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Innovation in the higher economy and finance education: developing a new course of 'Social security and pension provision'

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Abstract

The issue of the essence of the efficient investment of pension savings - young but already fledgling institutional investors - pension funds (APF) of the Republic of Kazakhstan and its reflection in the higher education in economy and finance is addressed in this paper. Because, this issue is not only a concern of the Government of Kazakhstan and the financial market players (including the employees and the top management of pension funds), but is also a concern of the academicians, who are responsible for the educating the specialists for the above mentioned sector. Main objective of this study is to discuss the outline of developing the educational and methodological complex for a new course of 'Social security and pension provision' that mainly covers the examination and the teaching of the problems of the pension provision with global perspective and under existing economic and social situation of country. The authors believe that, introducing such a new course as an elective discipline will improve the quality of higher financial education of Kazakhstan, since, the issue of social security and pensions was not handled as an independent course before. The new course 'Social security and pension provision in the case of Kazakhstan' will help - students to develop skills and knowledge which have critical importance for the future specialist of pension funds as this course will provide students with the theoretical tools and cases from the global practical experiences. Thus, this new course will enable them to interpret domestic social security and pension's reforms as well as to evaluate new technology and latest achievement for modernization of pension model of Republic of Kazakhstan.

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1. Introduction

The transition in Kazakhstan from command to market economy in the early 90's of the last century began to form new economic, legal and social foundations of society. One of the important steps of modernization of the economy was connected with the transition from solidarity pension system to accumulative. In 1998 Kazakhstan, one of the first in the CIS, started transition from distribution pension provision system to accumulative model step by step. Today, the pension system reform issues in the Republic of Kazakhstan are gaining particular actuality as are connected with the creation of economic and social prerequisites of effective national economic development and improvement of welfare of society.

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Standards of domestic pension system acquire new characteristics that increase the attention to issues of improvement the efficiency of functioning of pension funds and result in higher interest to applied economic disciplines: financial management, stock market analysis and etc. At the same time, emphasizes attention the absence of special discipline in local universities, devoted to highlight issues of new pension system and its effective functioning in Kazakhstan in the context of globalization. By this reason, there is a growing need for the systematical development of theoretical and methodological foundations on studying pension system reform in a context of Kazakhstan's economy modernization. The development of educational methodological package of a discipline on a particular topic will beyond doubt improve the quality of higher education in economy and finance and reinforce potential effect by applying recommendations of corresponding theories to practice.

2. Discussion

At the given stage the hot debates about the future pension provision and in which directions it is necessary to improve pension system of the various countries have been continuing in the scientific literature. Opinions are divided in scientific community. In some studies scientists assume that the states should continue to pursue mandatory retirement policy because the population is not inclined to think of tomorrow and approaching old age. (Andrews, Emily S., 2006) Other researches, on the contrary, stand up for radical change of a paradigm of pension provision. (Nazarov V.) In the given researches scientists focus society's attention on the following moments: erroneously calculate life expectancy and mistaken belief that people cannot predict adequately the future and an old age (Oeppen J., Vaupel J. W., 2002).

In the modern period in the majority of the countries distribution, accumulative or mixed (consisting of first two) models of pension system are applied. The principle of solidarity exists in distribution system when young generation through insurance contributions ensures the pension to the older generation of retirees. The accumulative pension system as the name suggests is based on a principle of accumulation where every working person by transferring part of the income should ensure his old age. The accumulative model consists of several levels: in the main they are the mandatory pension contributions (when the government obliges the working population to transfer the certain percentage of salary) and voluntary contributions. On the background of the present problems in various models of pension provision such as aging population, inefficient investment of pension savings, low financial literacy of the population and opacity of pension system research in the given area are very important. In Kazakhstan the given topic has been widely enough studying, especially in light of recent events when the state has headed towards social modernization (the Key-note speech by President of Kazakhstan Nursultan Nazarbayev, 2012) That's why the absence at the Kazakhstani universities of a special course for the students enrolling on economic specialties, such as "Economy", "Finance" and "Management" does surprise. In Semey State University in 2007 was attempted to introduce the course "Pension provision" on the basis of K.M. Tulepbaev's doctoral thesis materials (2007). But, unfortunately, this initiative was not widely accepted, and that course was more concerned on the legal aspects of pension provision. All the more, the practice of conducting the course «the Basis of pension provision» within the framework of a course «Social security law» has been existing in Kazakhstan for several decades, but for the students of law specialties. For a specific period the given practice was justified by existence of distribution model of pension provision, where building regulatory frameworks for the conducted government policy in the sphere of social protection was more important than financial aspects as the state in any case should guarantee pension payments in a certain amount regardless of stability and investment of insurance premiums. But reforming pension provision in 1997 and transition to accumulative format require suitably qualified specialists in this important social area directly affecting the interests of all citizens. When developing curriculum planning the higher educational institutions make the analysis taking into account the course of the country's economy for formation of the students' specific skills and knowledge which will be useful for them. And one of the main criteria in the given analysis is the requests of employers¹. For 2013 the pension market of the country is represented by 11 pension funds, State Center for pension payment, management companies, and custodian banks. Developed and implemented international standards, for example "Basel III", are directly related to pension sector. (Izenkova A.K., 2012) As many pension funds are affiliated entities with the bank organizations, the capital adequacy

requirements will also be applicable to them. In the modern period at domestic universities according to the State Standard of the Ministry of Education and Science of the Republic of Kazakhstan for specialties "Economy", "Finance", and "Management" the compulsory disciplines which indirectly cover the country's pension provision are the courses of "Finance", "The financial markets and intermediaries". At the same time, there are the specialized courses which cover the certain segment of the financial market, such as "Banking", "Insurance", "Stock market". But, as it was mentioned above, there is no course devoted to issues of pension provision and social security. The purpose of this paper is to fill this gap, because if take into account, that participants of pension system are all population of the country, the introduction of a course «Social Security and Pension Provision in Case of Kazakhstan» as a component of choice in curriculum of higher educational institutions on economic specialties is the justified step on increase of competence of the future experts.

3. World experience in teaching the courses related to pension provision in higher education

The internet research of educational programs reveals that, the courses which are closely related to pension systems are used in the different universities around the world. For example, courses such as "Development of pension provision", and "The Pension System of the Russian Federation" are existing in the North - Eastern State University (Magadan, Russia) for bachelor students. Moreover, especially for these courses was developed a manual for students. This textbook is developed by author mainly from the side of the pension legislation. (Malyutina T.G., 2012) The manual contains material on the main themes of the pension legislation, such as Revenue Administration and the individual (personalized) registration of insured persons; destination, recalculation and payment of pensions; investment of pension savings, social benefits to different categories of people, obtaining and using maternal (family) capital. Other universities, which are included in their educational programs, related courses are Washington State University with course named "Retirement Planning Today", "Security in Retirement: Towards a New Pensions System Insurance & Pensions" is teaching at the Durham University, University of the Witwatersrand, Johannesburg (South Africa) represents for their students "Managing Social Security and Pensions" course, and "Private Pensions, Public Responsibilities: Law & Regulation of the Pension System" course is offered by the University of Toronto.

4. Methodology

Proposed course has been prepared under the following laws: Law of pension provision (1997 June 20, N 136-I), Investment Law (2003 Jan 8, N 373-II). The theoretical and methodological background of the proposed course is developed on the frameworks of the following researchers: Brodski M.N. (1998), Dobrynin A.I., Tarasevich L.S. (2004), Kamenev V.D. (2000). Methodological basis of pension's financial provision as effective usage of financial instruments, methods of calculations and distributions of pension funds income is developed according to Sharpe W., Alexander G. J., Bailey J.W. (1998), Piñera J., Malyutina T.G. (2012) researches. The course "Social security and pension provision: in case of Kazakhstan" was mainly developed on the basis of Managing Social Security and Pensions course materials of the University of the Witwatersrand, Johannesburg.

The course: "Social Security and Pension Provision: in Case of Kazakhstan" has been already included as elective course for 2013-2014 fall term to bachelor students for the following specialties Finance and Economics, Management at the Suleyman Demirel University in Kazakhstan. Pre - requisites of this course are Finance, Financial management, Investment financing. This course is designed to equip students with conceptual frameworks, core principles, theories, and practice of social security and pension's provision and promote a comparative systems approach to understand social security and pension's policy of Kazakhstan.

5. Contents and Course Structure

This course consists of four modules. First module *Introduction to Social Security* would introduce students to the values, principles and programmes associated with social security systems globally. This would cover the

evolution of social security systems including issues such as political economy, financing, institutional frameworks and policy development. Second module *Comparative Social Security Reforms Relating to Pensions Provision* looks at a range of country developments in pension systems within a global context drawing on the foundations raised in Module 1. The countries selected will seek to highlight trends within a range of regional settings and focus on issues of relevance to the Kazakhstan context. Next, third module *Social Security and Pension Reform in Kazakhstan* addresses the Kazakhstan context and domestic debates, options and potential reform trajectories taking into account insights drawn from earlier modules. It will include: a full review of the existing Kazakhstan pension system within the context of social security; and an evaluation of shortcomings and potential options going forward. Last, fourth module *Financial and Institutional Frameworks for Social Security and Pension's Provision* covers generalizable principles associated with the design of institutional and financial approaches to social security and pension systems including a comprehensive focus on governance and accountability aspects and their role in ensuring sustainable and accessible pensions systems relevant to both public and private agents and actors. Overall, this course will provide students with the tools to interpret domestic social security reform with a special emphasis on the provision of pensions. It will initially present the core values and principles that have become associated with social security systems and then cover practical experience globally taking account of regional tendencies.

6. Conclusion

In this paper authors addresses the issue of the feasibility to design a new course 'Social Security and Pension Provision in The Case of Kazakhstan', its focus and content. Based on the latest research on specificity pension market of Kazakhstan - who had to endure two crisis (Russia, Singapore, Thailand at the 1998-2000 and the global financial crisis of 2007-2008) in his relatively short 15 year history - the authors concluded that the content of the course should be mainly focused on financial provision. Because today, the retirement market is considered as one of the major actors in the financial area of the country. For comparison: Bank assets - 13444.9 milliard, assets of insurance organizations - 435.9 milliard, pension funds assets - 3036.2 milliard (2012.01.10). [6] Each citizen will have to participate in the investment management of its savings with the reform of the pension system to the storage format. Therefore, the possession of the basic knowledge of the pension will increase the financial literacy of the population. The appearance of a new pension services market led to the emergence of new players in the financial market: State center for pension payments, bank – custodian, organizations engaged in investment management of pension assets. This course will provide the necessary practical foundation for future specialists (current students) of these organizations, by providing them with a practical knowledge of social security interventions related to the provision of pensions and be able to reasonably apply this understanding to Kazakhstani contexts and to participate in policy discussions and debates. Finally, authors suggest including this course to the educational programs for the undergraduate students of economic specialties: "Economics", "Finance", "Management", "Marketing", "Accounting and audit".

Footnotes

¹ In 2012 the conducted seminars with employers at the faculty of "Economics" of Sulcyman Demirel University revealed the shortage of personnel sufficiently informed about pension provision basis. Employers were interested in the personnel familiar with specifics of pension market activity.

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