Non-state Pension Funds as Participants of Investment Process and Their Social Responsibility

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Abstract. The article deals with the peculiarities of investment activities of non-state pension funds (NPFs) as an institutional investor, its social responsibility. Institutional participants in the asset management market, can play as medium-term funding sources. Their interest in infrastructure projects, as revealed by the study, is associated with the fact that such projects have long-term, stable profitability, although not the highest in the investment market. The authors analyzed the experience of investing in infrastructure projects by non-state pension funds. The analyses of institutional investments in infrastructure projects confirmed that institutional investors, NPFs in particular, have enormous resources and are successful investors. Creation and support of non-State pension provision is a form of business social responsibility expression. The system ensures participation of the State, as well as of the employer and the citizen, in the development of a decent standard of living, thus affecting the organization and implementation of effective social protection for pensioners.

Keywords: Institutional investors · Investment in assets · NPF · Principles for responsible investment · Regulation socially important projects · Social responsibility of business

1 Introduction

The current situation in the economic and social spheres shows that the social insecurity of a significant part of the population has become an integral feature of the transformations in Russia. According to the pension reform concept, a radically new pension system is being formed in the country, which includes state pension provision sub-systems, compulsory pension insurance and voluntary pension provision, involving pensions covered by employer contributions under collective and individual agreements and independent pension savings of the working population. Today, many large industrial and commercial enterprises provide their employees with supplementary income through the non-state pension funds system, thus compensating for the inadequate level of employment pensions [10]. Business as a source of social responsibility does not get enough assistance from the state in solving strategic
development issues. Business investments in corporate social responsibility are not promoted by the state, therefore, the growth in such investment is not significant. The situation is exacerbated by continuing mistrust of Russian companies in social investment and by lack of available information regarding the situation in this area of activity. Thus, in conditions of low level of state pensions, the issue of ensuring an acceptable level of supplementary pensions through established corporate pension systems is relevant for enterprises of all forms of ownership. It is obvious that the issue on corporate pension systems creation and development is very important. However, under conditions of the radical pension reform, implemented in the Russian Federation, a number of topical issues related to the corporate pension systems creation and development remain outstanding.

Investing in the real economy depends on increasing its competitiveness and survival. However, private capital and state financial resources investments should be impartial, ensuring the effectiveness of their use. One of the vivid examples is pension funds which have a huge amount of money waiting to be used. And it is important to consider this resource not as a source of financing current needs, but as an opportunity for the development of long-term projects that are socially significant and can change the quality of life. Indeed, capital of the institutional investors can even completely replace public funding at the federal budget level in some projects. Funds of NPFs provide the opportunity for long-term projects investment such projects are socially important and can change the quality of life.

Infrastructure investments are more appropriate for investments by pension funds and insurance companies, as they are independent from the business cycle and do not correlate with other asset classes and have a stable operating cash flow. The issue of long-term investments belonging to pension funds is important in the projects implementation infrastructure.

2 Methodology

In this work, we used a systematic approach and general scientific methods to identify the characteristics of non-state pension funds (NPFs) as institutional investors in modern socio-economic conditions. The methodological basis of this study is a systematic and comparative analysis, which allows us to identify the specifics of the issue under review and draft a trend for further forecasting. The approach and methods implemented in the study made it possible to identify evidence characterizing the process of reforming the Russian pension system, as well as to consider the possibility of investing funds of NPFs in the real economy. In this work we took into account data on the socio-economic development of the country, statistical materials on the activities of insurance funds, NPFs and institutional investors.
3 Results

The issue of population ageing and working population reduction is relevant for most countries of the world and needs to be addressed. The pension models analyzed showed that the problem of population ageing posed a threat of traditional distribution pension systems funds shortage in developed and developing countries [7]. Within the framework of reform process ongoing in these countries, multi-level pension systems were created with a mandatory funded component, designed to ensure a high level of well-being of pensioners and a replacement rate of at least 60% in future. The Russian multi-level pension system reflects international experience. However, it is necessary to take into account that there are no completely identical pension systems in the world, all national practices reflect certain specificity.

Analyzing the causes of the funded system crisis in Russia, several conditions for its stability and development can be determined, for example, the pension savings formation on a model based on private law rather than public law relations with the maximum determination of the contract terms by the parties without state involvement, while such freedom and effect can occur within state-defined requirements for standardized products; the ability to determine the rate of contributions to the system, based on the economic capabilities of participants, the accumulation period, the amount and timing of the pension, and other significant circumstances; introduction of mechanisms for the distribution of financial responsibility for the formation of savings between the employee, the employer and the state, “diversification” of the dependence and responsibility of the employee and the employer, etc. [1]. It is important to note, that funds of NPFs currently represent a rather significant amount of possible investments in the economy of the Russian Federation. According to the Central Bank of the Russian Federation, 47 non-state pension funds operate in the pension market with valid licenses, of which 14 funds are engaged in non-state pension schemes only, 31 funds operate both under the compulsory pension insurance system and non-state pension schemes [2]. Funds working with NPF schemes only account for more than 2/3 of all pension reserves and only 1/3 of all participants of non-state pension schemes programs (that means that funds specializing in non-state pension schemes have a high level of funds per client). Meanwhile, the assets of these NPFs make up only 1/4 of the assets of all funds operating on the market [2].

According to the Central Bank of the Russian Federation, the amount of pension funds of NPFs was 4273 billion rubles at the end of 2019. The pension savings funds of NPFs amounted to 2858 billion rubles, and pension reserves funds of NPFs - 1414 billion rubles [2]. This imbalance of shares (pension reserves and assets) is due to the fact that the total amount of pension savings in the market is much higher than the pension reserves value. There is stagnation in the corporate non-state pension provision market. According to experts, the non-state pension provision is, to some extent, connected with the current stage of the pension market development and with the changes in the conditions for the implementation of non-state pension schemes (abandonment of the individual pension capital concept, the appearance of a draft bill on a new product - a guaranteed pension product, a legislative initiative to preserve the retirement age for participants of non-state pension provision programs, etc.).
In such circumstances, employers are not ready to introduce new corporate pension programs. The unfavorable economic environment in the country, rising inflation, identified the issue for NPFs, namely, the growth of return on deposits and the need to earn investment income for future retirees. In general, 2019 was quite successful for most funds: they showed a return above the inflation rate and used investments to increase the accumulation of savings both in securities of private companies and in projects related to public-private partnerships. The increase in pension funds ensured their investment results. For the funded part development, the participation of employers in its formation through the development of the corporate component is also necessary. To achieve that, it is necessary to work out an industry-wide system of corporate pensions, which should have the force of law and serve as the basis for creating corporate systems at enterprises of specific industries.

Investing in the real economy depends on raising its competitiveness and survival, the volume of financial resources investment of the state and private capital should be carried out on an objective basis, and ensure the effectiveness of their use. The functioning of the collective investment system in the social aspect is the improvement of the citizens’ well-being by participating in increasing the capitalization of the country’s economy, since the activity is carried out through the investment mechanism, there is a process for the efficient distribution of necessary resources for the economy and their integration into financial turnover. The strategic plan, designed to solve the issue of business survival, is, to some extent, used to select attractive sectors and activities in order to ensure business competitiveness in real economy sectors [4, 9].

An increase in involving household savings in long-term investments on the stock exchange contributes to the development of the institutional investors market in Russia; we can say that the share of investments in securities in the real sector of the economy is growing; it also helps to reduce the dependence of the dynamics of Russian stocks on foreign investment, which, in its turn, makes it possible for the population to invest their funds in non-state pension funds (in pension savings) and insurance programs.

4 Discussion

The funds of NPFs provide the opportunity for long-term projects investment, the projects, which are socially important and can change the quality of life. Indeed, capital of the institutional investors, in some projects, is even able to fully replace state funding at the federal budget level. Infrastructure investments are more appropriate for investments by pension funds and insurance companies, as they are independent of the business cycle and do not correlate with other asset classes and have a stable operating cash flow. The issue of long-term investments by pension funds is important in infrastructure projects implementation. In recent years, a model for infrastructure projects financing involving funds of NPFs has been implemented through concession bonds. In Russia, the regulator restricts the ability of funds and insurance companies to participate in infrastructure projects, limits the terms of entry into the project, possible instruments and risk calculation rules, which imposes restrictions on the investment portfolio structure. The analysis showed that the portion of shares of most NPFs has significantly decreased.
When placing pension reserves funds, the funds are guided by the principles of safety, profitability and information openness of the investment process. Until recently, NPFs mainly invested in government bonds and “blue chips”, this was due to the securities reliability, but, as a rule, the return on such securities is not high. The investment portfolio of pension funds of NPFs increased by 2.5% for the 2nd quarter of 2019. The main growth driver is the positive investment performance of the funds [2].

A slight slowdown in the pension savings portfolio growth rate, compared to the previous quarter, is due to the fact that in January-March 2019 there was a transfer of funds from the Pension Fund of the Russian Federation (PFR) according to the results of the transitional campaign of 2018 and it affected the indicator [11]. Without taking into account the influence of this factor, the growth rate of pension savings accelerated [2].

The intermediate results of 2019 transition campaign indicate a significant decrease in the number of citizens submitting applications for the transfer of pension savings from the PFR to NPFs. In the context of a possible reduction in the volume of funds transfers from the PFR by the end of 2019, the growth rate of pension savings of NPFs will be more dependent on funds investment return than in previous years.

At the end of June 2019, the investment portfolio of pension funds of NPFs exceeded 4 trillion rubles. Pension reserves for April-June 2019 increased by 2.6%, pension savings - by 2.4% (+3.1% a quarter earlier). Excluding the funds transfer from the PFR, the growth rate of pension savings of NPFs was about 1.5% in the 1st quarter of 2019. In the 2nd quarter of 2019, the positive growth rate of pension savings was ensured by investment results. The average annualized return on pension savings investment reached 10.4% for the first half of the year. The indicator for VEB’s expanded pension portfolio was lower and amounted to 8.4% [2]. All funds showed a positive return on pension savings investment (a year earlier, the result was negative for 16% of funds). The return on pension reserves placement amounted to 8.3% [3].

Favorable stock market environment contributed to profitability growth; with a high share of investments in such instruments in NPFs investment—more than 90% in pension savings and more than 70% in pension reserves. The real sector still prevails in the investment structure of NPFs; however, in the unfavorable situation on the financial markets, there was an increase in investments in government securities through a flexible repo transaction mechanism. At the same time, slow growth of equity portion of the portfolio may be an indication of NPFs’ reluctance to assume additional risks: for the quarter, it grew slightly, but remained low. NPFs risk appetite reduces, among other things, the requirement for break-even position of pension savings investments over a five-year horizon [4].

In the 2nd quarter of 2019, NPFs increased the share of investments in non-financial sector companies [2]. In the pension savings portfolio - due to an increase in the oil and gas, engineering and transport sectors investments. In pension reserves investments - due to the communications, telecommunications and information technology industries. Investments in steel and mining companies increased in both portfolios.

After reviewing the structure of pension reserves and savings, we can conclude that most of them are concentrated in banks and financial institutions. Experts believe that risk of demand is a rather high risk of infrastructure investments, for which funds of
NPFs are raised; projects may be unnecessary. It may happen that the implemented project will be of no demand and it will not bring the promised return: for example, no one will go to a private hospital for treatment. Another issue is that there is a great number of funds in the Russian NPF market, large funds are much more likely to invest in infrastructure than smaller ones. The collective investment market, due to its ability to accumulate and efficiently distribute the institutional investors’ resources, has the ability to direct and increase liquidity, as well as contribute to fulfillment of social obligations for which the investors are also responsible.

By 2020 the Russian collective investment market should significantly increase its weight in GDP, and play an important role in infrastructure projects in the financial system of the Russian Federation. Today, a characteristic feature of the development of the Russian financial market is the dominance of banks, but the collective investment system should occupy a higher position combining resources and their involvement in financial turnover. Creation and support of non-state pension provision system is a form of social responsibility of business. The system ensures participation of the state, as well as of the employer and the citizen, in the development of a decent standard of living, thus affecting the organization and implementation of effective social protection for pensioners.

5 Conclusion

Speaking of the development of the NPF and long-term insurance markets in 2020, it is necessary to perform some tasks: sustainable development of social security and social stability, as well as the stability of the pension system based on the funded distribution principle, the generation of a long-term investment resource. The current model of the pension market and long-term life insurance carries out its functions partially. The main reasons for such development are the low level of social guarantees by the state, low income and low levels of state savings, inadequate taxation of pension funds and life insurance companies, low level of participation of funds of NPF and investment sales insurance companies. Russia faces demographic problems - there is a sustained population decline with an increase in the number of pensioners and a decrease in the number of people employed in the economy.

Despite the fact that in recent years there has been a fairly rapid increase in income, Russia on this indicator is still very much behind the level of the developed countries. Moreover, savings diminish the level of citizens, that is, people prefer not to save money, but to spend money immediately. Thus, the savings of citizens do not turn into investments. According to OECD experts, the Russian multi-level pension insurance system, developed over the recent years, is in line with international experience and recommendations [8]. The purpose of its implementation was to improve financial sustainability of the pension system by introducing the mandatory funded component. At the same time, in the macroeconomic environment, with the need for increased income of current and future pensioners, the need of the generation of long-term investment resources in the economy, without proposals to optimize the pension system and reduce government spending on it by diversifying its funding sources, as well as developing the potential of voluntary or “quasi-voluntary” personal contributions, the
sustainable development of funded pension programs, will always remain questionable [5]. In the world today, where socio-economic changes occur quite quickly and often, we should remember that under such circumstances people and organizations require not only changes, but also stability. Therefore, one of the most important tasks is to balance changes with the desire for stability and help people to maintain this balance at work and in life [5, 6].

How to change the attitude of the economically active population to pension programs (models), so that, entering their working life, employees are ready for actions to accumulate pension investments (as an investment in the future, since there will be a transition to a different social status)? This requires psychological and socio-psychological support for this process at the micro- and macro-levels of socio-economic systems. Motivational resources that reveal the person’s abilities to shape innovative attitude will be constantly updated over time. Therefore, motivational resources are resources of the 21st century, and their implementation in the socio-economic systems management is an important and rapidly developing management practice. Industry consolidation leads to the consolidation of funds, as evidenced by the dynamics of the ratio of the median and average values of pension savings and reserves. The long-term investment potential of NPFs cannot be fully realized - in fact, management companies that operate the assets of NPFs convert long-term assets into short-term ones, since almost 70% of assets of NPFs are placed for a period of less than 1 year.

The existing tax system does not contribute to the investment resource creation. The financial markets crisis, associated with the spread of coronavirus infection in March 2020, did not cause a significant decrease in the value of investment portfolios of NPFs, due to the predominance of debt financial instruments in them, 27.8% of which are estimated at amortized cost and therefore are not dependent on market volatility [3]. In contrast to most Western countries, Russia’s contributions to pension funds and their investment income are taxed and pensions, on the other hand, are non-taxable. There are numerous groundless obstacles in the regulation of allocation of assets of NPFs and insurance companies. The target model of NPF market and long-term life insurance assumes overcoming these restrictions and effective performance of all tasks in the future.

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