DOI: 10.30680/ECO0131-7652-2019-8-9-30

The Pension System in Russia Today: Reform after Reform…

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Abstract. As of late, Russia has passed a number of laws that much affected the institutional framework of the national pension system (corporatization of pension funds, retirement savings security system design, freezing of funded pensions). A very controversial law to raise the retirement age was enacted in late 2018. Further, the Bank of Russia and the Ministry of Finance have drafted a bill to establish a voluntary system of individual pension capital.

The comparison of key demographic and pension indicators in Russia and in the Organization for Economic Cooperation and Development (OECD) countries is concluded that there were no compelling reasons for the recent raising of the retirement age in Russia (especially for men). The claims of new retirement age supporters about excessive federal budget transfers to the mandatory pension insurance are doubted. Drawing on the previous experience of the national pension sector, an attempt is made to estimate whether the enacted laws will sustain the growth of personal savings in voluntary pension schemes. Particularly, it is shown that the designed system of individual pension capital will only partly be able to replace compulsory retirement savings in the long money market in the coming years.

***Keywords*:** compulsory pension insurance; funded pension systems; reform; private pension funds; individual pension capital; aging population; retirement age

There are three types of pension in Russia today: retirement pensions in the system of compulsory pension insurance (CPI with total payments of 6378 billion Rubles in 2017), pensions in the system of state pension insurance (pensions to the military and state employees, social pensions, etc. – 433 billion) and private pensions in the system of non-state pension schemes (NSPS – 60 billion Rubles).

The history of contemporary CPI system starts with the pension reform of 2002, which resulted in switching from a distribution system of CPI to a system with conditionally funded elements (funded pension was envisaged only for those born after 1966). The conditionally funded element implies that a part of pension contribution goes to payment of current pensions while individual accounts of the insured instead of cash accumulate the state's commitment to pay future pensions.

The reform followed the guidelines of the World Bank elaborated in early 1990-s for pension schemes of developing countries. Russia took a long time preparing the reform and initially the State Duma objected to introduction of cumulative pension to the CPI system. The arguments of its experts [Novikov, 2001] were quite straightforward: the country with unstable economy and financial system cannot force people to make pension contributions, most of which are likely to lose value due to inflation and inefficient investment policy of pension funds. At about the same time, known economists [Orszag P. R., Stiglitz J. E., 1999; Barr N., 2001] pointed out that that most statements concerning advantages of funded pension schemes had not been proved either in theory or in practice.

Before 2014 the concept of the CPI system had not changed, although its separate elements and parameters (tariffs of pension contributions, minimal working life, pension calculation formula, etc.) were reviewed many times. As far as one can tell, the authorities pursued two principal goals. First of all, pensions in Russia used to be and remain low by world standards and this has to be resolved. Secondly, the government believes that Federal budget transfers to compulsory pension insurance are excessive and need to be reduced. However, a series of not always thoroughly considered corrections of the Russian pension system compromised people's trust towards it (can you trust your long-term savings to a system where rules of play keep changing).

The world knows a number of well-functioning pension systems of various types. It is important for the system type to match the country's situation. The cause of Russia's failure to find an effective pension system of whatever type lies in the difficulty to ensure decent pensions in the country with a stagnating economy, unstable financial system, poor tax discipline, huge capital outflow and low popular incomes. None the less, we can see that the search for a 'miracle' pension system is still on.

December of 2013 marked a peak of pension law-making that predestined changes in the pension sphere for several years to come. Among the adopted laws[1] were those on corporatization of non-state

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[1]FZ № 410-FZ "On changing the Federal Law "On non-state pension funds" and separate laws of the Russian Federation" from 28.12.2013

FZ № 422-FZ "On guarantees of insured persons in the system of compulsory pension insurance of the Russian Federation while forming and investing pension savings, establishing and making payments out of pension savings funds " from 28.12.2013.

pension funds and setting up a system of pension savings guarantees. Their purpose was to make the NSPF activity more transparent to the Bank of Russia and improve the stability of the funded part of pension.

At the same time, in December, a law[2] was adopted requiring citizens born in 1967 or later to confirm their intent to continue remitting funds to funded pension lest their remittance goes in full to insurance pension. Moreover, it was decided to freeze funded pension contributions in 2014. As it was stated in the annual report of the Pension Fund of Russia for 2014 "for the period of reform, a legal stop was introduced concerning new obligatory transfers to the funded part of pension – all insurance contributions in 2014 were remitted to form the insurance part of retirement pension. However, later on, year after year the freeze was prolonged and in the foreseeable future the cumulative contributions will hardly be renewed.

As early as 2016, the Ministry of Finance and the Bank of Russia suggested abolishing the funded part of the CPI completely and, at the same time, establish a voluntary system of individual pension capital (IPC). By now, they have prepared a corresponding draft law without actually publishing it (although its principal stipulations are known and are being intensely debated in public).

At last, on October, 3, 2018 a law was passed on hiking the retirement age to 65 years for men and 60 for women. This law was very badly accepted by Russians and this had objective reasons. Recently, there appeared numerous publications on the subject of pensions and we may provisionally divide them into proponents and opponents of retirement age hike. The first group in particular comprises economists that have or have had ties to the Ministry of Finance. In their opinion, unless the pension age is hiked the economic growth will slow down and, what is more important, the federal budget will have a crisis due to excessive transfers to the pension system [Gurvich, Sonina, 2012; Kudrin, Gurvichч, 2012; Gurvich, Ivanova, 2018]. The second group of economists believe that neither demographic situation, nor the state of people's health provide reasons for retirement age hike [Vishnevsky et al.,

[2] FZ № 351-FZ "On changing separate laws of the Russian Federation on issues of compulsory pension insurance in the part of selection by an insured person of pension scheme type" from 04.12.2013.

2012; Aganbegyan, 2015; Sinyavskaya, 2017; Gorlin et al., 2018; Schetinina, 2018; Lyubinin, 2018].

This paper deals with the above questions in greater detail. The emphasis is on analysis and comparison of principal indicators and parameters of pension systems in Russia and OECD countries that publish detailed pension-related statistics. Based on the accumulated experience in the pension sphere of Russian Federation we attempt to estimate whether the laws that were passed would help increase people's savings in voluntary pension schemes. Beside pension and demographic statistics of Rosstat, Bank of Russia, Pension fund of Russia and Russian NSPF we have used the data of the UN, OECD, Eurostat and World Bank.

Are the transfers of Federal budget to the CPI system so big?

According to the annual report of PFR, in 2017, pension contributions to the CPI system amounted to 4482 billion Rubles and the volume of disbursed insurance pensions to 6378 billion Rubles. The deficit (2072 billion Rubles) was made up for by transfers from the federal budget. However, it should be noted that over a third of the latter was financing of the state benefits in the form of preliminary retirement (313 billion Rubles) and lowered tariffs of insurance contributions (434 billion Rubles). Such expenditures of the federal budget may only contingently be considered dotation to the CPI system.

It is possible to distinguish two main groups of people having the right to early retirement. The first comprises persons that have worked a certain number of years in places with injurious and hazardous labor conditions and the second represents some professions having that right on length of service (mostly teachers and doctors).

The practice of the state financing a preliminary retirement of those working at enterprises with injurious and hazardous conditions is raising questions. In fact, the market economy logic requires putting costs of long-term pensions on employers. State financing of such costs is not a transfer to the pension scheme but essentially to corporations. The latter, on top of that, lose incentives to modernize hazardous industries thereby representing another disadvantage of such sponsorship. However, positive changes are taking place: now, depending on how hazardous and difficult working conditions are, pension contribution tariffs vary from 0 to 8% of salary. As for teachers and doctors, most of them are state employed, so the state has to carry the burden of early retirement costs.

The right to low insurance contribution is granted to some IT companies and residents of special economic zones. For example, participants of "Skolkovo" project pay just 14% as contribution tariff (instead of 22%), IT-companies – 8%, residents of special economic zones – 6%[3]. Financing such benefits is an element of the public policy of stimulating innovation, so, it is the state, not the pension system that should carry the burden of such a policy.

Thus, in 2017 the federal budget transfers to the CPI system excluding the above-mentioned dotation reached 1325 (2072–747) billion Rubles amounting to 20.8% of disbursed retirement pensions. It is not a critical figure. For instance in Germany, in 2015, the state dotation accounted for 50% of the income of the national pension insurance fund[4]. However, one should be wary of comparing stakes that states have in pension finance as the pension systems in question are so different. Nonetheless, the Russian indicator is so much lower that federal budget transfers towards financing insurance pensions may hardly be considered excessive.

In general, compared to the EU countries the public social expenditures in Russia that comprise pension transfers appear much more modest. Thus, according to the Rosstat data, in 2015 cash social benefits constituted 10.8% of the GDP in the total expenditures of 'Public management' sector, while similar expenditures of EU countries average 15.8% (Eurostat data). Hence, claims of the Ministry of Finance concerning excessive burden of the CPI system on the federal budget do not appear very convincing.

Hiking the retirement age in demographic and economic context

Proposals to elevate the retirement age in Russia had been put forward in Finance ministry structures long before the respective law was passed. Thus, the works [Gurvich, Sonina, 2012; Kudrin, Gurvich, 2012] investigated problems of Russian population aging and threats to the economy and the state budget related to this as well

[3] URL: https://buhguru.com/strahovie-vznosy/stavki-ponizh-tarif-strah-vznos.html (access date 17.04.2019).

[4] URL: https://pensiya-lgoty.ru/pensionnaya-sistema-v-germanii/ (access date 17.04.2019).

as drawing conclusions on the necessity of hiking the retirement age. As if implying that “the sooner it happens, the better it will be for pensioners, taxpayers and the country as a whole because sooner or later this is the only path to follow” [Kudrin, Gurvich, 2012].

Meanwhile, the papers did not mention the fact that with the age of retirement being 60 every third man did not reach it and after it is hiked there will be many more that won’t. Only in 2018, when the question of hiking the retirement age was settled the authors [Gurvich, Ivanova, 2018] furnished their conclusions on age hike with a stipulation: if this hike “is justified from the point of view of demographic indicators and populations’ health”.

This poses the question – have demographic conditions been duly considered in the course of discussion and adoption of the law on retirement age hike? The studies of Russian demographers tend to point to the contrary. Thus, O. V. Sinyavskaya, having considered demographic indicators in Russia and other countries made a conclusion “on possibility to examine the issue of hiking the retirement age of women but not men” [Sinyavskaya, 2017]. Similarly unequivocal were her colleagues from the Institute of social analysis and forecasting: “… the demographic potential of retirement age hike for men is quite limited… there is some demographic potential of hiking the retirement age for women” [Gorlin, Lyashok, Maleva, 2018]. Similar conclusions from the analysis of demographic dynamics in Russia (using indicators of healthy longevity) were drawn in the works [Vishnevsky et al., 2012; Aganbegyan, 2015]: there are no demographic grounds for retirement age hike, it is the healthy longevity of the population that has to be increased first.

The comparative analysis represented below that concerns pension and demographic statistics in Russia and OECD countries confirms the correctness of opponents of retirement age hike in Russia. The analysis provides approximate estimates of pension payments separately to men and women in incomes of the entire population in Russia and OECD.

In 2016 in Russia the pension age for men equaled 60 while for men from the OECD countries – 65.8 years on average (Table 1). Despite the almost six year retirement age difference in Russia only 65,9% of men managed then to reach the retirement age, while in OECD – about 83.8%. In Russia the average life expectancy of retired men (from 60 onwards) equaled 15.5, while in OECD the same figure (from 65 onwards) – 18.2 года. Other than that, in Russia the net ratio of pension replacing the lost salary for men in 2016 was 38.8% and in countries of OECD – 62.9% (whereas with pensions from voluntary pension schemes – 69.1%). Thus, every quoted indicator demonstrated that Russian retired men were much worse off than in the OECD. And this concerned the earlier 60 year retirement age.

Table 1. **Demographic and pension indicators in Russia and OECD, 2016**

Demographic and pension indicators	Women		Men	
	Russia	OECD	Russia	OECD
Average life expectancy, years				
from birth	76,8	83,4	65,6	78,3
from 60 years	21,0	(23,9)	15,5	(19,9)
from 65 years	17,6	21,3	13,1	18,2
Survival to 60 from birth,%	86,5	(91,9)	65,9	(82,0)
Survival to 65 from birth,%	82,5	90,7	57,2	83,8
Retirement age (for OECD – on average Over the countries), years	55,0	65,5	60,0	65,8
Gross replacement rate,%	28,6	52,3	33,7	52,9
Gross replacement rate with consideration of voluntary pension schemes,%	...	...	33,7	58,7
Net replacement rate,%	32,9	62,2	38,8	62,9
Net replacement rate with consideration of voluntary pension schemes,%	...	...	38,8	69,1

Note: The table is mostly based on the data of the OECD report on pension schemes in OECD countries and G20 group released in 2017[5] The data on survival to 60 years of age is taken from the UN statistics[6], and 65 – from the World bank statistics[7]. The figures in brackets apply to Europe as a whole. Projected life expectancy comprises number of years people on average might live provided that the age and sex ratios of 2015–2020 remain unchanged. The gross 'replacement of lost income by pension' rate is calculated as ratio of granted pension to income prior to retirement. The net replacement rate differs from gross by considering income taxes and contributions to the social security system.

After hiking the retirement age to 65 the chance of survival of Russian men to retirement goes down to 57.2%, the average life

[5] Pensions at a Glance 2017. OECD and G20 Indicators. DOI.org/10.1787/pension_glance-2017-en.

[6] United Nations. World Population Prospects 2017. Mortality indicators. URL: https://population.un.org/wpp/Download/Standard/Mortality/ (access date 22.03. 2019).

[7] The World Bank. Survival to age 65, female (% of cohort). URL: https://data.worldbank.org/indicator/SP.DYN.TO65.FE.ZS (access date 22.03. 2019).

The World Bank. Survival to age 65, male (% of cohort). URL: https://data.worldbank.org/indicator/SP.DYN.TO65.MA.ZS (access date 22.03. 2019).

expectancy beyond 65 – to 13.1 and the difference in position of retired men in Russia and OECD countries becomes quite excessive.

The same kind of evidence comes from population aging statistics in Russia and OECD. The OECD statistics defines the aging ratio of population as a number of people above the age of 65 for every hundred people aged from 20 to 64. According to the OECD report on pension systems in OECD and G20 countries for 2017, in 2015 the ratio for Russia equaled 20.7, while in OECD it was 27.9.

Given the statistics of Rosstat and UN on distribution of population by sex and age over world countries[8] one may calculate proportions between men and women over 65 in Russia and OECD – 10:21 and 10:13 respectively. It follows that after retirement age hike Russia would have 67 retired men for every 1000 citizens aged from 20 to 64 (67 207/(1+2,1)), while in ОЭСР – 121 (121279/(1+1,13), that is 1.8 times more.

Besides, the level of replacement of lost income by pension for Russian men is 1.6 times lower than in OECD (inclusive of participation in voluntary pension schemes –1.8 times lower). Preliminary calculations demonstrate that the share of male pensions in population income in Russia would be about three times less than the same indicator in OECD.

Somewhat better in Russia are pensions for women. As shown in Table 1 with retirement at 60 the chances of Russian women surviving to retirement are 86.5%, which is compatible with OECD data. In fact, in OECD countries the average retirement age for women is 65.5, while the chance of surviving to 65 equals 90.7%. The average life expectancy of retired women (from 60 in Russia and from 65 in OECD) is practically the same – 21 and 2.13. But as for the net rate of replacement of lost income by pension Russian women are almost twice inferior to OECD women – 32.9 and 62.2% respectively. Thus, after retirement age hike the share of Russian women's pensions in the income of entire population of the country will go down compared to the same indicator in OECD. However, the gap here is smaller than with men.

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[8] Federal Statistics Office. Demographics. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/demography/# (access date 07.05.2019); Demographic Yearbook, 2015. United Nations. New York. URL: https://unstats.un.org/unsd/demographic-social/products/dyb/dybsets/2015.pdf (access date 07.05.2019).

Russia has a widespread practice of gray salaries, which has an adverse effect on incomes of the Pension fund of Russia. According to the words Mr. A. Siluanov in November of 2017 "a quarter to a third of salaries are in the 'gray' zone"[9]. It seems then that only 67–75% of potential pension contributions flow into the CPI system (this is where one should look for reserves for increasing pensions). After hiking of retirement age, moving salaries to the gray zone is likely to grow. This is better for employers and as for younger men they are not likely to worry too much about the old age pension as about 40% of them will not survive to see it. This brings up the question: is it possible to lower the obviously elevated retirement age in Russia (although not to the previous level)? This seems incredible even though such a precedent took place in Poland. There, in 2013 the retirement age for both sexes went up to 67 but already in 2016 they got back to the former figures: 65 and 60 for men and women.

Nevertheless, although the countries have similar retirement ages, Russia and Poland demonstrate big demographic differences: whilst a Russian has 57% chance to live until 65, a Pole –76%; a Russian man will live on retirement on average 13.1 years, the Pole – 17.5 years. Of course we realize that retirement age hike is stretched over five years, but statistics demonstrates that demographic indicators change slowly over time.

The Bank of Russia tightens control over pension funds

One of the reasons why in the end of 2013 we saw new laws on corporatization of NSPF and guaranteeing pension savings was low yield of the latter (see, e.g. [Dementiev, 2015]). In the period from 2008 to 2014 in the NSPF it averages 5% p.a. whilst consumer prices grew on average by 8.8% a year. There is no sense for future pensioners to make savings with such yields.

It should be noted that with the current structure of investment of pension savings their yield cannot be high. According to the data of the Bank of Russia, on December, 31, 2018 the structure of combined assets of four largest NSPF having 71% of all pension savings looked like this: debt securities – 86%, shares – 7,5%, cash – 6,5%. It is

[9] URL: https://finance.rambler.ru/money/38532281-do-treti-zarplat-rossiyan-nahodyatsya-v-seroy-zone/ (access date 03.06.2019).

obvious that only shares may bring higher income than bank interest on deposits but their share in the assets is not sufficient to alter the aggregate performance of the fund.

Low yield of pension savings is also due to the NSPF caring more about the interests of their shareholders rather than those of their clients. Quite frequently banks establish pension funds and use accumulated pension contributions to invest in own assets at high price. Although the law restricts such operations they had often been bypassed through formally legal cross investments between financial players. Thus, according to Mrs. E. Nabiullina[10], until recently there was ‘a Moscow bank circle’ comprising banks and pension funds. In 2017 the banks within ‘the circle’ directly or indirectly six NSPF (”LUKOIL-GARANT, “BUDUSCHEYE”, “SAFMAR”, “RGS”, “DOVERIE” AND “NSPF of electric energy”) that amassed about half of all pension savings. To get around the restrictions imposed by the Central bank “the circle” engaged in cross operations.

In 2017 two banks out of ‘the circle’ (FC Otkritie and Binbank) started experiencing big difficulties. They were bailed out by the Bank of Russia that could not allow a breakdown of systemically important banks. Meanwhile all six NSPFs incurred losses: pension savings therein brought negative returns in 2017–2018. As a result, in 2018 the average weighted return of pension savings in all NSPFs equaled 0.1% (and that is before management costs)[11].

According to the law on corporatization by the end of 2015 all NSPFs operating in the CPI system had to transform from non-commercial organizations into public companies (the latter are quite strictly regulated by the Bank of Russia). The NSPFs operating only in the system of non-state pension schemes (NSPS) had to complete the corporatization procedure by the end of 2018. Simultaneously, stricter requirements were introduced for the size of own assets and share capital (no less than 150 and 120 billion Rubles respectively), for transparency of information on individuals overseeing decisions of NSPFs management, for qualifications of fund managers, etc. Other than that the joint-stock NSPF are forbidden to pay dividends on shares over five years since the moment of their registration. Some funds failed to pass ‘the exam’, some merged and by the end

[10] Vedomosti, June, 6, 2018, p. 1.

[11] The Bank of Russia. Financial stability review. IV quarter of 2018 I quarter of 2019. URL: https://www.cbr.ru/Collection/Collection/File/19790/OFS_19–01.pdf (access date 04.06.2019).

of 2018 the number of NSPFs went down to 52 while on December, 31, 2013 there were 120 of them.

NSPFs working with pension savings that completed the corporatization process were supposed to join the system of pension savings guarantees. The system consists of two levels. The first level comprises own reserves of pension funds and the second is the Fund of pension savings guarantees (FPSG) generated from compulsory contributions of pension funds (prior to adoption of the law on guarantees of pension savings in the end of 2013 there were no second level of guarantees). The FPSG is managed by the State Deposit Insurance Agency (SDIA) that ensures a hundred percent safety of contributions to funded pensions. It is usually stated that the system State Deposit Insurance Agency is analogous to the system of bank deposit insurance. However, this is only partially true. In a case of bank bankruptcy the BIA guarantees a reimbursement of deposit comprising the interest (up to 1.4 million Rubles) but after a pension fund loses its license only nominal cumulative contributions are recouped (without investment income). It follows that compared to bank deposits the risks of pension accumulation are higher. If the system of funded pensions is here to stay the guarantees of SDIA will surely stimulate the funds to channel investments in higher yield but riskier assets, primarily in corporate shares.

The prospects of individual pension capital

As mentioned above, the proposal to create the system of individual capital was put forward by the Bank of Russia and the Ministry of Finance as long ago as in 2016 but it is still not clear in detail. It is not apparent what will happen to the system of contributory superannuation within the CPI. However, it is very likely that in years to come it will either be liquidated (there is no telling what befalls the existing pension contributions) or remain frozen. According to the recent statement by A. Siluanov[12] the draft law on IPC is ready but its publication and discussion was postponed due to the negative popular attitude to the law on retirement age hike. Even so, interviews of official representatives of the Ministry of Finance,

[12] CB signaled an upcoming discussion of a new pension concept. URL: https://www.rbc.ru/rbcfreenews/5c3df4d89a79471fbb6ef5db (access date 04.06.2019).

the Bank of Russia, the Ministry of Labor and PFR give a fairly complete idea on main provisions of the draft law.

Compulsory contributions to the CPI are expected to stay at 22% of the salary and their full value will go to pay current insurance pensions. Thereby the CPI system fully becomes conditionally contributory. At their individual discretion workers may participate in the IPC contributing up to 6% of their salary to a NSPF. On retirement an IPC participant might take out all of the savings or receive parts of them over the years to come. If a participant's pension plan does not include lifelong payments, after death the remaining part of the accumulated capital will be inherited. In extraordinary cases (e.g. vital medical expenses) one has recourse to the capital prior to retirement.

A stimulating measure is exclusion of IPC contributions from income tax. Moreover, the funds of ICP participants will employ the same mechanism that accommodates pension savings: DGA ACB will guarantee compensation of contributions except investment income.

S. Shvetsov, the first deputy chairman of the Bank of Russia believes that the IPC scheme will accumulate 10 trillion Rubles over ten years "once it is fully launched"[13]. Full of optimism is Mr. A. Siluanov who said that IPC implementation will contribute up to 20% of average monthly salary to pension[14].

A contemplated liquidation of pension savings in the CPI scheme may be considered as correction of an error within the pension reform of 2002 as it was pointed out at elaboration in the Duma. Something similar was done in Hungary, Poland, the Czech Republic and some Latin American countries where they fully or partially gave up compulsory pension contributions introduced earlier. At the same time there are no reasons to believe that the IPC scheme might become a comprehensive replacement of pension savings on the long term money market. The prognostications by S. Shvetsov and A. Siluanov appear to be wishful thinking. The practical experience of the voluntary Program of state co-financing pensions is quite suggestive on this account.

It is known that the Program envisages that citizens' cumulative contributions (from 2 to 12 thousand rubles per year) are doubled by

[13] I. Usov The pension system has three 'P' coming. 'Kommersant' from May, 21, 2018. P. 8.

[14] Siluanov told how to increase pension by 20% of salary. URL: https://www.vestifinance.ru/videos/46974 (access date 04.06.2019).

the state, which makes it much more attractive than tax benefits in the projected IPC scheme. Nonetheless, the Program's results turned out to be pitiful: over the period 2009–2017 its participants contributed just 56.4 billion Rubles. It is quite incomprehensible why Russian citizens and their employers would want to rush participating in the IPC scheme when they actually ignored a more attractive co-financing program. A similar kind of evidence comes from stagnation of the existing system of NSPFs in Russia (see more detail in the next section), indifference of a large part of population ('silent people') to their funded pensions, their reluctance to participate in another type of collective investments – mutual investment funds [Dementiev, 2017]. On top of that, bank deposits and savings in state securities carry minimal risks and their yields are not inferior to pension fund investments. So, in the years to come one can hardly expect significant changes in financial and pension spheres of Russia. The majority of population will ignore it – the same way they did it with the Program of pension co-financing by the state. Large monopolies are most likely to transfer a part of corporate pensions from the traditional form to the IPC scheme but it will be putting pension savings from one structure into another. The envisaged IPC scheme in part follows in the steps of US public incentives for saving in private pension programs but there are much more favorable conditions there. That said, it does not follow that the IPC scheme should not be introduced: voluntary pension contributions are to be incentivized in any case. If the Russian economy at last starts developing in a stable manner in the years to come, 10–15 years from now the results of IPC scheme may turn out to be considerable.

Problems of non-state pension provision

Let me remind that as of December, 31, 2018 Russia had 52 non-state pension funds. 17 of them operated only within the NSPF system, 2 – only within the CPI and 33 – in both. According to Table 2 pension savings in NSPFs comprise 2 582 billion Rubles, and pension reserves – 1 268 billion Rubles. Table 2 contains funds with assets over 100 billion Rubles. The total volume of their assets is 3 559 billion Rubles or 87.7% of all NSPF assets. This demonstrates high concentration and low competition in the area of pensions in Russia.

Very concentrated is the NSPF system that has two undisputed leaders – "GAZFOND" and "BLAGOSOSTOYANIE". The first one serves mostly corporate pension programs for employees of the PAO "Gazprom". A third of those employed in the gas industry are future beneficiaries of corporate pensions of this fund[15]. The principal business of NSPF "BLAGOSOSTOYANIE" is provision of pensions to employees of 'Russian railways' holding. Around 660 thousand railway workers participate in its corporate programs[16]. On September, 30, 2018 the pension reserves of both funds comprised 793 billion Rubles. (62.5% of pension reserves of all NSPFs).

Table 2. **Main performance indicators of NSPFs on December, 31, 2018**

Non-state pension funds	Assets, million Rubles	Pension reserves, million Rubles	Number of participants of NSPF	Pension savings, million Rubles	Number of insured
All NSPFs	4056957	1267959	6131624	2582323	36973256
including:					
NSPF of Sberbank	627149	37718	1752035	573509	8855165
Otkritie	564937	63996	540826	492990	7415120
GAZFOND pension savings	541409	18964	160505	505785	6325739
GAZFOND	477483	386805	233020	0	0
BLAGOSOSTOYANIE	407632	379841	1298137	0	0
BUDUSCHEIE	268032	3370	73792	262197	4502671
VTB Pension fund	200019	4297	65214	191830	2120615
NEFTEGARANT	192674	65901	160383	120664	1530433
SAFMAR	177631	8018	76680	165023	2163200
Transneft	101711	89352	143124	9426	49321

Source: CB of RF. Players in market of collective investments. URL: https://www.cbr.ru/finmarket/supervision/sv_coll/ (access date 09.04.2019).

On September, 30, 2018 the funds "GAZFOND', 'Transneft', 'NEFTEGARANT' had 1046 ths Rubles of average pension reserves per one participant of the NSP scheme while the NSPF "BLAGOSOSTOYANIE" – 298 ths Rubles. For the remainder of funds that embrace 70.1% of all non-state pension schemes participants this figure equals symbolic 74 ths Rubles.

As we see the non-state pension scheme serves mostly corporate pension programs of several major monopolies. Other enterprises and individuals pay little attention to it. That is why in recent years the

[15] PAO 'Gazprom' corporate program. URL: https://gazfond.ru/corporate/gazprom/ (access date 27.05.2019).

[16] The corporate pension program of RZhD holding. URL: http://npfb.ru/cotrudnikam-rzhd/ (access date 27.05.2019).

system of non-state pensions has been stagnating: over 2012–2018 the number of its participants fell from 6.6 to 6.1 million people while pension reserves in real terms (considering official price growth) have been growing over the same period at 1.7% p/a/ on average. And this despite the fact that the Tax Code of RF contains benefits stimulating voluntary pension insurance. Contributions from individuals to the NSP scheme (up to 120 ths Rubles a year) are excluded from individual income tax. If the employer participates in the pension schemes of its workers then its contributions up to 12% of salary are subtracted from the taxable base of profit tax.

The reason that voluntary pension programs lack popularity have been cited above: low income of most Russian citizens, low investment yield of pension resources and, in the first place, mistrust of the population towards the financial system in general and pension funds in particular. According to the Bank of Russia data[17], on September, 30, 2018 the share of assets without a rating and with high risk in the total portfolio of pension reserves equaled 28% that negatively affected its yield. In the first half of 2018 it reached 5.4% p.a. (before the fees of funds, management companies and specialized depositaries).

At the same time pension assets in NSPFs grew rapidly. Over 2012–2018 their volume increased more than six fold – from 394 to 2 582 billion Rubles while the number of insured in the NSPF system (as part of compulsory pension insurance) – from 11.9 до 37 million people. The growth factors included obligatory population savings (prior to 2014), investment income and, most importantly, transition of the insured with their savings from the Pension fund of Russia to non-state pension funds.

In Russia the potential of voluntary pension insurance is highly overrated by the authorities. Private pension plans (programs) are really popular in some countries with advanced economy and highly developed stock market. For instance in the US half of the total invested assets of private pension funds either directly or through mutual funds are invested in corporate stock that have been growing fast over a number of years and thus ensured a high yield. This

[17] The Bank of Russia. Financial stability review. II–III quarters of 2018. URL: https://www.cbr.ru/Collection/Collection/File/10438/OFS_18–02.pdf (access date 04.06.2019).

explains broad participation of people in various pension programs over the last forty years.

In most of the other countries the role of private pension insurance in investme4nt processes and in provision of pensions to the population is much more modest. According to the OECD data, by end of 2016 the four “Anglo-Saxon” countries the USA, Great Britain, Canada, Australia) had $31.2 trillion worth of private pension funds’ assets (in the US – $25.1trillion), whereas in the other 31 countries participating the this organization – only $6.9 trillion.

It has been mentioned earlier the in the OECD the replacement rate of income by pension was 62.9%, and with voluntary pension schemes – 69.1%. This means that pensions received from systems of compulsory pension insurance are approximately 10 times those received from voluntary pension insurance schemes. In Russia with its modest economy and proliferation of institutional ‘imperfections’ one cannot hope expect speedy development of voluntary pension insurance in the years to come

Brief conclusions

The paper casts doubt on the statements that transfers of the federal budget to the system of compulsory pension insurance are too big. It has been shown that over a third of those have to connection to this or that drawback of the CPI system but stem from state policies like financing preliminary retirement of separate types of workers or lower tariffs of insurance payments. Such benefits represent allocating investment support on behalf of the state to some types of economic activities and so, the state has to pay for this.

Through comparison of demographic and pension indicators in Russia and OECD it has been demonstrated that the recent hike of retirement age had no valid reasons (especially as applied to men). In three key indicators (survival to retirement, average life expectancy on pension, replacement rate of income by pension) the Russian retired men still prior to the retirement age hike had been very much inferior to OECD men and After the hike the gap has become quite dramatic. Based on the ratios of aging and statistical data on sex and age distribution we have drawn a conclusion that after a retirement age hike in Russia the share of men’s retirement pensions in the income of entire population will be three times less than in the OECD. In the same respect the Russian women will be considerably behind the OECD women, although not as much as men.

For a number of reasons (stagnating economy, unstable financial system, inefficient and at times dishonest investment policies of pension funds, etc.) pension funds have low investment yield. Against this backdrop, corporatization of NSPF, implementation of pension guarantees system, freeze of contributory superannuation with its probable abolishment in the future are quite reasonable measures. At the same time, the voluntary system of individual pension capital projected by the Bank of Russia and the Ministry of Finance will hardly have a significant effect on the pension sphere and the long money market in near future. Most people will just ignore it as they did the much more attractive Program of state co-financing pensions. What is required are consistent changes for the better in the economy and financial sphere as well as time so that our population reconsider the deep-rooted negative attitude towards voluntary pension savings.

As for the system of non-state pension provision it mostly serves (as always) corporate pension programs of oil and gas monopolies and the railway holding. In the foreseeable future there are no reasons to expect a fast growth of the NSPS. The arguments are simple: low incomes of the population, a distrust of people towards financial institutions in general and pension funds in particular as well as low yield on investment of pension reserves.

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For citation: Dementiev, N.P. (2019). Pension System in Modern Russia: Reform by Reform… *ECO.* No. 8. Pp. 9-30. (In Russ.). DOI: 10.30680/ECO0131-7652-2019-8-9-30.