Analysis and Assessment of the State of Pension Provision for People of the Russian Federation and Its Immediate Prospects

R T Latypov¹, D V Reznichenko¹, A V Ruchkin²

¹Ural State University of Economics, 620144,Yekaterinburg, Russia
²Russian Presidential Academy of National Economy and Public Administration, 620990 Yekaterinburg, Russia

E-mail: alexey.ruchkin@ui.ranepa.ru

Abstract. The article reveals the topical issues of citizens ‘ pension provision for the population of the Russian Federation. Economic instability in the country had an objective effect on the pension system as a whole. Growing over the past years budget deficit of the Pension Fund of the Russian Federation, the imperfection of normative regulation of non-state pension funds largely determine the instability and lack of specific perspectives for the pension market development in Russia. It should be recognized that despite the ongoing process of reforming the pension system and its legislative improvement, the reform of the pension system itself more actualizes, but does not solve the existing problems of pension provision for citizens.

1. Introduction
The unstable economic situation in the country objectively affects the pension system of the Russian Federation. The economic crisis and the resulting sharp decline in the number of jobs and wages, return to the "gray" salary schemes and, consequently, decrease the amount of insurance contributions into the Pension Fund of Russia (PFR) continue to increase its budget deficit [1]. A growing budget deficit of PFR today is a serious problem for the functioning of the pension system in Russia.

The main sources of the PFR budget are incoming funds in the form of insurance contributions and inter-budgetary transfers from the State budget. The procedure for the PFR’ budget forming is determined by the conditions set forth in Article 17 of the Federal Law of the Russian Federation No 167-FL dated 12 December 2001 «On Compulsory Pension Insurance in the Russian Federation» The control function on observance of the order and terms of payment of insurance pension contributions is assigned to the Pension Fund of Russia [2].

2. Analysis of the problems of the pension system. The reasons for the budget deficit of the Pension Fund of Russia
For several years in a row, the budget of the PFR has been filled with a deficit. In 2015, expenditures have exceeded revenues by almost 544 billion rubles, in 2016 - by 204 billion rubles, in 2017 - by 220 billion rubles. It is necessary to increase the profitability of PFR’s savings to enable the PFR to maintain its leadership in the pension system in the country. However, in connection with the ongoing reforms of the pension system in Russia, citizens may potentially prefer to place their funds in non-state pension funds. In addition, citizens constantly hear about the deficit of the PFR and start to think that there are no funds to pay pensions, despite the fact that actually they are and are placed in assets.
The budget deficit of the PFR in 2015 has been covered by the interbudgetary transfer. Funds collected in the form of insurance contributions were enough to pay current pensions, but taking into account various benefits associated with early retirement, lowered tariffs of insurance for certain categories of payers and taking into account the insurance period of non-insurance periods, the expenditure part of the PFR budget is significantly increased, which accordingly leads to the need for targeted transfers from the State budget.

In 2016, due to the deficit of budgetary funds, the Government of the Russian Federation has suspended certain provisions of the legislation regarding the pensions’ indexation, and planned to index the pension provision of citizens by only 4%, that was insufficient due to high inflation rate in 2015. However, due to the inability to raise pensions to the required level, it was decided to pay compensation in the form of a one-time payment of 5 thousand rubles in January 2017, which were received by all citizens who were pensioners as of 31 December 2016. Deductions on the basis of court decisions, enforcement documents, etc were not made out of this amount.

In 2017 forecasting of the RPF funds’ expenditure happened against the background of the continuing increase in number of pensioners and the decreasing size of the working citizens, and hence the decrease in financial revenues in the form of insurance contributions. The Ministry of labour of the Russian Federation on the official website has been published the project of the PFR’ budget for 2017 and planned projects for 2018 and 2019 [4]. According to the document, the expected budget deficit of PRF will be 181,7 billion rubles. However, after the publication and adoption of the relevant law, the forecasts became even more realistic: the projected revenue amounted to 8.36 trillion. rubles, and the amount of expenditure-8.58 trillion. that has led to increase in the budget deficit and it amounted to 220.43 billion rubles.

The pension reform, carried out in 2015, changed the procedure for calculating the pension. Now all pension contributions directed to the insurance pension have been taken into account in individual pension coefficients (points), which when retired are transferred into rubles. At the same time, the requirement for work experience also increased.

In 2017, the pension provision of citizens again underwent a number of changes related to the increase in the amount of payments and conditions of pension assignment for certain categories of recipients. The suspended provisions of the legislation concerning the indexation of pensions have been reactivated, and the amount of insurance and social pensions has been increased in full.

For several years, the issue of raising the retirement age due to the annual growth of the number of pensioners and the increase in the life expectancy of Russians is actively discussed. In 2017, more than 45 million pension recipients were registered in the Pension Fund of the Russian Federation. Now the average life expectancy according to the Ministry of health is more than 72 years. The Ministry of Finance and the Central Bank propose to raise the retirement age to 65 for both sexes within the framework of the new pension system project [5].

From 1 January 2017, Federal Law No. 143-FL dated May 23, 2016 "On Amending Certain Legislative Acts of the Russian Federation Regarding Increasing the Retirement Age to Certain Categories of Citizens", which provides for an increase in requirement for work experience for establishment of pension to civil servants has come into force. The law toughens requirements to retirement age (up to 63 years for women and 65 years for men) and also to an experience of civil service (not less than 20 years) for appointment of pension benefits to federal civil servant, but new conditions will be introduced gradually. Thus, civil servants for purpose of assigning pensions in 2017 need to have:

- age for women - 55,5 years, and for men — 60,5 years;
- not less than 15,5 years of an experience of civil service.

Due to the changes of federal civil servants’ pension provision, probably, it is necessary to prepare that increase in retirement age all still occur, not only for those who retire in the near future (it will concern them first of all and will have to work out a certain amount of time), but also for those who are still far from retirement. Considering changes of requirements for the experience of civil servants, legislators can go on the same way and with other categories of the population.
3. Development of the pension system: analysis of management trends and recommendations

The Ministry of Finance of the Russian Federation acts as the obvious supporter of increasing the retirement age and it is quite explainable. Domestic economic problems, combined with external ones (Western sanctions, low oil prices, etc.), demand to increase income, having cut down at the same time expenses. In case of direct realization of the ideas about raising the retirement age for citizens we will receive recession of level and average life expectancy of elderly people or will have to change the tax system in order to grant additional funds to the pension system.

Many experts rather skeptically treat this measure as at raising the retirement age more skilled workers simply "won't let pass to young people", despite universal rejuvenation of collectives. Employers are interested in working with serious professionals and the management of not every organization or enterprise is ready to invest in young professionals. To this, we add that due to the increase in the retirement age, according to analysts, there may objectively be a need for additional investments in social benefits for unemployment, etc.

So far, experts are ambiguous about this measure: some argue that the country is not ready for a new reform, even because the average life expectancy for men is 66 years (so under the agreed terms, a man will receive a pension of about a year) and urge to deal first with health care problems and improve the quality of life. Others, on the contrary, speak about the need of this measure and give experience of others more economically developed countries https://www.kommersant.ru/doc/3235974, not taking into account that in these countries the standard of living quality of life are higher and the population isn't exposed to systematic economic crises, keeping the potential of health for long-term work.

In 2017, there was an increase in the tariff of insurance contributions in the PFR for the self-employed: contributions for compulsory pension insurance (CPI) for citizens who work "on themselves", are paid in a fixed amount, which is calculated annually depending on the size of the minimum wage rate. Another principal innovation is the possibility of early withdrawal of savings, which are now the property of citizens.

Today another problem came to replace the problem concerning the age of retirement, and it’s very discussed recently and causing contradictory opinions. It is about the funded component which became an independent type of pension in connection [3].

According to the new concept, the savings invested in the individual pension capital (IPG) will be formed outside the compulsory pension system (CPS), which replaces the funded pension. When applying for employment, the insured persons will be automatically included in the new system. In case of unwillingness to participate in it, the citizen will have to apply [6].

The amount of the paid contribution can change in any direction from the initial one, its value will increase for 6 years from 0% to 6%. Payment of contributions can be stopped at any time with the maximum duration for five years, but it is also possible to prolong such "holidays" for five-year term from the date of the new application. To attract citizens to the new pension scheme, a system of tax benefits for employees and their insurers is provided.

A key provision in the decision on the formation of individual capital is an automatic subscription to it, which is a controversial issue between supporters and opponents of such an idea. The main elements of the IPG formation are the following:

- the established size of an initial contribution by default is equal to 0%;
- during the transition period the citizen independently chooses the contribution size where the voluntary choice has no restrictions;
- undefined insured persons will receive an automatic increase of 1% per year until they reach level 6%;
- the employee may independently stop the payment of contributions, expressing a desire to establish the so-called "holidays" for a period of up to five years with the ability to extend them throughout life, since the absence of an application for extension of "holidays" will lead to automatic assessment of pension contributions;
- the size of the established contribution can be changed also periodically as in greater, so and in a smaller side [7].

Discussion of such principles as participation of citizens in the new structure of formation of savings without prior consent and voluntary contributions of contributions to the individual pension capital became the most sensitive issues at a development stage of new pension system.

There are several fundamental differences between the existing funded pension and the new system of investing in individual pension capital:
- now funds will be raised through additional voluntary contributions of the citizens in addition to the compulsory (obligatory) contribution to the 22% paid by the employer to the insurance part (earlier these funds were transferred by the insurer of 6% of the annual salary fund of the employee and were a part of an insurance contribution);
- the accumulated funds will now be the property of citizens (in this sense, the new concept is more like investing in deposits);
- formation of savings only in non-state funds (it is supposed to create a Central administrator, accumulating all the information and containing a register of employees, as well as established tariffs and fees);
- application in the new system of tax benefits assumes attraction of larger number of insured persons to the process of accumulation that objectively should contribute to the improvement of the economy in the near future [8].

Despite the undeniable advantages of investing in individual pension capital and making a profit by placing savings in various financial instruments, as well as a significant increase in pensions in the future, however, it should be said about two significant problems: additional expenses from the budget at the initial stage of the new system introduction and distrust of citizens with their unwillingness to increase their expenses, having already small income [4].

Based on the absence of positive changes in the production sphere, it is obvious that the funds held in the non-state funds savings accounts will continue to be "frozen" until the Russian Government finds other ways to form and reduce the expenditures of the State budget. As funded pension in 2017-2019 won't be formed, the RPF has prepared and has adopted the budget, considering freezing (moratorium) of pensions for 3 years at once [5].

Undoubtedly, the moratorium, introduced and extended twice, will objectively affect the size of future pensions. Prior to the so-called "freezing" of funded pensions, the money of future pensioners could be placed through non-state pension funds (NSPF) and Management companies (MK) in the financial markets, that is, could be invested in various projects. The degree of profitability of financial investments depends on many factors, which determine the professionalism of employees of non-state pension funds. After the introduction of the moratorium and the transfer of funds to the budget of the PFR, the profitability of savings is close to zero (official profitability on deposits of Vneshekonombank — 3%), and if to consider inflationary processes in economy, then it can be negative at all [9].

The further extension of the moratorium on the formation of funded pensions clearly undermines public confidence in the government of Russia, and in the conditions of difficult access to external financial resources creates difficulties in the domestic financial market. Management companies and non-state pension funds (NSPF) were mainly engaged in investment activities in the domestic market. After the "freeze" of pension savings plans, their investment activity has decreased significantly [10]. This resulted in an increase in interest rates on loans to enterprises and the population, which, accordingly, slows down development of the industrial sector of economy which already is in deep crisis. The listed circumstances will lead to a further reduction of jobs and salaries, and therefore revenues to the PFR budget.

For ordinary citizens who have concluded contracts on the pension insurance with non-state pension organizations, all this may be reflected in the form of loss of investment income due to the bankruptcy of some of them. It is unknown when frozen savings will return to non-state pension funds. More successful implementation of the new concept will require more explanatory work among the population. What can citizens do in this situation? They should become more aware in the field of
pensions: to constantly monitor changes in pension legislation, follow the news and, finally, do not hesitate to seek advice from employees of Pension Fund offices [11].

4. References
[1] Federal law dated 19 December 2016 No 416-FL «About the budget of the Pension Fund of the Russian Federation for 2017 and for planning period of 2018 and 2019» http://www.consultant.ru/document/cons_doc_LAW_208991
[2] Budget of the Pension Fund of the Russian Federation (PFR) Modern Pension Encyclopedia http://pensiology.ru/ops/budushhim-pensioneram/sistema/byudzhet-pfr/
[3] Aksenov P 2017 Pension of small forms Newspaper «Kommersant». https://www.kommersant.ru/doc/3235974, last accessed 2018/01/03
[4] 2016 The deficit of the Pension Fund in 2017 will be about 181.7 billion rubles // RIA «Novosti». https://ria.ru/economy/20161004/1478447998.html
[5] Pensions in 2017 Modern Pension Encyclopedia http://pensiology.ru/news/pensii-v-2017-qodu/
[6] 2016 The deficit of the budget of the Pension Fund of Russia in 2017 may increase to 1.1 trillion rubles St. Petersburg International Economic Forum http://tass.ru/pmef-2016/article/3370274
[7] Pension review (e-journal) http://www.pensionobserver.ru/assets/
[8] Federal law dated 17 December 2001 No 173-FL «About Work Pensions in the Russian Federation», http://www.consultant.ru/document/cons_doc_LAW_34443/
[9] Latest pension indexation news Modern Pension Encyclopedia http://pensiology.ru/pensionnaya-reforma/poslednie-novosti-indeksacii-pensii/
[10] PensiaMarket: Navigator of the pension market http://www.pensiamarket.ru/
[11] How the future pension is formed and calculated. Official website of the Pension Fund of the Russian Federation http://www.pfrf.ru/grazdanam/pensions/kak_form_bud_pens/