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**PENSION REFORM IN THE RUSSIAN FEDERATION:  
CHALLENGES AND CURRENT REALITIES**

*SUMMARY.* The article is devoted to the analysis of challenges and current realities of the pension reform in the Russian Federation. At present, steps toward pension reform are negatively affected by changes in age and gender structure of the population, along with a weak working population/pensioners ratio and a major decline in the number of people involved in compulsory pension payments versus the number of pension recipients. Thus, the reform does not lead to significant positive changes in the level of protection of socially vulnerable population. Currently, the basic tools for the realization and support of constitutional rights of citizens in relation to the pension system may be as follows: (a) changes in the eligibility criteria for a retirement pension, including retirement age, employment length, pension contributions and expected payment period, and (b) further development of an accumulated component of state pension system in tune with the overall condition of the Russian economy.

*KEY WORDS.* Pension reform, issues of the pension system and social security insurance.

The Russian pension system has been under reform since 1992. All this time it has been criticized and negatively evaluated by experts [1], [2], [3].

The analysis of the current stage of the pension reform in Russia made it possible to single out several key problems that have negative effect on the efficiency of the system. They also significantly limit possibilities for the development of regional pension systems and social security insurance.

First of all, transition from the unfunded pension system to the defined contribution pension plan is time-consuming with maximum burden in 2010-2030 [3]. This burden is not equally apportioned among different generations. Some people pay contributions from the very beginning; others begin in the middle of their working career; besides, there are such people who do not participate in this pension plan at all. The following factors discourage the increase in pension coverage and the stability of the whole pension system:

- unbalanced budget of the Pension Fund of the Russian Federation;

— decreasing number of people paying duty on obligatory state pension insurance as a part of pension reform;

— decreasing number of employees and increasing number of pension recipients.

The Ministry of Economic Development of the Russian Federation estimates that the number of economically active population will decrease from 48.5 million in 2010 to 39.1 million in 2050; while the number of pensioners in the same period will increase from 37.3 million to 51.7 million [3].

In this respect it is important to analyze the ways of modernization of the current system of pension coverage and insurance; to study the issues of the pension strategy implementation and justify measures aimed at their neutralization.

The analysis of several issues regarding functioning and developing of the pension system on the national and regional levels brought to light the following points. Correlation between economically active and passive population plays an important role in the financial stability of the pension system. At present this correlation shows a negative trend.

During the last year only the number of people receiving pension grew by 1.01% (Table 1) [4], [5].

*Table 1*

**Changes in the number of pensioners in the Russian Federation**

Indicator	Years											
	2007		2008		2009		2010		2011		2012	
	Thousand people		Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %
Total number of pensioners	38467		38598	100.3	39094.2	101.3	39711.1	101.6	40167.4	101.1	40573	101.01
Those receiving work pension, incl.:	34271		359902	104,8	36108.3	100.6	36564.4	101.3	36915.8	101.0	37303	101.04
old age pension	30026		30414	101.3	30830.6	101.4	324565.6	105.3	32984.8	101.6	33451	101.4

Indicator	Years											
	2007		2008		2009		2010		2011		2012	
	Thousand people		Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %
disability pension	2070		3932	190.0	3767.2	95.8	2654.6	70.5	2540.8	95.7	2490	98.0
survivors' pension	2175		1720	79.1	1510.5	95.5	1444.1	96.3	1390.2	96.3	1362	97.9
Those receiving state pension, incl.:	2265.5		2685.5	118.5	2985.9	111.2	3146.7	105.4	3251.6	103.3	3027.3	93.1
social pension	1841		2492	135.4	2605.5	104.6	2763.2	106.1	2852.7	103.2	2909	101.9
pension for federal public civil servants	35.5		40	112.7	43.1	107.8	49.3	114.4	55.5	112.6	62	111.7
pension for military servants and their families	55.6		60.8	109.4	62.3	102.5	60.2	96.6	57.8	96.0	56.3	97.4

At the same time, the number of economically active population grew by 1.3% from 2007 to 2012, while the number of pensioners increased by 5.5%.

According to The Federal State Statistics Service, there were on average 807,000 people over working age (over 60 for men and over 55 for women) who received pension in Tyumen region in 2012, which is by 3.77% higher than in the previous year. In 2010 the number of pensioners was less, but growth rate was 5.6% (Table 2) [6].

Table 2

## Changes in the number of pensioners in the Tyumen region

Indicator	Years										
	2007	2008		2009		2010		2011		2012	
	Thousand people	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %	Thousand people	Growth ratio %
Total number of pensioners, incl. those receiving:	634	694	109.46	713	102.74	753	105.61	777.7	103.28	807	103.77
Old age pension	498.2	576.3	115.67	592.1	102.88	625.3	105.3	645.9	103.29	676.6	104.75
Disability pension	37.8	38.28	101.26	39.3	102.83	41.5	106.8	42.9	103.37	40.4	94.17
Survivors' pension	27.9	28.1	100.72	28.88	102.76	30.5	106.3	31.5	103.28	30.1	95.56
Pension for victims of radiation or technological disasters and their families	0.81	0.80	98.77	0.83	103.8	0.87	106.3	0.9	103.45	1	111.11
Pension for federal public civil servants	0.52	0.54	103.85	0.55	98.18	0.58	107.58	0.6	103.45	0.7	116.67
Social pension	49.5	49.9	100.8	51.2	100.6	54.1	107.84	55.9	103.33	58.2	104.11

Pensioners who receive work pensions take the biggest relative share among all the pensioners both in Tyumen region and in Russia (more than 80%).

Data on the number of economically active population and pensioners in Russia and in the Tyumen region in the years under study show a number of indicative trends (Table 3). The official statistics was used for the analysis [4], [5], [6].

Table 3

**Changes in the number of economically active population  
in Russia and in the Tyumen Region**

Years	Russian Federation		Tyumen region	
	Thousand people	Growth ratio %	Thousand people	Growth ratio %
2007	70570.5	102.0	1757.15	104.42
2008	70965.1	100.6	1899.85	108.12
2009	69284.9	97.6	1782.47	93.82
2010	69803.6	100.7	1778.91	99.80
2011	70431.8	100.9	1804.54	101.44
2012	71545.4	101.6	1839.34	101.93

The number of economically active population has decreased significantly since 2008 both in the Tyumen region and Russia as a whole. It can be easily explained by the economic crisis of 2008-2009. However, from 2011 there is a rising trend, as the growth ratio was 101.44%, as a result of gradual economic recovery of both labor market and economy in general.

Notwithstanding the positive dynamics of the number of economically active population in the Tyumen region, the burden of economically passive population on the economically active one is still significant. It was 2.28% in 2012; 2.32% in 2011 and 2.36% in 2010.

The burden of the pension system on the economic system of the working population in Russia is much lower than in the Tyumen region. For example, in 2012 there were 176 working people per 100 pensioners, in the Tyumen region there were 228 working people per 100 pensioners (Table 4).

Table 4

**The burden of the pension system on the economic system of the economically  
active population in Russia and the Tyumen region**

Year	Burden value %	
	Russian Federation	Tyumen region
2007	1.83	2.77
2008	1.84	2.74
2009	1.77	2.50
2010	1.76	2.36
2011	1.76	2.32
2012	1.76	2.28

Changes in the number of pensioners per working person lead to inability to keep the existing pension-salary ratio (all other conditions being equal).

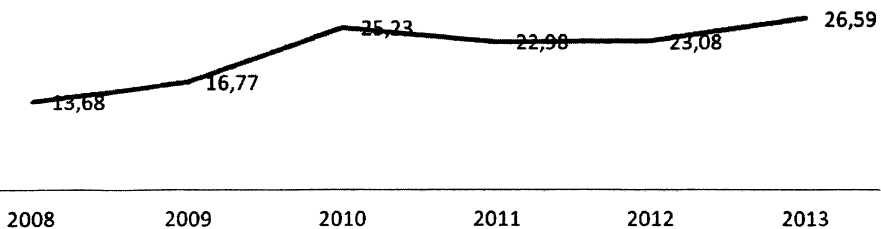
Along with that, birth rate in Russia is 35-40% less than needed for population growth. Russia has one of the lowest birth rates in the world (174<sup>th</sup>) and one of the highest death rates (16<sup>th</sup>). The death rate of economically active population, especially males, is very high [7; 9].

One of the main principles of pension insurance is compensation for the loss of earned income. In connection with this, the socially acceptable level of pension provision is determined by the ratio of the average pension to the average salary (joint income replacement ratio).

Analysis of changes in the average pension provision shows that at present there is enhancing growth of pension. In 2012, work pensions for 313.000 pensioners in the Tyumen region were raised by 7% since February 1<sup>st</sup>, and by 3.41% since April 1<sup>st</sup>. Social pensions were also raised by 14.1% on April 1<sup>st</sup>, while monthly payments were increased by 6% [5], [6].

In the south of the Tyumen region, since the beginning of 2012, the regional government has additionally spent over RUB 310 million to fund pensions from the regional budgets and the Pension Fund of the Russian Federation. The pension size was increased for more than 340,000 people (including early retirees). In line with Russian laws, indexing work and state pensions as well as monthly payments is one of the measures to increase the pension provision level.

At the same time, analysis of the dynamics of the income replacement ratio in the Tyumen region indicates that this ratio has slightly risen since the end of 2011; in 2012 the ratio was 23.08, which is 0.45% higher than in the previous years (Figure 1) [10].



*Figure 1. Dynamics of the income replacement ratio in the Tyumen region, %*

A slight increase in the income replacement ratio can be explained by the fact that the average salary in the region grows more slowly than the basis for premiums for the mandatory pension insurance [10].

The income replacement ratio on the national level is 34-36%. It is 40% lower than the level recommended by the International Labor Organization (ILO) for developing countries. It is important to mention that in 2009 the ratio decreased to 28% and rose to 35.4% in 2010 with the help of budgetary funds (in 1989 the ratio was about 55% for average salaries) [1; 53].

In order to keep the ratio value recommended by the ILO, every five years, from 2010 to 2050, it is necessary to increase the transfer from the federal budget by 1% of GDP or annually increase the pension contribution rate by 1%.

In line with the development strategy for the pension system of the Russian Federation, approved by the Russian government December, 25 2012 (N2524-p), it is advisable to fix the amount of inter-budget transfers from the federal budget to the Pension Fund of the Russian Federation. It should be done with due account of preferences in premium payments and peculiarities of pension provision for certain categories of citizens.

As a rule, more than 30 % of pensioners are people who have been provided with pensions in advance of the standard pension age due to extreme or special working conditions. In this case, financing of such pensions is performed with the general Pension Fund money; employers' premium payments to the system are not used for this purpose.

As a fact, privileged pensions compensate adverse working conditions that employers are supposed to be accountable for. Potential redistribution of responsibility in this respect would allow employers to solve the problem of workforce shortage at facilities with adverse and dangerous working conditions as well as motivate them to improve such conditions [3], [9].

We suppose that the Russian pension system should be released from inappropriate functions related to employment stimulation at facilities with adverse working conditions, instead it should focus on ensuring proper living standards for retired citizens. In turn, conversion of the time-privileged pension institution into separate professional pension programs would allow releasing the national pension system from payments to respective categories of citizens and would lead to redistribution of administrative and financial responsibilities among employers and the Pension Fund of Russia.

Under the current conditions, the following instruments to ensure fulfillment of constitutional rights in relation to the pension security of population are suggested for consideration: parametrical changes of pension payment conditions (retirement age, amount of pension-covered income and employment timeframe, expected period of pension payments); establishment of the funded component of the pension system associated with financial markets and Russian economy indicators [2], [3], [8].

The issue of modernization of the funded component of the pension system by raising its efficiency in order to improve pension protection by means of establishing and investing of pension money is considered to be among important aspects of the pension system reform. A peculiar fact, therefore, is that pension premiums in 2014 will be channeled to the compulsory distributive pension system as the funded component of the pension system is put on hold for a year. In this respect, it is essential to establish a system of guarantees to secure pension funds through increase of own capital and reserves of nongovernmental pension funds as well as setting up funds of associated responsibility, i.e. special insurance funds alike the bank deposit insurance system adopted in Russia. This action will provide for financial stability of the funded

component of pension and improvement of non-governmental pension funds operations.

Among listed activities it is also important to further develop personalized civil registration in order to improve targeted social security services and legalize the labor market. Modernization and establishment of the unified personalized civil registration system based on data and information sources of governmental extra-budgetary funds would ensure comprehensive identification of citizens, full accounting of their labor and social rights, including processing of all labor and social documentation in electronic form, e.g. the electronic employment record book [3], [10].

However, the suggested improvement measures will not be effective unless followed by positive transformation of such factors, external to the pension system, as demography and labor market situation. The key determinant of successful implementation of the suggested measures is overcoming negative trends on labor market, such as salaries paid off the books or shady employment. Implementation of the combination of the suggested interconnected measures would help to improve the system of pension provision and insurance in Russia.

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