



**Problem of formation
of pension capital
in the Russian
Federation**

PROBLEM OF FORMATION OF PENSION CAPITAL IN THE RUSSIAN FEDERATION

PROBLEMA DE FORMACIÓN DE CAPITAL DE PENSIONES EN LA FEDERACIÓN DE RUSIA

ABSTRACT

The paper is devoted to the problem of pension capital formation in the country's financial system, which is topical for many countries. Pension provision plays an important role for social sustainability in any country. In the most developed countries, there are problems of reducing pension assets associated with population aging and a decrease in quantity of the working-age population. However, despite this, the developed countries of the world are trying to provide citizens with pensions at the proper level. Based on the analysis of the experience of foreign countries, it was concluded that it is necessary to increase pensions in the Russian Federation, taking into account several factors such as increasing in the assets of pension funds, increasing in pensions for current pensioners, fixing the retirement age for men and increasing it for women to ensure social justice at the level of developed countries. The paper also discusses the problems of the pension capital formation in the Russian pension system, which is more based on state pension provision for citizens and for many years has already experienced serious problems with the availability of funds to cover pension liabilities. The authors proposed a scientific and practical substantiation of the directions for increasing the effectiveness of the pension capital formation in the economy of the Russian Federation.

KEYWORDS: pension capital, pensions, pension systems in Russia, public pension, sustainability of pension system

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RESUMEN

El documento está dedicado al problema de la formación de capital de pensiones en el sistema financiero del país, que es de actualidad para muchos países. La provisión de pensiones juega un papel importante para la sostenibilidad social en cualquier país. En los países más desarrollados, existen problemas para reducir los activos de pensiones asociados con el envejecimiento de la población y una disminución en la cantidad de la población en edad de trabajar. Sin embargo, a pesar de esto, los países desarrollados del mundo están tratando de proporcionar a los ciudadanos pensiones en el nivel adecuado. Sobre la base del análisis de la experiencia de países extranjeros, se llegó a la conclusión de que es necesario aumentar las pensiones en la Federación de Rusia, teniendo en cuenta varios factores, como el aumento de los activos de los fondos de pensiones, el aumento de las pensiones de los jubilados actuales, la fijación de la edad de jubilación de los hombres y su aumento para que las mujeres garanticen la justicia social a nivel de los países desarrollados. El documento también analiza los problemas de la formación de capital de pensiones en el sistema de pensiones ruso, que se basa más en la provisión estatal de pensiones para los ciudadanos y durante muchos años ya ha experimentado serios problemas con la disponibilidad de fondos para cubrir las obligaciones de pensiones. Los autores propusieron una fundamentación científica y práctica de las direcciones para aumentar la efectividad de la formación de capital de pensiones en la economía de la Federación Rusa.

PALABRAS CLAVE: capital de pensiones, pensiones, sistemas de pensiones en Rusia, pensiones públicas, sostenibilidad del sistema de pensiones

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INTRODUCTION

Today there is a serious question about the problem of pension provision in many countries of the world.

Such researchers as J.R. Barth, S. Joo and K.B. Lee studied state pension plans in the United States and concluded that they had problems in financing the plans, what leads to the need to increase either the level of contributions or the age of participants (Barth et al, 2017).

Spanish scientists D. Moreno-Herrero, M. Salas-Velasco and J. Sánchez-Campillo also noted that in Spain the state pension system cannot guarantee a sufficient pension, therefore it is important to pay attention to the development of private pension plans (Moreno-Herrero et al, 2017).

An English researcher L. Foster noted that in recent years young people of working age have not been concerned about their pensions, what has led to the development of auto-enrollment aimed at developing non-state pension provision to reduce UK social security expenditures (Foster, 2017).

Researchers from Slovakia P. Sika and A. Martišková also noted that due to demographic fluctuations, changes in economic growth, high unemployment, the problem of financing the pension system worsens. In the process of its reforming in Slovakia to improve its stability, it was suggested to link the retirement age with the life expectancy and to introduce changes in the mechanism of revaluation of pension savings and accumulative pension programs (Sika and Martišková, 2017).

In his monograph "Finance and Occupational Pensions", Charles Sutcliffe noted that for many years the pension systems in most countries are in a state of long-term crisis that

accumulates its power decade after decade, and achieving significant effect by any means will also require decades (Sutcliffe, 2016).

The theoretical analysis of research on pension provision allowed the authors to formulate the following definition of pension capital as the fundamental category of the problem under study. Pension capital is the aggregate assets of the pension system that make it possible to realize the concept of the trinity: social security, justice and solidarity of generations.

An analysis of international experience shows that many public pension systems are experiencing financial problems, especially in the context of increasing life expectancy and the proportion of people older than working age. At the same time, many researchers focus on raising of the retirement age or developing new schemes and measures to increase the profitability of professional and private pensions.

Russia faces the same problems. Now the country faces the goal of reaching the level of social and economic development similar to the most developed countries of the world, and its pension system as part of the social security of the population, its functioning and financial mechanism are part of the necessary changes.

Before analyzing the possibilities and ways to increase the accumulation of Russia's pension capital, it is necessary to determine the sufficient level of social security that must be maintained in the country. For this, it is necessary to study the experience of developed countries.

METHODS

The authors considered a number of countries with a high level of economic development, a high standard of living and a developed market economy.

The application of sampling methods and systematization of data, as well as the coefficient-based approach, made it possible to identify the most effective pension systems of developed countries.

In order to identify countries with a high level of pensions, the authors have taken the

per capita pension assets ratio index in thousands of US dollars for 2016.

RESULTS

Countries with the highest per capita pension assets ratio index are Switzerland, Iceland, the Netherlands, Australia and the United States. In Russia, this index in 2016 was 594.1 US dollars, which is much lower than that of the countries represented (table 1).

In all analyzed countries, the ratio of assets of pension funds per capita has increased significantly over the past sixteen years; the highest growth has been recorded in Iceland and Australia.

Table 1. Assets of pension funds per capita, thousand US dollars. (See Annexes)

To study the level of pension provision in these countries, a coefficient-based approach was also applied and the following indices were considered: net replacement ratio, age-specific burden ratio for pensioners, and the ratio of life expectancy to retirement age (table 2). (See Annexes)

According to table 2, the net replacement ratio varies in the countries surveyed, while Russia's index lags behind those of developed countries. The highest replacement rate is observed in the Netherlands (100.6%), the lowest in Australia (42.6%). The average level in the five countries, which are leading in terms of pension assets per capita, is 58.6%. At the same time, the age-specific burden ratio calculated in accordance with the international methodology for the population over 65 does not exceed 30%. Note that in Russia the relatively lower life expectancy and retirement age is still set at 60 and 55 years, and not 65 as in many countries.

An important indicator of the pension provision level in these countries is the ratio of life expectancy to retirement age reflecting how much the life expectancy is higher than the established retirement age in the country. According to table 2, it can be concluded that in almost all countries with a high level of pensions, the ratio for men is 1.2, and for women 1.3, except for the United States: in this country the ratio for men and women is the same (1.2). Note that in Russia the coefficient for men is lower than in developed countries (1.1), and for women is higher (1.4).

Table 2. Research of the pension provision level in 2016. (See Annexes)

Systematization of theoretical data, practical experience of building mechanisms for the formation of pension capital and the functioning of pension systems of the selected countries allowed the following conclusions to make.

The Swiss pension system is built on three main components: public pensions, pension funds managed by investment funds, and voluntary private investments. The first component is a state pension that provides a minimum subsistence level. The second level is a professional pension: all workers are mandatorily insured since the age of 17, and voluntary insurance is provided for self-employed persons. The third level is a private pension: voluntary contributions of citizens to selected individual pension schemes, with the state providing incentives to provide tax benefits (Pension System Switzerland).

The pension system of Iceland, like in Switzerland, consists of three components: state, professional and private pensions. The first is the state level which includes financing of minimum security that is 15% of the average earnings. The second level also includes mandatory professional pensions. The third level is private pensions operating on a voluntary basis (Pension System Island).

The Dutch pension system is also built on three levels. The first level is basic. It is regulated by the state and provides a minimum pension provision. The second depends on the choice of citizens; pensions at this level are formed by joint contributions of employees and employers, while contributions to the pension fund are not subject to taxation. The third level is based on voluntary individual pension insurance, which has recently gained popularity in many countries (Pension System Netherland).

In Australia, a three-stage system is also organized. The first state level provides a minimum pension, the amount of which varies depending on the demographic situation and the minimum subsistence level. The second level forms the basis of the pension provision through a mandatory system of contributions to pension funds for all employees over 17 and less than 70 years of age receiving more

than 450 Canadian dollars of wages, while a minimum contribution system is used. The third level includes contributions of citizens to pension funds or pension savings accounts (Pension System Australia).

The US pension system is different from those analyzed above. Pensions in the country are built on the basis of the social insurance system, the federal social insurance program, as well as various private plans offered by employers, insurance companies and trade unions (Pension System USA). The multi-component system allows the stability of the pension system and the social protection of future pensioners to ensure.

Russia to meet international standards, it is necessary to increase significantly the level of pension provision for its citizens. To provide the level of pensions similar to the developed countries, it is necessary to maintain the retirement age at the level of ratios of life expectancy to retirement age equal to 1.2 for men and 1.3 for women, and increasing pensions with the desired replacement rate at 56%. However, today it is impossible to provide socially just pensions in the country, because there is not enough pension capital.

DISCUSSION

Dialectical method and system approach allowed us to identify three groups of factors that have a serious impact on pension provision in Russia and the formation of pension capital in the long term (fig.1). These factors need to be taken into account when reforming pension provision in the Russian Federation.

Social security factors in quantitative terms should be close to those of developed countries, what should be achieved through mutual adjustment of organizational and economic factors and factors affecting the increase in the efficiency of citizens' labor activity.

Fig. 1. Factors affecting the level of pension provision in Russia (compiled by the author). (See Annexes)

The analysis of assets of pension funds per capita in foreign countries in comparison with the Russian indicator made it possible to conclude that it is necessary to increase the total pension capital in Russia. The existing pension system does not cope with its task, and the introduction of new measures to save

expenditures of the pension fund budget and the accumulative component does not produce serious results.

Structural problems in the economy, an increase in the proportion of pensioners in the total population, a decline in the share of labor force, a slowdown in economic growth reduces the ability of the Russian state pension fund to maintain pensions at the proper level.

Non-state pension funds in Russia have rather strict legislative restrictions in the field of management and investment of pension savings, which significantly reduces the opportunity to increase the profitability of their pension assets.

Studying foreign experience allows us to recommend the construction in Russia of a pension system based on three levels: state, professional and private. The content of this level approach is the following: the state provides a minimum level of pensions, enterprises provide an addition to the pension for their employees, and the citizens themselves form their pension savings in accordance with individual pension plans.

It should be noted that the solution to the problem of pension provision is of a long-term nature and the changes now being introduced will show their results only in a few years. In the face of a serious deficit in the state pension fund, measures are needed that will influence the resolution of this situation in the medium term. State bodies propose to amend the retirement age: up to 65 years for men, up to 63 years for women, what may lead to a decrease in socially equitable pension provision.

The option that will provide an opportunity to significantly increase the pension capital, while not reducing the socially just level of pensions can be an active attraction of citizens' money in the pension system through the use of tax refund.

The authors propose a program to stimulate the activity on the formation of pension capital at the expense of reimbursement of 3% of personal income tax for employees if they take part of the obligation to create their own pensions (the third level) by concluding an agreement with a non-state pension fund and deduct 3% of their income from there. Sche-

me of interaction between participants in the program is presented in fig.2.

In this scheme, the state controls the activities of non-state pension funds, and supervises and regulates their financial sustainability.

An employee enters into an agreement with a non-state pension fund and an agreement with an employer to transfer a part of his/her income to a non-state pension fund. At the end of a year, when applying for a tax return, the employee seeks compensation for 3% of his/her income, which was paid in the form of personal income tax.

Fig. 2. Scheme of interaction in the incentive program for the formation of pension capital (compiled by the author). (See Annexes)

According to the authors' estimates, people who are financially literate and have already taken actions to transfer their pension savings can take part in this program. In 2018, about 25% of the population (about 37.07 million people) transferred the accumulative component of their pension to non-state pension funds (Ranking of non-state pension funds). If about 25% of the population take part in the program, then at the current level of the average wage (35,369 rubles) one can expect the inflow of funds to non-state pension funds in the amount of 39.33 billion rubles a year, which will affect the growth of pension capital.

CONCLUSIONS

The authors studied the experience of functioning pension systems in countries with a developed market economy and a high level of pension assets per capita, what made it possible to identify the features of their organizational and economic structure that contribute to the achievement of a high level of pensions by maintaining a certain level of the replacement rate, the age load coefficient and the ratio of life expectancy to retirement age.

In modern conditions in Russia there is a serious shortage of pension capital; the state is not able to implement pensions at the proper level. The reforms of the pension system carried out in recent years have not yielded significant results. The latest innovations rely on raising of the retirement age of the population in order to reduce the burden on


the pension system, but in the long run this decision contradicts the provision of social protection of the population and will not bring the desired result without a systemic approach.

The analysis made it possible to form three groups of the most significant factors affecting the formation of pension capital. These factors are strategic and are of a long-term nature.

In order to stimulate the activity on the formation of pension capital, a program aimed at reimbursement of a part of personal income tax was proposed in the work. According to the authors, the proposed measures will increase the amount of income to the pension system in the amount of 39.33 billion rubles in a year.

Activating the growth of pension capital has a significant impact on the financial market, since it is an important mechanism for the redistribution of funds. Pension funds are major institutional investors in the country's economy, with long-term investment with low transaction costs.

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ANNEXES

Country \ Years	2000	2003	2006	2009	2012	2016
Switzerland	38.37	49.60	63.87	75.05	91.79	97.35
Iceland	22.39	40.23	68.64	45.98	58.53	92.13
Netherlands	27.45	37.57	54.13	59.25	73.35	78.63
Australia	13.75	18.04	31.20	38.69	60.83	61.77
USA	28.23	28.36	35.27	32.70	38.64	46.11

Table 1. Assets of pension funds per capita, thousand US dollars
Compiled and calculated by the authors on the basis of statistics.

Country	Net pension replacement rates,%	Age dependency ratio, old (% of working-age population)	Life expectancy at birth / Retirement age	
			male	female
Switzerland	44.9	27.2	1.2	1.3
Iceland	75.7	21.4	1.2	1.3
Netherlands	100.6	28.2	1.2	1.2
Australia	42.6	23.2	1.2	1.3
USA	49.1	22.8	1.2	1.2
Russia	38.8	20.0	1.1	1.4

Table 2. Research of the pension provision level in 2016
Compiled and calculated by the authors on the basis of statistics.

ANNEXES

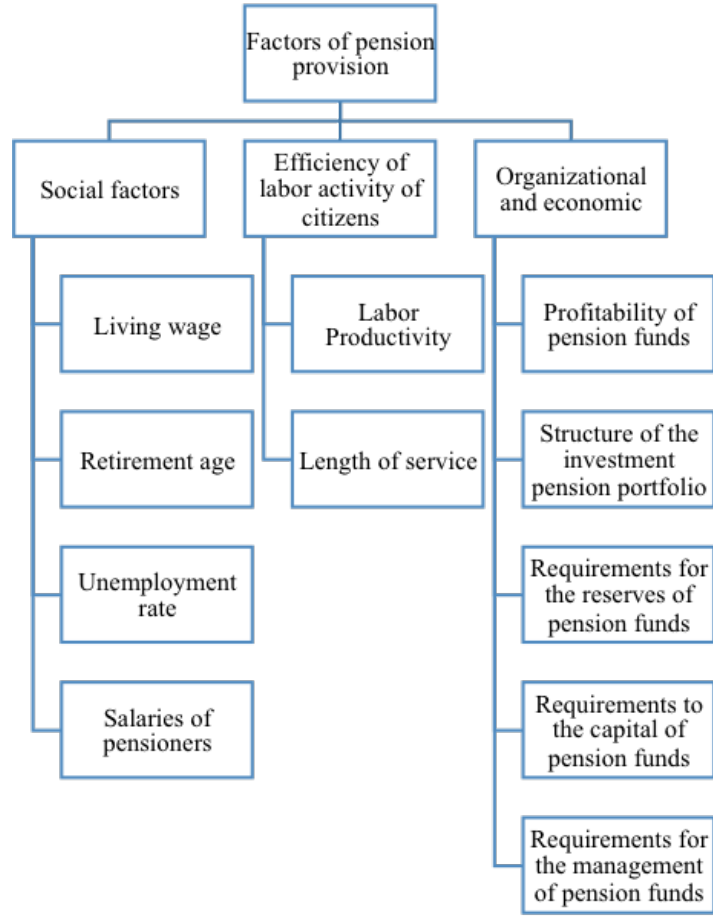


Fig. 1. Factors affecting the level of pension provision in Russia (compiled by the author)

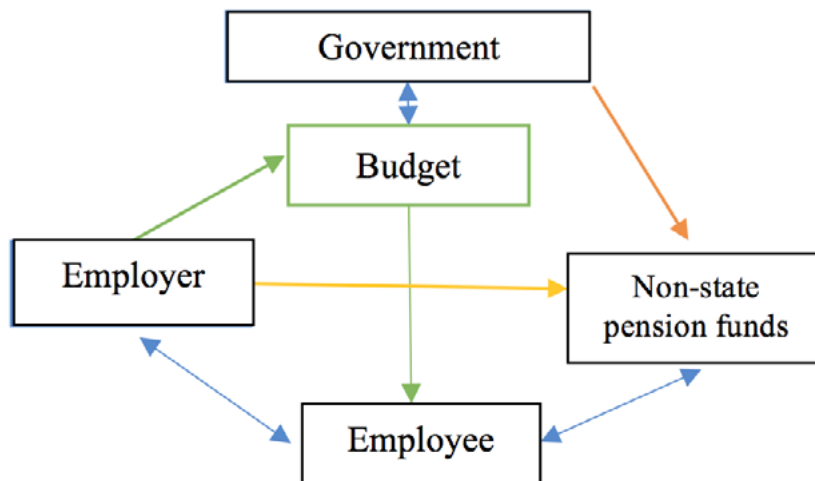


Fig. 2. Scheme of interaction in the incentive program for the formation of pension capital (compiled by the author).