment of actual wage volumes, and consequently the gradual emergence of business «from the shadows». At the same time, a negative factor remains the decline in the working-age population, which has been observed since 2018, directly affecting the volume of USC revenues and the income component of the PFU budget (see Table 1). According to statistical data, the situation improved only in 2023, primarily due to the growth of USC revenues and the allocation of funds for financing housing subsidies and benefits for housing and communal services payments [5].

Another key factor is the growth in the number of unemployed people and, consequently, the unemployment rate (see Fig. 2). Furthermore, these processes are occurring against the backdrop of a sharp decline in Ukraine's population. As the data in Fig. 2 illustrate, the reduction in the number of unemployed over the past three years is occurring exclusively in the context of a sharp decline in population; furthermore, in our conviction, specifically the working-age population, since it is well known that the outflow of this category of workforce abroad is dominant. These processes have directly affected the state of pension provision, causing a decrease in USC revenues to the PFU budget, which, in turn, has negatively impacted the possibilities of financing all types of pension payments.

In addition to the constant reduction in the working-age population, an important problem of the present is the practice of early retirement for certain categories of citizens. This reduces the duration of the insurance contribution payment period and additionally burdens the solidarity pension provision system. As a consequence, a deficit of financial resources for pension payments is formed, necessitating constant subsidies from the State Budget of Ukraine to cover pensions, supplements, and other social payments. Moreover, this practice

in Ukraine remains widespread, and discussions regarding its revision are virtually not being conducted, which indicates the need for profound reform of the national pension system.

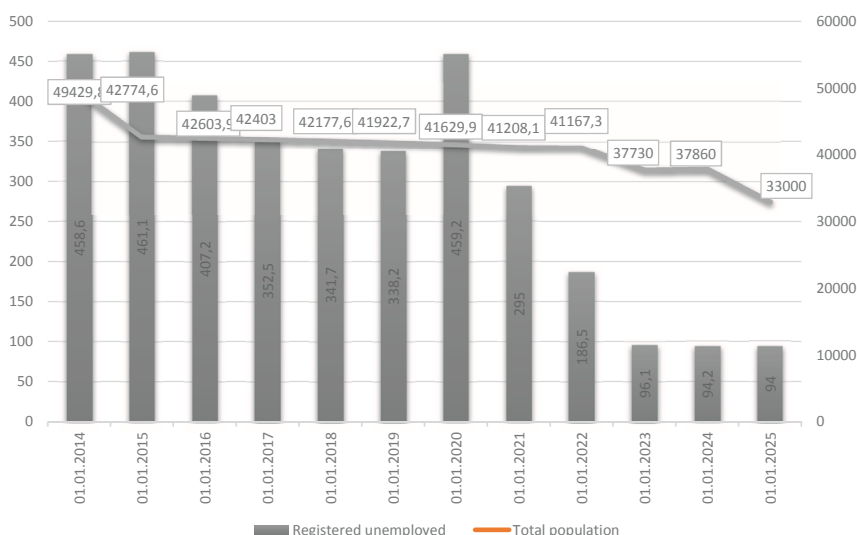


Fig. 2. Dynamics of the number of unemployed and the population as a whole in Ukraine between 2014-2024.

Consequently, we have decided that the next logical step is to assess the pension payments in Ukraine (see Table 2).

Table 2.

The number of pensioners and average amount of pension payments as of 01.01.2023 and 01.01.2025

Pension amount, UAH	01.01.2023 p.			01.01.2024 p.			01.01.2025 p.		
	Number of pensioners of all categories	Average pension size, UAH	Specific weight in total,	Number of pensioners of all categories	Average pension size, UAH	Specific weight in total,	Number of pensioners of all categories	Average pension size, UAH	Specific weight in total,
			%			%			%
Up to 2	1 448 006	1 896,37	13,4	64 601	1 234,09	0,6	-	-	-
From 2001 to 3,000	3 853 231	2 467,45	35,6	3 058 670	2 618,74	29,1	2 684 075	2 759,86	25,9
From 3,001 to 4,000	2 303 393	3 463,73	21,2	2 234 970	3 546,54	21,3	1 817 897	3 544,23	17,6
From 4,001 to 5,000	1 056 781	4 445,39	9,7	1 567 785	4 406,45	14,9	1 943 939	4 414,06	18,8
From 5,001 to 10,000	1 668 310	6 713,86	15,4	2 439 503	6 841,75	23,2	2 636 007	6 844,95	25,5
Over 10,000	511 396	13 965,82	4,7	1 151 008	14 786,47	10,9	1 261 712	15 379,97	12,2

Source: compiled based on [3; 5; 6; 7].

As of 01.01.2025, the largest share of pensioners – 25.9% – received a pension in the amount of up to 3,000 UAH, while 12.2% received payments with an average indicator of 15,379.97 UAH. Such disparity creates substantial imbalances in the incomes of pension recipients, which negatively affects not only the purchasing power of the overwhelming majority of retirees and their ability to satisfy basic life needs, but also the overall welfare level of this social group. As evident from the statistical data, during the period under study, the number of recipients of the lowest pension amounts is decreasing, while the number of retirees receiving from 5,001 UAH to 10,000 UAH is increasing. For comparison, as of 01.01.2023, the situation appeared somewhat different: 13.4% of pensioners received the lowest average pension of up to 2,000 UAH, while only 4.7% of persons received payments exceeding 10,000 UAH.

Thus, in quantitative terms, the level of pension provision as of the beginning of 2025 demonstrates positive dynamics. Concurrently, pension payments, even with such growth, often cannot satisfy the basic needs in the context of the life activities of pension recipients. This is an extremely negative tendency that confirms that the majority of them are living below the poverty line, as Figure 3 confirms.

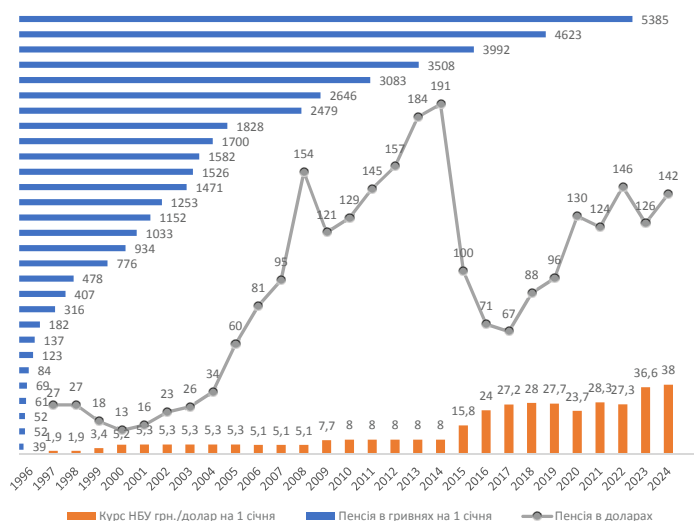


Fig. 3. Dynamics of the average pension in Ukraine between 1996-2024 (shown in UAH and US dollars)

Source: constructed based on [9].

Figure 3 clearly shows that the growth of pension payments during the period under study is a natural process influenced by inflationary factors, economic changes, and adjustments to the state's social policy priorities. The fact is that the systematic increase in pensions over the past decade does not prove an improvement in the welfare level of pensioners. The 2024 indicators, in dollar equivalent, do not reach the level of 2011. This is an obvious sign of deterioration in the material condition of this social group, particularly considering the highest average pension size recorded in 2014 – 191 US dollars.

However, it is incorrect to assert the critical nature of the situation. In 2022, the first year of full-scale war, the average pension size was 146 US dollars, and in 2024, it was

142 US dollars. This clearly demonstrates the effectiveness of financial policy in protecting pensioners during military challenges and threats.

Thus, the study of the state of pension provision in Ukraine allows one to conclude that changes in this sphere are inevitable. First and foremost, the policy of financing the PFU deficit and the search for new sources of budget replenishment require reform. The conditions for retirement also require revision, particularly retirement age and insurance period, as well as the significant gap between minimum and maximum pension payment amounts. As researchers aptly note, frequent changes in pension and tax legislation in Ukraine necessitate offering citizens new instruments for accumulating pension payments and social protection, thereby increasing the level of trust in them [10; 11].

It is a widely acknowledged fact that the three-tier pension system in Ukraine is inefficient: only the first-tier functions and the third-tier has never been fully implemented. The search for ways to further reform the domestic pension system is now imperative. This must take into account the real problems of its functioning. We have identified the following key problematic aspects:

- challenges and threats caused by Russia's full-scale invasion and the imposition of martial law;
- critical level of emigration, especially among the working-age population;
- aggravation of the demographic situation, manifested in record-low birth rates and high mortality rates;
- internal migration of economically active citizens from territories affected by hostilities or occupied;
- the tendency of «nation aging» – growth in the number of elderly people and reduction in the number of young populations;
- inefficiency of the current pension system, which did not ensure an adequate standard of living for pensioners even before the outbreak of war;
- chronic deficit of the PFU budget and its systematic coverage at the expense of state appropriations;
- evasion of full USC payment through the widespread practice of paying salaries «in envelopes»;
- presence of a significant proportion of pensioners who exercise the right to early retirement, as well as the category of so-called «VIP pensioners» with excessively high payments.

It should be emphasized that the main problems that constantly accompany the national pension system have intensified after Russia's full-scale invasion, generating new challenges and threats for which it is often difficult to find algorithmic solutions.

Simultaneously, in our opinion, the implementation of a number of pragmatic measures can create a foundation for improving the functioning of the pension system. The following key measures must be emphasised:

- further stimulation of enterprise relocation from territories where hostilities are being conducted or which are occupied, which will contribute to job creation, involvement of internally displaced persons in economic activity, and growth of USC revenues to the Pension Fund of Ukraine;
- conducting economic-mathematical calculations regarding possibilities of raising the retirement age and assessing the impact of such increase on the duration and quality of life of Ukrainians;
- strengthening responsibility not only for paying salaries «in envelopes» but also for receiving them, which will directly affect the volume of USC revenues;
- ensuring full-fledged functioning of the national pension system with particular

emphasis on the accumulative system of compulsory state pension insurance, which takes into account contemporary demographic and economic challenges;

- activation of international cooperation through participation in grant projects aimed at financing pension payments to persons who have become disabled as a result of military actions;
- search for financial and non-financial sources for creating an extra-budgetary targeted fund for assistance to war invalids, the funds of which will be directed toward their pension provision;
- conducting educational campaigns by the Pension Fund of Ukraine authorities and non-state pension institutions to increase the level of «pension culture» among citizens and motivation for additional pension savings;
- utilization of best foreign practices in the sphere of pension provision and their adaptation to Ukrainian conditions to enhance social justice.

It is our conviction that tactical measures, such as addressing the deficit of the Pension Fund of Ukraine or increasing pension payments to persons with disabilities, are inadequate for resolving the global problems raised in the study. The following system steps have been identified as being necessary: firstly, the burden on the solidarity system must be reduced; secondly, favourable conditions must be created for the development of the accumulative pension provision system and non-state pension insurance; and thirdly, measures must be taken to prevent further reduction in the number of the economically active population. The implementation of these initiatives through legislative changes and practical programmes will contribute to the establishment of social justice and enhancement of citizens' trust in state and non-state pension institutions.

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