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THEORETICAL BASIS OF THE STATE SOCIAL INSURANCE

The purpose of the paper is research theoretical basis of the state social insurance in Ukraine. In the course of research, and analysis, synthesis as methods of theoretical knowledge of phenomena has been used. Comparisons are used as empirical methods for the conducted research. Results of the research showed that the economic content of the concepts of "social security" and "social protection" is practically identical; the concept of "social insurance" is narrower than "social protection" since it is a form of its financial security in practice. The author proposed the principles of building a system of the state social insurance. The study of the principles of building a system of the state social insurance is a prospect for further development in this area of financial science.

Keywords: insurance, state social insurance, social security, social protection, Ukraine.

1. Introduction

In the scientific literature, the term "social insurance" is used together or along with such concepts as "social justice", "social security", "social protection", etc. The problem of their application is that a single approach to determining the etymological meaning and content of these terms has not yet been developed. Thus, the drafters of the explanatory dictionary of the Ukrainian language interpret the terms "protection" and "security" as an action, giving the concept of a "social security" and a "social protection" identical content¹. The word "social" indicates that the object of research, in any case, is the sphere of social relations, that is, discussions about the expediency of the use of certain concepts are between scholars of legal, philosophical or economic sciences. Thus, the content of the same term, depending on the field of research interests of the researcher, will be different. In our opinion, this ambiguity creates the existing discrepancies. We believe that clarifying the essence of the concepts of "social insurance", "social security" and "social protection" and establishing a relationship between them, could be through the disclosure of their economic content.

2. The economic essence of the terms "social protection", "social security" and "social insurance"

Let's consider the economic essence of the term "social protection" by studying whether for all types of economic systems it is characteristic because quite often, scholars argue that such a phenomenon is inherent only in a market economy. The views of economists on this issue can be divided according to the criterion of existence or absence of need for social protection. In our opinion, it is advisable to distinguish schools of liberalism (classical, neoclassical, marginalism, monetarism) and dirigisme (Keynesianism, neo-Keynesianism), whose representatives question the need for state intervention in the sphere of economic and social life of society. On the other hand, there are schools of Marxism and neoliberalism (a mixed economy, a welfare state), whose researchers, by contrast, regard the processes of state intervention in the social sphere not only necessary but also desirable.

The essential difference between them is that in the realisation of the policy of Marxism, the existence of social insurance is more declarative, and in the context of building a socially oriented (welfare) state, on the contrary, the main role is assigned to insurance. The need for social protection in the theorists of a market economy system is closely linked to the discussion of the role and place of the state in the economy. Recognition of the laws of state regulation of socioeconomic processes is accompanied by a polemic about the need or lack of need for social protection of the population. Existing viewpoints of researchers have been reflected in alternative concepts of economic liberalism and economic dirigisme.

The founders of classical political economy, first, considered the market economy system as balanced and self-regulated, and, secondly, considered any state intervention in the processes of its functioning as a violation of personal freedom and an obstacle to the development of the economy.

¹Бусел, В.Т. та ін. (2007). *Великий тлумачний словник сучасної української мови*. Київ: Перун, 52, 114.

Their position on social protection of the population can be confirmed by the following arguments by A. Smith: «...людина повинна мати можливість існувати за рахунок власної праці; заробітна плата найманої особи при цьому є єдиним її фінансовим ресурсом, який має забезпечити необхідний рівень життя». Він, власне, зазначає, що якщо сім'я не в змозі заробити необхідну суму власною працею, то вона має її здобути «...жебраківанням або крадіємством»¹. At the same time, the scientist observes: «...фонд, призначений на відновлення, або, якщо можна так висловитися, на ремонт раба, звичайно перебуває в розпорядженні недбалого господаря чи неуважного керівника. Фонд, призначений для тієї самої мети стосовно вільної людини, перебуває в її власному розпорядженні ...». This statement shows that A. Smith supported the idea of non-interference of the state in the sphere of social protection in its present meaning and that this protection should be carried out at the expense of decentralised sources (own funds of employees and owners of capital).

Even such actions of the state and trade unions, as regulating the level of wages or working hours, hinder the achievement of the balance between supply and demand. In this context, one should pay attention to the opinion expressed by M. Friedman: «Замість або як доповнення до колишніх привілейованих класів виросли нові: бюрократи ... профспілки, які призвичаїлися вправно вдавати із себе представників найбільш знедолених і безправних робітників, а фактично до них входили найбільш високооплачувані робітники в країні – тобто робітнича аристократія; і, нарешті, нові мільйонери ... люди, які примудрялись обходити закони ... що ринули з парламенту й різних бюрократичних відомств, люди, які знайшли способи ухилитися від сплати прибуткового податку і переводити своє майно за тридев'ять земель – поза межами досягнення податкових інспекторів. Грандіозне перетасування доходів і багатства? Так. Менше несправедливості? Навряд чи»².

Proponents of the concept of economic liberalism were the theorists of marginalism and the founders of the neoclassical theory – L. Walras, A. Marshall, V. Jevons, J. B. Clark and others. Thus, L. Walras, in particular, had argued: «...система вільної конкуренції забезпечує досягнення максимуму корисності товарів та послуг для всіх учасників...», and also noted: «...економіка є системою, в якій діють винятково приватні інтереси...»³. The doctrine of the economic role of the state – political economy – they did not relate to economic theory, basically defending the independence of the economy from state interference, including in the field of social protection of the population⁴.

Supporters of dirigisme – an active state intervention in economic processes (primarily schools of Keynesianism and neo-Keynesianism) – speak of the need to regulate the economy with certain instruments (budget expenditures, taxes) in order to achieve macro economic equilibrium. In addition, they consider the main functions of the state are to ensure full employment in the economy.

However, D. Keynes also did not consider the issue of social protection of the population. It should be noted that he only raised the question of the level of wages (its reduction) as a possible option for increasing the marginal efficiency of capital and, consequently, the growth of investment in the economy. Actually, D. Keynes, like A. Smith, considered wages to be the only income of the population, and if state intervention in the economy is needed, then it is not in the sphere of equalisation of wealth in society, but in the sphere of a creation of effective demand in the economy. In particular, he pointed to the impact of the level of wages on the price level and determined that the state on this issue should adhere to the policy, according to which «...загальний рівень грошової заробітної плати маж підтримуватись максимально стійким, принаймні у короткостроковому аспекті. Результатом такої політики буде відносна стійкість цін ...»⁵. D. Keynes did not question the solvency of demand and, as a consequence, the inability of the population to pay for the goods and services made in the country. However, we believe that this situation is quite possible, especially in countries where there is an economic downturn. Historically, the end of the nineteenth and early twentieth centuries became a period of significant economic crises caused by the aggravation of labor-capital relations: wages were set at a minimum, while the working day lasted 12-14 hours⁶. The discovery of these contradictions belongs to the so-called externalities of the market

¹Смит, А. (2009). Исследование о природе и причинах богатства народов. *Електронна бібліотека cato.ru*. <http://www.cato.ru/library/smith/wealth_of_nations>.

²Фридмен, М., Хайек, Ф. (2003). *О свободе*. Москва: Социум, Три квадрата.

³Вальрас, Л. (2000). *Элементы чистой политической экономии*. Москва: Изограф, 49.

⁴Маршал, А. (1993). *Принципы экономической науки*. Москва: Прогресс, 56.

⁵Кейнс, Дж. Мейнард (2002). *Общая теория занятости, процента и денег*. Москва: Гелиос, 167.

⁶Буян, І., Ковальчук, В., Березюк, Р. (2001). *Загальна економічна теорія (політична економія): підручник*. у 2-х частинах. Тернопіль: ТНЕУ, 196.

economy. Individual states have begun to introduce measures to smooth these contradictions (Germany, and subsequently other European countries introduce social insurance and regulate the minimum wage). During the twentieth century, the steps of the state in the direction of protecting labour as a factor of production not only expanded but also acquired new forms of expression – from the regulation of minimum wages to full employment policy, the payment of assistance to low-income groups of the population, etc.

In other words, the idea of a free, unregulated market (*laissez faire*) could not stand the test at times because it did not receive support from practitioners (politicians, government officials).

In view of this, the ideas of economic liberalism (state interference in the economy) have been significantly modified. The diverse currents of the neoclassical direction no longer reject the regulatory role of the state, discussing only the sphere of its influence on the economy. Thus, modern monetarists limit this role to monetary circulation, and neoliberals recognise the state only obligations to maintain favourable conditions for the functioning of a market mechanism. Considering neoliberalism as the course of economic science, let us draw attention to the theory of "minimal state", which was developed by philosopher R. Nozick (second half of the twentieth century). According to this scientist, the main tasks of the state are only the maintenance of law and order, the reduction of the public sector, tax payments and hence its financial liability¹.

Such liberalisation expands the opportunities of a free market, which is now not limited either to tax instruments nor to the burden of publicly-funded or social transfers financed from the budget². In contrast to the "minimum state" approach, some representatives of liberalism have developed theories that justify the necessity of interference of the state not only in law-enforcement but also in the social sphere. This was reflected in the development of ideas of the state of social welfare and the state with a socially oriented economy (or a mixed state).

The supporters of the first (W. Beveridge, D. Rawls) – the state of social welfare – noted that one of its tasks, within the framework of ensuring the fairness of the distribution of public goods, is the widespread financing of social protection of the population.

At the same time, D. Rawls argued that this is the best behaviour for a wealthy majority, since then «... всі стають рівними... в тому значенні, що людині, захищеній всім суспільством, не страшні ніякі біди...»³. Organizationally, the idea of such a state was formulated as a result of the adoption in Britain in 1942 of a number of laws on the system of social security and decisions of the International Labor Organization in 1944.

The ultimate expression of the state of social welfare is the theory of social security developed by K. Marx and F. Engels and implemented in the planned economy of socialism. The researchers of the planned economy do not consider the concept of "social protection", but instead use the term "social security". The Marxist concept of "social security" is based on the fact that it can be achieved through the collapse of market structures and the transfer of economic and social functions to the state. At the same time, the socialist state is obliged not so much to finance social needs but to engage in direct production and distribution of goods and services⁴. The social security system was widely implemented in the USSR, where it received its theoretical substantiation. Analysing the social security of the Soviet era, the national researcher B. Nadochiy observes that it was extended to disabled members of society when at the expense of budget funds, pensions and assistance to low-income families or the maintenance of the nursing home (disabled) was carried out.

He, in particular, believes that the existence of the social insurance system as a form of providing disabled, at that time, with which we fully agree, "declarative"⁵.

As in the case of a free, unregulated market, the theory of the state of social welfare failed to test the times – the countries that built the planned economy, collapsed (the USSR) or adapted their economies to

¹Nozick, R. Anarchy, State and Utopia. *Вікіпедія*. <http://en.wikipedia.org/wiki/Anarchy,_State,_and_Utopia#Equality.2C_Envy.2C_Exploitation.2C_Etc> (2017, липень, 01)

²Розанвалон, П. (2006). *Утопічний капіталізм. Історія ідеї ринку*. Київ: Вид. дім «Києво-Могилянська академія».

³Ролз, Дж. (2001). *Теорія справедливості*. Київ: Основи, 445.

⁴Маркс, К. Капітал. Критика политической экономии. *Електронна бібліотека ЧТИВО*. <http://chtyvo.org.ua/authors/Marx_Karl> (2017, липень, 16)

⁵Надточій, Б. (2003). Соціальне страхування чи соціальне забезпечення? Погляд з позицій системи прав, установ та принципів. *Україна: аспекти праці, 1*, 31.

the conditions of the market environment (countries of Eastern Europe, China). In those countries where the ideas of W. Beveridge were taken as the basis, they encountered manifestations «...породжуваної діяльністю держави економічної неефективності та фінансового марнотратства... Парламенти нерідко вимушені схвалювати соціальні програми, котрі більше відповідають демагогічним гаслам або політичним амбіціям, ніж реальним потребам більшості громадян...»¹. Thus, the idea of a state of social welfare was gradually transformed into a theory of a mixed state or a state with a socially oriented economy, the basis of which was developed by the school of German neoliberals. They believe that the essence of the social market economy system lies in the freedom of the market economy mechanism and the broad system of social protection of citizens. The ideas of such a state now receive support in scientific circles, but now among scientists, there is a discussion about the optimal correlation of mechanism and protection².

On the basis of the foregoing, it can be stated that the term "social protection" (in Marxist approaches – "social security") was introduced into scientific circles not so long ago (the end of the nineteenth and early twentieth centuries), and for the first time it was used in the normative acts of European countries. The need to use this concept is due to the challenges of a prevailing at that time a market economy that is not regulated by the state (*laissez faire*). Subsequently, it became comprehended in the theoretical hypotheses of mixed (neoliberalism) and planned (Marxist) economics. In other words, social protection is not just economic, but economic and legal. Thus, the position that social protection is inherent only in a market economy system is not well-grounded.

Considering the discussion among domestic economists about the essence of the concept of "social protection", we can point to the following features:

a) in scientific research, the term "social protection" is predominantly used;

b) a significant drawback of the approaches of (Krasnyuk, 1997), (Vasylyk, 2003), (Kosova, 2000), (Kychko, 2005), (Grynenko, 2004), (Ivaskevich, 2003) and (Yurchenko, 2003) is to pay special attention to the formal side of the discussion: which of the terms more accurately describes the system proclaimed by the state social guarantees. Leaving aside the aspect of material support, they arrive at certain conclusions about the correlation of individual concepts of the social protection. In particular, the concept of "insurance": identical to the concept of "security" (Krasnyuk, 1997); Is part of the concept of "protection" or "security" (Vasylyk, 2003), (Kychko, 2005), (Gordey, 2002), (Grynenko, 2004), (Kosova, 2000), (Ivaskevich, 2003), (Yurchenko, 2003), (Gumenyuk, 2007); in no way correlates with the notion of "protection" or "security" (Salo, Epifanov, Dyakonov, 2002); is wider than the concept of "security" (Lavrinenko, 2004);

c) the aforementioned disadvantage is eliminated when the aspect of the material provision of social protection is investigated in the articles of (Nadtochiy, 2003), (Shavaryna, Shamanska, 2003). As a result of considering the forms of such material provision, they come to the conclusion that the concept of "social insurance" is narrower than the concept of "social protection" and is an integral part of it.

Having studied the above views of the lawyers and the economists, we note that:

A) The concept of "social security" and "social protection" is a separate branch of law in the state and has practically identical content both in Ukraine and abroad;

B) Social protection of the population is realised only if there is adequate material security. Therefore, in our opinion, "social insurance" is a form by which the state provides the necessary financial resources with the system of social protection proclaimed by it for its realisation in practice.

The last thesis is based on the fact that protection can and should be provided only with the availability of appropriate resources, which will focus on these goals in a separate fund of society. This leads to the objective need for the formation of such an insurance fund.

There are three forms of creation of insurance funds:

- 1) Centralised reserve insurance funds or centralised insurance coverage;
- 2) Self-insurance funds;
- 3) Collective insurance funds.

Centralised insurance coverage is based on state liability and provides compensation for losses at the expense of national funds. However, losses are only considered as a result of extraordinary events, since

¹ Андрущенко, В.Л. (2000). *Фінансова думка Заходу в ХХ столітті: (Теоретична концептуалізація і наукова проблематика державних фінансів)*. Львів: Камінь, 33.

² Ойкен, В. (1996). *Основы национальной экономики*. Москва: Экономика, 116.

public finances are intended to provide state functions to which insurance does not belong. Funds created in this form include, for example, the State Material Reserve, reserve funds and cash-in-reserves of budgets of all levels.

Self-insurance is based on the individual responsibility in the event of a risk occurrence and consists in the fact that the individual or legal entity at the expense of its income forms personal insurance (reserve) funds. They are in the form of savings, which are accumulated in bank deposits, securities, individual accounts, non-state pension funds, etc.

The use of this form throughout the society is accompanied by the following disadvantages:

A) It is irrational (because it involves the withdrawal of significant financial resources) and expensive (each member of the public must spend the full amount of possible losses, which significantly reduces its financial capabilities). To a large extent, this form can be used to cover bank risks¹;

B) It involves the release of significant resources from the production process for the formation of an insurance fund, the source of which is net profit, which significantly reduces the profitability of the entity and contradicts the main goal of market production;

C) It requires qualified management of the reserve funds².

Creation of collective insurance funds is based on the joint responsibility of their participants. The essence of this type of relationship is that the formation of insurance funds is carried out at the expense of contributions (insurance fees) of all participants, and compensation for losses is carried out for those who suffered them as a result of certain events and circumstances. Given the mandatory nature of the participation of the population and the solidarity of their responsibility for their future, we can assume the possibility of the existence of nationwide collective insurance funds (or social insurance systems). This form eliminates the disadvantages and problems of the previous two, that is, it involves the seizure of significant financial resources of the participants of social production at a given time and is inexpensive given that the volumes of such resources do not correspond to the magnitude of the possible risks. So, scientists say: «...з метою державного фінансового забезпечення системи соціального захисту... держава (*Allocation of own – Author*) формує грошові фонди цільового призначення... з метою забезпечення... у разі непрацездатності, старості, малозабезпеченості...» it is in the form of collective insurance funds³. They highlight such a feature that is inherent in collective social insurance funds, such as "solidarity" within the society, but mostly does not reveal its content.

This feature should be understood as a state of relations between its members, in which the financial security of the unemployed is carried out at the expense of employees; temporarily or permanently disabled – at the expense of the able-bodied. It should also be noted that the creation and use assets of funds are related to the redistribution of its funds within:

– One person's life (coverage of the risks of adverse events only if previously fees paid during the time of active labour);

– One generation of the population (covering the risks of unemployment, temporary disability, the upbringing of children, the onset of permanent incapacity due to an accident at work, etc.);

– Between generations (applies to retirement benefits by age).

It is clear that the organisation of such large-scale redistributive relations is only possible for the state, therefore, in our opinion, the concept of "social insurance system" is identical with the notion of "state social insurance system". This thesis is supported by B. Nadtochiy, who notes that «... засновником соціального страхування є завжди національна солідарність, на державному рівні воно виступає як основна складова соціальної політики»⁴ and I. Gumenyuk, for which «... в Україні обов'язкова форма соціального страхування є державною...»⁵.

¹Опарін, В.М. (2002). *Фінанси (Загальна теорія)*. Київ: КНЕУ, 73.

²Юрій, С., Федосов, В., Алексеєнко, Л. та ін. (2008). *Фінанси*. Київ: Знання, 372.

³Юрій, С., Федосов, В., Алексеєнко, Л. та ін. (2008). *Фінанси*. Київ: Знання, 372.

⁴Надточій, Б. (2009). Роль соціального страхування в умовах соціальної держави та ринкової економіки. *Пенсійна реформа в Україні*. <http://www.pension.kiev.ua/pensref/events/conferences/20030415materials.html#_ftnref1>.

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The analysis of different views of researchers on the essence of the concept of "social insurance" allows one to assume that there is no significant difference between them (Shavaryna, Shamanska, 2003), (Vasylyk, 2003), (Yuriy, 2002), (Basylevych, 2002).

3. Conclusions

Consequently, the approaches of most researchers to considering the essence of social insurance are identical and their definitions have the following common features:

(A) Social insurance covers a certain part of the economic (financial) relations in society associated with the redistribution of GDP in the country;

(B) The realisation of these relations in practice occurs through the formation and use of specially created purpose funds for this purpose;

(C) The relations cover a large part of the population, which is unable to work due to the onset of certain events (able-bodied, not employed in social production, disabled);

(D) Taking into account the principle of independence, the system of social insurance can develop only in a market economy, because in a planned economy the management of the system is carried out only by the state, and not on parity with the hired persons or employers.

However, in our opinion, the approaches of the above-mentioned scholars do not yet fully disclose the principles on which social insurance should be based. So, most of them pay attention to such an aspect as the overall population's social insurance, which makes it compulsory for everyone involved in it to work. We have already noted that scientists do not question whether the expediency of the existence of the social insurance system itself nor the obligatory nature of participation in it.

The basis of social insurance is the desire to protect the population from possible risks in the field of labour relations. Such risks are the loss of the basic form of income – wages or salaries – and receiving instead of its equivalent. The reasons for the loss can be different; their list with the development of a mixed state is constantly expanding. In particular, such causes include illness, industrial accident, old age and disability. The main difference between voluntary and compulsory insurance lies in the fact that social relations with the latter arise on the basis of the law, and on a voluntary basis – exclusively on the basis of an agreement between the insured and the insurer.

Certain provisions of the insurance theory confirm that proclaiming comprehension as the principle of building social insurance, the state will not be able to ensure its real implementation if the legislation does not regulate the mandatory participation of its population.

In view of this, in our opinion, the defining principles for building a social insurance system in the country are:

A) The proclamation of "solidarity responsibility" of generations as the basis of the system of social protection (provision) of the population;

B) Legislative regulation of social insurance;

C) Complete overall of population;

D) Obligatory participation subjects of financial relations in it.

Thus, according to the results of the study, it can be argued that:

- The economic content of the concepts of "social security" and "social protection" is practically identical. The difference lies in the fact that the first became distributed in the Soviet era and now more often occurs in international legal acts, and the latter – was recognised in the years of independence as a result of active use in the current legislation;

- The economic nature of social insurance fully manifests itself in a market economy; in particular, the concept of "social insurance" is narrower than "social protection", since it is a form of its financial security in practice.

In our opinion, the research of the principles of building a system of state social insurance in Ukraine is a prospect for **further development** in this sphere of financial science.

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