

Social Security System: Financial Aspect of Functioning

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Abstract— Paper considers the task of improvement of the social security system, in particular in the context of financial provision of its implementation, taking into account the current problems and the urgent necessity for their solution. The purpose of the paper is to find out the conditions and peculiarities of financial support for the implementation of social protection measures in Ukraine, identify problems in this area and find ways to solve them, considering foreign experience. The object of the study is the social security system of the population in Ukraine. Methods such as analysis and synthesis, comparative analysis, comparison and grouping, methods of mathematical statistics, modeling and dynamical comparisons were used in the paper. Based on this, it's proposed to select a group of indicators to determine the social effectiveness of the social protection system, namely: the cost of the minimum consumer basket; living wage level; the size of the minimum pension; the size of the minimum wage. On their basis, the socio-economic normal of the social security system is proposed and the indices of this normal is calculated. According to the results of the analysis of data for 2014-2018, we came to the conclusion that there is an imbalance in the management of the social security system due to non-compliance with the requirements of the normal. The results calculated may be used in the decision-making while improving the existing social security system in Ukraine.

Keywords— *social security system, state social standards, cost of the minimum consumer basket, living wage level, socio-economic normal*

I. INTRODUCTION

Implementation of a well-balanced social policy is one of the main functions of the State, since its task is to create the necessary conditions for the progressive evolution of human potential of the country as the most valuable asset. In the implementation of social policy measures, the state security system occupies an important place due to the instability of the functioning of a modern society, the influence of domestic and world financial and economic trends. The situation in Ukraine is aggravated by the prolonged escalation of the military conflict in the eastern part of the country and partial occupation of territory, which led to a rapid decline in the standard of living of citizens due to a violation of the

established rhythm of the functioning of the economy, socio-economic relations, and, consequently, lowering the employment rate of the population, increasing number of low-income families, migrants, invalids, other categories of citizens who require various programs of state social protection. Under such conditions, the primary task of the State is to create conditions for the protection of its citizens by solving the problems of financial provision of the social security system of the population. The main objective of social security system is to create the welfare of citizens, by satisfying their basic needs, creating opportunities for the realization of intellectual and labor potential, and achieving personal goals. The realization of this goal is impossible without the formation of an effective financial policy in the system of social protection and the search for sources of financing social programs. The problem of forming an effective social security system and its effective financial support, in particular in terms of financial decentralization, is in scientific interests of many worldwide known and Ukrainian scholars.

The founders of social welfare systems were world-famous scholars and practitioners, among them: J. K. Galbraith, K. G. Myrdal, L. Erhard, and R. Owen. In his well-known work, *The Affluent Society* [1], John K. Galbraith outlined the ways to overcome the poverty in public sector in USA by transitioning to a public investment economy, which funding social programs. Nobel laureate, Karl G. Myrdal known as a father-figure of social policy, contributed to social democratic policy worldwide [2]. Being the first new type liberal reformer, L. Erhard carried out an economic reconstruction in postwar Germany and received the title "father of economic miracle". He implemented the strategy of "social market economy", in which the focus was on the model of preserving economic freedom and financial stability. This model provides a fairly high level and quality of life for most of the population and implements a wide range of programs for their social protection [3].

Depending on the criteria on which the social security system is based, there are three models of the social state and, therefore, of social policy in the world social practice, which were proposed by G.Esping-Andersen [4]:

- Liberal (or Anglo-Saxon) model, which has become widespread in the United States, Canada, UK, Australia, Japan. It provides only the State's obligation to the most vulnerable groups of the population, and in regard of ensuring personal well-being it is a personal obligation of each and every citizen. Within the framework of this model, social support is provided at the expense of developed insurance systems. The problems that arise between wage workers and employers over social protection are mainly solved through trade unions.
- Continental-European (conservative) model exists in Germany, Austria, Italy, France and the Netherlands. The model is based on joint efforts in solving social problems, when the responsibility of a particular employer is replaced by a system of collective responsibility under the control of the State with well-defined legal regulation. A prerequisite for this model is a highly organized society, which is the result of political commitment to the principles of well-being. A characteristic feature of this model is the "self-government" of insurance funds, which are collectively owned by enterprises' owners and trade unions, which are representing the interests of employees.
- Scandinavian (social-democratic) model is typical for Sweden, Norway, Finland, Denmark and Switzerland. In this model, the leading role in the social security system belongs to the State, which provides basic social security to all citizens at the expense of state and local budgets, which are formed at the expense of a progressive taxation system. This model of social policy defines the social protection as a task for society as a whole, not for an individual citizen. The economic principles of this model are efficient production, full employment, strong unions of employers and trade unions, clear legal regulation of contractual relations, high level of redistribution of social product, etc. The State, despite its leading role in the social security system, also contributes to the active functioning of various non-state social services. The effectiveness of this model is achieved in the presence of strong and decentralized management.

Thus, world market economic systems are aimed at the accumulation of capital, and their social orientation involves the inclusion in its management system of the mechanism of social protection of the population, while ensuring the level of well-being and a set of social guarantees. The world's scientific community is in agreement about the urgent need for existence of the social security system, but the practical implementation of such a system in a particular country, especially in terms of funding and financial support, is always faced with problems. Ukraine is no exception, so our scholars are actively exploring these issues. The Ukrainian model of social security system contains a legally established list of social standards and norms, a certain system of expenditures on social protection and social security, but remains amorphous and controversial. Ukrainian scientists and practitioners are currently at work on problems of forming an effective social security system and its effective financial provision, in particular in the direction of financial decentralization, among them: L. Ilchuk [5], E. Libanova [6],

O. Makarova [7], D. Kovalevych [8], M. Kropyvnytskyi [9], M. Kudinova and V. Varuk [10], etc. There are methodical and applied aspects of human development, implementation of social policy, elaboration and estimation of social programs, implementation of progressive world experience of social protection in the Ukrainian economy proposed in their studies. However, due to the lack of a well-defined concept, strategies and priorities, the necessary financial and economic base, excessive politicization of Ukrainian society, many social programs are declarative and populist.

Not reducing the value of the researches carried out in this area, it should be noted that the problem of implementing the social policy of the State in the direction of ensuring the social protection of its citizens is and will continue to be relevant, as the changing environment of the market economy also changes the public life, forms new challenges and tasks, that cause the various groups of the population to be exposed to social risks. This requires improvement of the social security system, in particular in the context of the financial provision of its implementation, taking into account current problems and the necessity for their solution.

II. LEGISLATIVE, FINANCIAL AND STATISTICAL BACKGROUND

In the general sense, social protection implies a set of measures to ensure a decent material and social status of citizens in the country. Social protection of the population is an integral system, which is closely connected with the economic, social, political, organizational, legal subsystems, and, therefore, it forms the basis of human evolution. The principles of social security system are defined in Article 46 of the Constitution of Ukraine, which states that citizens have the right to social protection. This right is guaranteed by compulsory state social insurance [11]. In legal terms, social security of the population is a constitutional and legislative provision of the entire complex of human rights and freedoms in specific socio-economic conditions. Thus, social protection is a definite activity of a number of state institutions aimed at the realization of these rights and freedoms. This activity is characterized by procedurality, purposefulness and variability of the forms of its realization. The main purpose of social security system is the protection of the person from various types of socio-economic risks in order to create conditions for livelihoods of man in a social, cultural and economic environment.

The social security is an open system; it consists of some components, such as: social insurance (medical, pension, unemployment, accident, temporary disability); social services; social assistance; social guarantees. These components, in their integrity, are aimed at providing the population with the necessary material goods and services, as well as their consumption at an acceptable level under the existing socio-economic conditions. Experience of the formation, functioning and development of social protection in different countries testifies that social security system is based on the high efficiency of the national economy: the economy works – the budget is filled – social funds are formed – social protection of citizens is provided – conditions for human development are created.

Financing social measures and programs is one of the main items of the budget expenditures of the State and an instrument for the formation of a socially oriented economy. For a long time in Ukraine and worldwide, there are disputes

over the definition of categories of citizens who are entitled to social protection, and also about the amount of funding of social programs. The illusions of the welfare state with the maximum level of state support for social programs recently have been replaced by a pragmatic concept of the inability of even the richest budget to meet all social problems without a threat of the economic crisis. However, the State should provide the minimum level of social protection for its citizens [10].

According to the Budget Code of Ukraine, there are such sources of financing social security system as the state budget and the local budgets [9]. Budget sources play the main role in financing social security system. Concurrently, it's very important to involve in the financing of social security the extrabudgetary sources, which include targeted extrabudgetary funds, funds of business entities and non-profit organizations. The financing of the social security system at the expense of the state budget is carried out in such ways as: planning of expenditures on social protection and social security directly in the state budget; directing intergovernmental transfers to social protection and social security from the state budget to local budgets (grants and subventions).

The social security system has close links with such social spheres as healthcare, education, spiritual and physical development, since in many ways the ability of a person to self-sufficiency and creating conditions for self-security during a lifetime are determined by the tendencies of financing these spheres by the State. Table I provides an analysis of social spending from the state budget of Ukraine in 2014-2018.

TABLE I. EXPENDITURES OF THE STATE BUDGET OF UKRAINE FOR SOCIAL SPENDING IN 2014-2018 (UAH MILLION)

Years	Indicators				
	Health care	Spiritual and physical development	Edu-cation	Social protection and social security (funds in total)	Social protection of pensioners in total funds for social protection and social security
2014	10580.8	4872.4	28677.9	80558.2	75813.9
%	2.46	1.13	6.67	18.72	17.62
2015	11450.4	6619.2	30185.7	103700.9	94811.6
%	1.98	1.15	5.23	17.98	16.43
2016	12456.3	4958.9	34825.4	151965.5	142586.2
%	1.82	0.72	5.09	22.19	20.82
2017	16729.1	7898.1	41140.2	144478.3	133458.6
%	1.99	0.94	4.90	17.22	15.90
2018	22617.9	10107.1	44323.4	163865.6	150091.0
%	2.29	1.03	4.50	16.62	15.22

^a. Source: compiled by the authors, based on [12]

Analysis of the expenditures of the state budget of Ukraine according to the functional classification in 2014-2018 has shown that from the total volume of expenditures of social orientation, the largest share of them falls on social protection and social security (16.62%), which in absolute terms in 2018 was 163 UAH billion. The lion's share of these expenditures (15.22%) belongs to the social protection of

pensioners. The growth rate of the share of expenditures on social protection and social security in the total amount of social expenditures compared to 2014 amounted to 72.92%. It is easy to see that the entire budget expenditures, shown by table I, are characterized by a tendency to decrease: the share of health care expenditures has decreased by 0.17%, on spiritual and physical development – by 0.1%, on education – by 2.17%, on social protection and social security – 2.1%. This is due to the fact, that Ukraine is experiencing sharp political and economic crisis, and a depressed economy makes it impossible to maintain proper social standards for the vast majority of the population. The main task in such conditions is to protect some of the most vulnerable categories of the population, which in turn requires financial support.

Concurrently, we believe that the sphere of education, health care, spiritual and physical development are important tools in creating the foundation of self-sufficiency, forming the responsibility of people for their own lives. An educated, physically and mentally healthy, spiritually developed person has a much greater chance to arrange his or her own so as to maximally protect themselves from the onset of possible social risks, thereby reducing the burden on the state budget in the cost of social protection. The share of spending on social protection in Ukraine's GDP was always quite high, which typifies most developed countries of the world of which we're taking an example. According to the State Statistics Service of Ukraine in 2017, the total expenditures on social protection of the population amounted to 18.2% of the total GDP. Consolidated budget expenditures on social protection and social security of the population amounted to 9.6% of GDP [13].

According to the EU statistical office, the most items of national expenditures in the EU – “social protection” – is the most important and amount to 18.8% of GDP, healthcare (7.0%), education (4.6%) etc. According to Eurostat, the share of social protection in public expenditures varies in different EU Member States from less than 10% of GDP in Ireland (9.5%) to almost a quarter in Finland (24.9%). Six Member States, such as, Finland, France, Denmark, Italy, Austria and Sweden spend at least 20% of GDP on social protection, while Ireland, Lithuania, Malta, Latvia, Romania, the Czech Republic and Bulgaria – less than 13% of GDP [14]. The high share of social expenditures in GDP can't always be seen as a sign of the high level of social protection. This thesis clearly describes the situation with the financial provision of social protection in Ukraine. Despite the high share of social spending in GDP, their absolute size is rather low compared to EU countries, the OECD (Organization for Economic Cooperation and Development) and some countries of CIS [15]. Along with low social spending, there are many problems in financial provision of social protection in Ukraine that are related to the structure of financial sources and the effectiveness of financial provision of social protection. Expenditures for a social security system occupy a significant part in budget expenditures, while the sphere of financing social expenditures is the most unregulated [8].

The analysis of expenditures by the functional classification of expenditures (table II) showed that budget expenditures on social protection and social security grew during 2016-2018.

TABLE II. EXPENDITURES FROM THE STATE BUDGET FOR SOCIAL PROTECTION BY FUNCTIONAL CLASSIFICATION OF EXPENDITURES AND CREDITING IN 2016-2018

Indicators	Years			Growth rate 2018/ 2016,%
	2016	2017	2018	
Social protection and social security	151961.47	144478.88	163865.59	107.8
Social protection in case of incapacity	1472.56	2062.08	1731.06	117.6
Social protection of pensioners	142586.23	133458.63	150090.99	105.2
Social protection of war and labor veterans	1293.68	1452.21	1418.83	109.7
Social protection of the family, children and youth	42.22	72.93	113.06	2.7 times
Assistance in solving housing issues	1351.34	1633.07	3830.48	2.8 times
Social protection of other categories	5107.18	5652.97	6233.31	122.0
Fundamental and applied research in the field of social protection	16.26	21.52	31.57	194.1
Other activities in the field of social protection	51.07	125.46	416.28	8 times

^b. Source: compiled by the authors, based on [16]

According to table II, budget expenditures on social protection and social security were directed at financing social protection in the case of incapacity (the growth rate in 2018, compared to 2016 was 117.6%); social protection of pensioners (105,2%); war and labor veterans (109.7%); families, children and youth (2.7 times); assistance in solving the housing problem (2.8 times); social protection of other categories of the population (122%); fundamental and applied research and development in the field of social protection (194.1%); other activities in the field of social protection (8 times). During 2000-2017 in Ukraine, the situation with the size of the main state social standards had improved. However, they remain low in relation to the main recommendations of the International Labor Organization and the social standards. At the same time, the share of wage earners who receive wages below the average in Ukraine is about 70% of all employees. Due to the low size of both the minimum and the average pension in Ukraine, more than 80% of pensioners are classified as poor. This fact indicates an insufficient level of financial provision for social security system [15]. The distribution of expenditures on social security system between the state budget and local budgets in the structure of Consolidated Budget (CB) of Ukraine during 2014-2018 is presented in table III. As can be seen from table III, more than half of the Consolidated Budget expenditures for social protection and social security in Ukraine are expenditures from the state budget, even though this share tends to decrease (52.9% in 2018 versus 58.3% in 2014). At the same time, the share of local budget expenditures for these purposes increased during the researched period and in 2018 it reached 47% of the total consolidated budget expenditures for social protection and social security. With such proportion of the distribution of funding for the social security system, we can conclude that a certain level of

decentralization of the budget financing of social protection was achieved.

TABLE III. EXPENDITURES OF STATE AND LOCAL BUDGETS ON SOCIAL PROTECTION IN THE STRUCTURE OF CONSOLIDATED BUDGET OF UKRAINE, UAH MILLION

Years	Expenditures on social protection					
	State budget	% of CB	Local budgets	% of CB	Consolidated Budget	Total %
2014	80558.2	58.3	57446.5	41.6	138004.7	100
%	18.72	-	26.78	-	26.38	-
2015	103700.9	58.8	72638.9	41.2	176339.8	100
%	17.98	-	26.23	-	25.94	-
2016	151965.5	58.8	106365.2	41.2	258330.7	100
%	22.19	-	30.3	-	30.92	-
2017	144478.3	50.6	141282.9	49.4	285761.2	100
%	17.22	-	28.8	-	27.04	-
2018	163865.6	52.9	145498.0	47.0	309363.6	100
%	16.62	-	25.5	-	24.75	-

^c. Source: compiled by the authors, based on [16],[17]

However, this indicator does not allow assessing the actual level of decentralization of this sphere and requires a separate, detailed analysis of the distribution of functions, since part of the current functions is funded through subsidies and other transfers from the state budget [18].

III. DESCRIPTION OF PROBLEM

Despite the impressive size and growth trend of social expenditures, many social programs in Ukraine are funded unsatisfactorily. Some types of social assistance were not financed at all in some years, or their size diminished, as the state budget of Ukraine did not have enough funds (for example, childbirth assistance, etc.). The dispersion of public funds and the difficult economic situation in the country directly affect the size of the main state social standards (living wage, minimum pension, minimum wage). The dynamics of these indicators is shown in table IV.

TABLE IV. THE DYNAMICS OF THE SIZE OF THE MAIN STATE SOCIAL STANDARDS IN 2014-2018

Indicators	Years				
	2014	2015	2016	2017	2018
Minimum pension	949	949	1074	1295	1409
Minimum wage	1218	1271	1438	3200	3723
Living wage level	1176	1227	1376	1604	1745
Minimum consumer basket	1052	1129	1169	1446	1745
Average monthly salary	3470	5230	6475	7105	8867

^d. Source: compiled by the authors, based on [13]

From the table IV, we can see that the size of the minimum pension in Ukraine is much smaller than the cost of the minimum consumer basket, on the basis of which the living wage is determined. Such an imbalance testifies to the extremely low level of social protection of the population of the country. Therefore, there is an objective need to determine the limits of the socio-economic normal of the social security system in Ukraine. Determining the parameters of such normal will minimize the impact of negative processes in the social sphere and, in the future, will ensure the possibility of highly effective management of social processes based on the prediction of macroeconomic indicators. In our opinion, there are such indicators of the

social effectiveness of the social security system: the cost of the minimum consumer basket (MCB); living wage level (LWL); the size of the minimum pension (MP); the size of the minimum wage (MW). Thus, the socio-economic normal of the social security system will look like this “(1)”:

$$MB \geq MP \geq LWL \geq MCB \quad (1)$$

The growth rate of system-based indicators should not be less than resulting indicators (tables V and VI).

TABLE V. SIGNIFICANCE OF INDICATORS OF SOCIAL EFFICIENCY OF SOCIAL SECURITY SYSTEM

Years	Indicators			
	Minimum wage	Minimum pension	Living wage level	Minimum consumer basket
Absolute values, UAH				
2014	1218	949	1176	1052
2015	1271	949	1227	1129
2016	1438	1074	1376	1169
2017	3200	1295	1604	1446
2018	3723	1409	1745	1524
Chain growth rates, %				
2015	1.04	-	1.04	1.07
2016	1.18	1.13	1.12	1.04
2017	2.22	1.20	1.17	1.20
2018	1.16	1.09	1.09	1.05

TABLE VI. THE STATISTICAL MATRIX OF DEPENDENCE OF INDICES OF THE NORMAL

Indicators	Minimum wage	Minimum pension	Living wage level	Minimum consumer basket
Minimum wage	1	$I \leq 1$	$I \leq 1$	$I \leq 1$
Minimum pension	$I \geq 1$	1	$I \leq 1$	$I \leq 1$
Living wage level	$I \geq 1$	$I \geq 1$	1	$I \leq 1$
Minimum consumer basket	$I \geq 1$	$I \geq 1$	$I \geq 1$	1

Next, we will analyze the status of the social security system of Ukraine by the defined limits of the normal's oscillations (table VII).

TABLE VII. CALCULATION OF VALUES OF INDICES OF THE NORMAL OF THE SOCIAL EFFICIENCY OF THE SOCIAL SECURITY SYSTEM

Years	Indicators			
	Minimum wage	Minimum pension	Living wage level	Minimum consumer basket
2014	MW	MP	LWL	MCB
MW	1	0.78	0.96	0.86
MP	1.28	1	0.8	1.1*
LWL	1.04	0.8*	1	0.89
MCB	1.16	0.9*	1.1	1
2015-17	...			
2018	MW	MP	LWL	MCB
MW	1	0.4	0.5	0.4
MP	2.6	1	1.23*	1.08*
LWL	2.1	0.8*	1	0.87
MCB	2.4	0.92*	1.1	1

* The data indicated like this* do not correspond to the established normal for efficient management of the social security system of Ukraine

According to the results of data analysis for 2014 and 2018 (table VII), we came to the conclusion that there is an imbalance in the management of the social security system due to non-compliance with the requirements of the normal.

IV. RESULTS AND DISCUSSION

Recently, certain steps have been taken to promote the reform of the social security system of Ukraine, in particular in terms of its financial provision. The concept of the reform of local government in Ukraine states that accessibility and proper quality of public services must be ensured by the optimal distribution of authority between local governments and executive offices of the State at different levels of the administrative-territorial system on the principles of subsidiarity and decentralization. Among the main functions of local government there is an obligation to provide services for social protection of the population (payment of pensions, subsidies, compensations, provision of privileges) [19].

Due to the implementation of the reform of intergovernmental budget relations, all local budgets are independent, which is ensured by consolidating the relevant sources of budget revenues, the right of local authorities to determine the directions of budget funds spending according to the legislation of Ukraine, the right of local councils to independently review and approve local budgets. Full budgetary autonomy and financial independence of local budgets are ensured at the legislative level. The Ministry of Finance informs local authorities only about the peculiarities of compilation of calculations to draft budgets for the planned budget year, as well as calculations of the forecast amounts of intergovernmental transfers and the methodology for their determination [20].

The functioning of the social security system in Ukraine will be facilitated by the use of foreign experience of the distribution of functions and managerial rights, in particular in the aspect of financing, between governing offices at various hierarchical levels of the social security system. Over the past few years, reforms of social security systems have taken place in most developed countries, the essence of which is to reduce the share of public resources in general social spending and to expand state compulsory and voluntary private social insurance

The most adequate for market socio-economic conditions is the reform of the social security system in the direction of growth of the share of insurance relationships in it. Such relationships provide a distribution of material responsibility for compensation and minimization of social risks to the maximum possible number of participants. However, the implementation of this line will not have rapid results due to the influence of some objective factors: significant amount of deficit of the Pension Fund of Ukraine, the substantial range of benefits, the difficult demographic situation, the stagnation of the economy; and such subjective factor as low public trust in financial institutions. In the sense of realization of the tasks of social protection in most countries there's an effective tool, namely, the creation of conditions for increasing the volume of private financing on a cumulative basis through the operation of non-state social insurance funds.

Many social programs were transferred to the level of local budgets, which, meanwhile, are chronically scarce and

limited in their own revenues, so their social payments are financed mainly through subventions.

But it's extremely important to continue the reform of the financial provision of the social security system, began in Ukraine, by decentralizing it. Social institutions in the united territorial communities, being in direct communication with the recipients of social services, knowing the needs of the citizens of the community, can most quickly respond to arising social risks. They should be perceived as the main institute for the provision of public social services. The implementation of social protection of the population at the appropriate hierarchical levels is not always consistent with the specific and socio-economic interests of the community, its needs to provide the necessary social services, and thus the budgetary resources for providing them are inadequate. Due mainly to the centralized distribution of financial resources, the effectiveness of both national social programs, financed through social subvention, and local ones, which lack the funds for implementation, is decreasing. Therefore, it is important to have a clear distribution of social programs between the state and the local budgets, taking into account the specific social goals and interests of local communities.

In addition, emphasis should be placed on reforming the social security system in Ukraine in order to bring its basic conditions closer to the relevant international norms and standards, enshrined in the International Labor Organization and European Union acts, which, when relevant social risks arise, will guarantee a decent life for every citizen, despite age, material wealth, etc.

V. CONCLUSION

The current trends in financial security of social security system in Ukraine do not correspond to the challenges posed by the current socio-economic and demographic situation, which negatively affects both the level of funding and its effectiveness. Formation of an effective system of social protection in Ukraine is possible only if structural changes are implemented, which should reduce social benefits and preferences, increase targeting of social benefits; reduce the number of transfers in kind and others.

At the same time, in order to change any system, it is necessary to change the principles of its functioning.

With regard to social protection of the population, the priorities should be:

- the change of funding principles with an orientation on expansion of insurance relationships;
- an increase in the share of private funds on a cumulative basis;
- the implementation of regional programs for promoting entrepreneurship development and corporate social responsibility;
- the financing of social programs with the coordination of needs and interests of local communities, etc.

Such measures will contribute to eliminating imbalances in the socio-economic normal of social security system, to bring the social policy of Ukraine closer to European standards of social development and to ensure the effective management of social protection processes.

Further research by the team of authors will focus on improving the mechanism of financial flow management in the system of social protection of the population in order to eliminate the identified imbalances, as well as expanding the list of indicators for assessing the level of effectiveness of the social security system in Ukraine.

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