

## THE CONCEPT OF ASSESSING THE ADEQUACY OF PENSION PROVISIONS

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**Key words:** *pension provision, pension system, adequacy of pension payments, replacement rate, life cycle model.*

*An article devoted to the study of the methodological basis for assessing the adequacy of pension provision. Based on the analysis of the literature, the definition of pension adequacy is provided and it is revealed that the adequacy of the pension system should be considered as multi-dimensional. The relevance of this study is determined to the consideration of issues related to the concepts of pension adequacy and the development of an appropriate indicator for measuring the adequacy and effectiveness of pension provision.*

*Pension provision is the most important direction of social policy of the government. Nowadays the governments around the world are making changes aiming to increasing the financial stability and level of adequacy of the pension provision. But so far these changes are not able to reduce the impact of major problems on the pension system in the middle and long run. This problem becomes rather acute because it increases the tax burden on the economy and forces to unreasonably reduce the indexation of pensions. To address macroeconomic challenges in order to ensure the financial sustainability and adequacy of the pension system, an approach must be developed that will be able to operate smoothly in volatile economic and demographic situations.*

*The article notes two approaches to assessing the adequacy of pension payments, one based on targeted replacement rates and the other based on budgeting, and identifies three components of measuring pension adequacy, such as poverty protection, consumption reduction and the difference in pension adequacy between men and women. The first component of the measurement characterizes the extent to which the pension system protects the elderly population from poverty, while the other component assesses the level of income during the retirement period.*

*It is determined that the first two components of the measurement play a major role in assessing the adequacy of pensions, while the third component of the measurement plays only a secondary role because it considers disparities between men's and women's pension provisions in the context of the first two components. According to the correlation analysis the following was revealed that the first and second components of measuring pension adequacy can be assessed jointly, while the third component of measurement should be assessed separately.*

*Taking into account the fact that the level of substitution calculated on average indicators may be an insufficient indicator of pension adequacy, the pension system was considered from two perspectives: macro-scale and micro-scale.*

*An alternative indicator of measuring pension adequacy, namely a simple synthetic indicator of pension adequacy, was developed using two income indicators that measure the smoothing of consumption, such as the aggregate replacement rate calculated using the average salary and average pension and relative median income.*

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