CHAPTER 19

Reforming the Public Pension System in the Russian Federation

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INTRODUCTION

As in many other countries, public pension reform in Russia is a key policy challenge. To combat the effects of the global financial crisis on the economy, in 2009–10 Russia undertook a large fiscal stimulus of about 9 percent of GDP, mainly comprised of permanent measures including an increase in pension benefits. Although some of the stimulus has been withdrawn, the end-2011 non-oil deficit—which is a relevant measure of the fiscal stance in oil-producing countries, given the volatility of oil prices and the nonrenewable nature of oil reserves—was still more than double the level considered consistent with equitable use of the oil wealth across generations (Gust and Zakharova, 2012) and should be reduced in coming years. This deficit reduction will be needed to avoid procyclical policies that fuel inflation and real appreciation, which undermine competitiveness and contribute to boom-bust cycles, as well as to reduce fiscal vulnerabilities (IMF, 2011b). Given that discretionary spending at the federal level is only about one-third of total expenditures, durable fiscal consolidation will need to be underpinned by fundamental structural reforms, including in pensions and health care. In addition, an aging population means reforms will be needed to contain future pension spending.

In the wake of the global financial crisis, there was renewed interest in the future of the Russian pension system, with experts and groups putting forward proposals, including Strategy 2020 (2011), Dmitriev (2011), and Gurvich (2010), on how to ensure adequate and sustainable pensions. Official interest was also high, with the Ministry of Health and Social Development publishing a paper in 2010 entitled “Results of Pension Reform and the Long-Term Outlook for Development of the Pension System of the Russian Federation Accounting for the Influence of the Global Financial Crisis” as part of their strategy for pension system long-term development through 2050.

This chapter presents projections of pension spending as a share of GDP in the absence of reform, estimates the impact of some of the proposals to increase the pension age and reduce early retirement, and puts forward some alternative proposals.

The remainder of this chapter is structured as follows: The next section presents an overview of the Russian pension system in 2013 and is followed by a section that examines the demographic and other challenges the Russian pension
system faces. The final section discusses the considerations that should guide pension reform; assesses some of the recent reform proposals put forward in Russia; and discusses further reforms that could address remaining pension spending pressures consistent with fiscal consolidation needs, the implications for equity, the functioning of labor markets, and economic growth.

DESCRIPTION OF THE PUBLIC PENSION SYSTEM

Russia’s current pension system was introduced in 2002. Before 2010, the system had three components: a basic pension, an insurance benefit based on a notional defined-contribution account, and a funded defined-contribution scheme (available only to individuals born after 1967). After 2010, the basic pillar was folded into the pay-as-you-go (PAYG) portion of pensions. In addition to old-age labor pensions, disability and survivor labor pensions are part of the system. This chapter focuses mainly on old-age labor pensions. Table 19.1 provides a description of the key parameters of each pillar in 2013:

- The basic pension is a flat amount provided to all those reaching retirement age (age 60 for men, and age 55 for women) with a minimum contribution record of five years (rising to 15 years by 2025). Most current elderly fall within this group, so coverage among the elderly is virtually complete. Although the basic pension is supposed to be uniform, higher levels are granted to pensioners in a variety of categories, including to all those age 80 and older, those who are disabled with limited working capacity, those who are caring for a dependent family member, and those who live or have worked in Arctic regions. Indexation rules are complex. As of 2010, the basic pension was indexed the same way as the insurance portion, that is, annually to average wages, but limited to the annual growth of the Pension Fund of Russia’s (PFR) income, expressed per pensioner. There is also the possibility of preventive (advance) indexing during the year if inflation exceeds 6 percent (see Ministry of Health and Social Development of the Russian Federation, 2010, for further details). Increases outside this formula were legislated in 2009 and 2010. As of 2010, the basic pension was about 12 percent of the average wage.

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1 Before 2002, pensions were based on the length of work and the wages in the last two years of that work record (or in any five years of work), according to the following formula: Pension = LC × (pensionable wage for individual divided by average wage in Russia for the last two years of the individual’s work record) × average wage in Russia in the previous quarter; LC is between 0.55 and 0.75, depending on length of work record. The ratio of pensionable wage for the individual to the average wage in Russia could not exceed 1.2. In addition, pension rights accumulated before January 1, 2002, were converted into a portion of the notional accounts. Pre-2002 notional capital is subject not only to indexation but to valorization from the federal budget. For a further description of how the pre-2002 system worked, see Mansoorna and others (2002).

2 In line with legislation at the time, basic pensions were increased at the end of 2009 to bring them closer to the subsistence level for pensioners.
### TABLE 19.1
Key Parameters of the Russian Pension System, 2013

<table>
<thead>
<tr>
<th>Pension Parameter</th>
<th>Basic (part of PAYG)</th>
<th>Notional Defined Contribution (part of PAYG)</th>
<th>Funded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement age</td>
<td>60 for men and 55 for women with a minimum of five years of contributions (15 years by 2025), but there are many provisions for earlier retirement</td>
<td>Notional account system, based on actual contributions made, with an assumed 19 years of benefit receipt at the normal retirement age beginning in 2013, phased in from the assumed 12 years in 2002</td>
<td>Based on individual contributions and interest earned on those contributions</td>
</tr>
<tr>
<td>Benefit rate</td>
<td>Rub 3,170/month, but higher for those ages 80 or older, disabled persons, those caring for disabled persons, or those who spent at least 15 years working in Arctic areas</td>
<td>Notional account system, based on actual contributions made, with an assumed 19 years of benefit receipt at the normal retirement age beginning in 2013, phased in from the assumed 12 years in 2002</td>
<td>Based on individual contributions and interest earned on those contributions</td>
</tr>
<tr>
<td>Interest rate on contributions</td>
<td>n.a.</td>
<td>Growth rate of contribution revenue from working-age population per pensioner</td>
<td>Interest rate earned by fund chosen by individual</td>
</tr>
<tr>
<td>Indexation post-retirement</td>
<td>Indexed to average wages, but can be limited by availability of revenue</td>
<td>Indexed to average wages, but can be limited by availability of revenue</td>
<td>Paid as a scheduled withdrawal</td>
</tr>
<tr>
<td>Contribution rates</td>
<td>6 percent of yearly wages up to Rub 512,000; 10 percent of yearly wages exceeding Rub 512,000</td>
<td>16 percent for those born before 1967 of yearly wages up to Rub 512,000; 10 percent for those born in 1967 or later of yearly wages up to Rub 512,000</td>
<td>6 percent for those born in 1967 and later of yearly wages up to Rub 512,000</td>
</tr>
</tbody>
</table>

Sources: World Bank; Russian Ministry of Health and Social Development; and Pension Fund of Russia.

Note: PAYG = pay-as-you-go; Rub = rubles. In mid-2013, 1 U.S. dollar was approximately 33 rubles.

- The labor insurance component is a notional defined-contribution pension. This is a PAYG scheme that includes old-age, disability, and survivors benefits. Contributions to individual accounts are not invested in financial assets. Instead, these contributions are recorded in a notional individual account by the PFR. These accounts earn a “notional” return set by law—currently, the return is equal to average wage growth, but limited to the growth rate of pension contributions per pensioner. Between annual indexation on April 1 of each year, pensions can be indexed to inflation (if inflation exceeds 6 percent) to prevent a sharp drop in purchasing power during the year. Typically, notional account balances are divided by life expectancy in months at retirement, which provides some automatic fiscal adjustment as life expectancy increases in the long term; however, this automatic adjustment has been disabled in the Russian pension system by the use of fixed conversion factors.
- The third component is a funded defined-contribution system, in which individuals contribute to pension fund accounts that are invested by public or private asset managers. The default option is for individuals to keep the account in the PFR to be managed by a state financial institution—about 85 percent of contributors and assets are currently in the default option.
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(Heinz and Holtzer, 2010). However, individuals can opt out of this arrangement by choosing a private asset manager or by transferring the account to a private pension fund. Upon retirement, an individual receives both the contributions and the investment returns earned on those contributions in the form of a lifetime annuity.

- The pension system also pays state pensions (including early pensions to civil servants and military personnel, disability social pensions, and social pensions for people older than the retirement age who are not entitled to other pensions) and offers monthly allowances to certain categories of citizens, including veterans, the disabled, and persons affected by radiation exposure. In addition, the PFR funds a benefit top up that increases pensions to the “subsistence minimum level” (about 20 percent of the average wage, varying by region). If the regional subsistence level is higher than the federal level, the difference is covered from the regional budget. These top ups, both from the PFR and the regions, are not a major source of spending—together they amounted to only 0.3 percent of GDP in 2010.

- The system is funded by payroll contributions and transfers from the federal budget. The contribution rate is 22 percent of wages up to an annual cap of about 165 percent of the average wage (Rub 512,000). Of this, 6 percent of wages is diverted to the funded defined-contribution component for younger individuals. In addition, an individual’s earnings in excess of the annual cap are subject to a 10 percent tax rate to finance basic pensions.

Relatively Low Statutory and Effective Retirement Ages

One important characteristic of the Russian pension system is its relatively early statutory retirement age. Men can claim a full old-age labor pension at age 60 and women at age 55—in contrast to an average retirement age of 64 for men and 63 for women in the advanced economies, and 61 for men and 58 for women in emerging market economies (IMF, 2011a). Furthermore, many individuals retire even earlier: the average effective retirement age in Russia is estimated to be

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3Until late 2009, the investment of the monies in the default option was restricted to government securities. Since then, investment alternatives have been expanded to allow investment in a wider range of domestic securities (including corporate bonds, mortgage bonds, and Russian Bank deposits) and bonds of global banks listed in Russia. This conservative investment policy largely explains the poor returns on these accounts—the real annual return of the default fund during 2004–09 was −3.9 percent. However, average returns on the other options have also been disappointing (Heinz and Holtzer, 2010).

4Note that the relative underdevelopment of the third pillar is possibly a missed opportunity for domestic financial markets, especially given ambitions for Moscow to become an international financial center.

5Old-age social pensions are payable five years after the regular retirement age for labor pensions, that is, at age 65 for men and 60 for women.

6See Fornero and Ferraresi (2007) for a discussion of why increases in the retirement age might not have been part of previous reform efforts.
These estimates are consistent with Dmitriev (2011). Workers can also retire early on a disability labor pension.

in the range of 52–54 for women and 54–58 for men (Dmitriev, 2012; Gurvich and Sonina, 2012). Nearly 30 percent of pensioners retire before the statutory retirement age (Table 19.2).7

This large number of early retirees is explained by a complicated system under which early pensions are provided to insured persons based on working conditions, work environment factors, and regional living conditions.8 For example, early pensions are available to citizens who have a work record in Arctic regions; mothers with five or more children or disabled children; unemployed males at age 58–59 and unemployed females at age 53–54; and men with at least 10 years in hazardous employment and females with at least 7½ years (hazardous employment includes a long list of occupations, including miners, geologists, and seamen). Furthermore, no minimum retirement age applies to teachers with 25 years of work with children, health workers with 30 years in urban and 25 years in rural medical institutions, professional ballet dancers, and some other artists.

### Spending

Overall, total spending on pensions and allowances equated to about 9 percent of GDP in 2010 (Table 19.2). About 30 percent of this spending was devoted to the basic pension, 60 percent to the insurance component, and 10 percent to allowances. Allowances were expanded in 2005—from less than 0.3 percent to about

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7These estimates are consistent with Dmitriev (2011).

8Workers can also retire early on a disability labor pension.
1 percent of GDP, as part of the monetization of benefits (i.e., they replaced a portion of nonmonetary subsidies). The trend in pension spending also shows a large increase (about 3½ percentage points of GDP) between 2007 and 2010. This increase in spending reflects measures that substantially increased the generosity of the system: pensions and allowances relative to the average wage increased from 27½ percent in 2007 to 40 percent in 2010.

Figure 19.1  Contribution Rates and Replacement Rates, 2010

1. Contribution Rate (percent of wages)

2. Replacement Rate (average pension as a percentage of average wages)

Sources: Organization for Economic Cooperation and Development (2011); IMF (2011a).

Note: Contribution rates refer to the nominal contribution rates that apply to the pensionable base.
However, taking into account the recent increases in spending and reductions in contribution rates, Russia is near international averages for both contribution rates and replacement rates (Figure 19.1).9

**FUTURE CHALLENGES**

**Demographic Challenges**

The key challenges facing Russia are ensuring adequate incomes in retirement, keeping funding burdens reasonable, and maintaining the pension system’s long-term sustainability as well as sufficient flexibility to adapt to the evolving economic and demographic environment.

As in other advanced and emerging market economies, Russia is facing a demographic challenge:

- Life expectancy at age 60 in Russia is lower than in several other countries—the gap with the best performing country in emerging Europe (Poland) is 3.3 years for females and 2.2 years for males (Figure 19.2). However, life expectancy is projected to rise by nearly four years by 2050, as rapidly as in other countries. Furthermore, a more rapid convergence is possible in light of the high economic growth expected during the next few decades. (Under the baseline projections from the United Nations, the life expectancy gap between Russia and the averages for eastern Europe and advanced economies remain roughly unchanged over time).

- Fertility rates (the number of children per woman) are projected to remain low in the coming decades. Fertility rates in Russia in 2005–10 stood at about 1.4, similar to that in the majority of other eastern European countries. Although fertility rates across eastern Europe are projected to increase to nearly 1.8 children per woman by mid-century, they will remain significantly below the natural replacement rate of 2.1.

- These projected increases in longevity combined with relatively low fertility rates explain the aging of the Russian population in the coming decades—the old-age dependency ratio (the ratio of the population 65 and older to the working-age population) is projected to nearly double from about 18 percent to 36 percent between 2010 and 2050. This indicates that the population will age at about the same pace as population in the advanced economies, for which old-age dependency ratios are projected to increase from about 23 percent in 2010 to 46 percent in 2050.

**Fiscal Sustainability**

At nearly 9 percent of GDP, Russia’s pension spending level was similar to that of emerging Europe and advanced economies in 2010 (Figure 19.3). These two

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9In 2012, the payroll tax rate was reduced from 26 percent of wages to 22 percent. The revenue loss of this reduction is estimated to be 0.5 percent of GDP.
groups of countries spend substantially more than emerging market economies outside Europe. Public pensions cover only about one-quarter of the elderly in emerging Asia and 60 percent in Latin America compared with nearly universal coverage in emerging Europe and the advanced economies, and populations are younger.

Russia, however, devotes a relatively large share of its budget to the financing of public pensions. Pensions are about 23 percent of general government primary spending in Russia, just at the emerging Europe average, compared with 20 percent in the advanced economies and only 13 percent in emerging market economies outside Europe. This higher proportion of public spending might make Russian public finances more vulnerable to demographic pressures than are those of other countries.

For Russia, the baseline scenario assumes that the replacement rate (the ratio of average pension to average wage) will remain at its 2010 level for the foreseeable future. In fact, increases in the replacement rate to about 40 percent of wages is consistent with earlier announcements that pensions would be brought

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**Figure 19.2** Demographic Trends, 2010–50

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Sources: United Nations; and IMF staff calculations.
In November 2007, then-President Putin expressed the need to raise replacement rates to 40 percent (Hauner, 2008). More recently, Prime Minister Putin has noted that pensions “will certainly continue to grow” (Putin, 2012) and reaffirmed that in the future, pensions should reach a replacement rate of 40 percent (see http://en.rian.ru/russia/20120229/171613261.html).

Under this assumption, pension spending is projected to increase from 9 percent of GDP in 2010 to 12 percent in 2030 and 16 percent in 2050 (Figure 19.4). The cumulative cost of this projected increase is large: the present discounted value of increases in pension spending during 2010–50 is about 105 percent of 2010 GDP.

The magnitude of this projected increase contrasts with the expected trends in the rest of emerging Europe, for which average public pension spending is

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Projected to remain stable at about 9 percent of GDP until 2030 and increase to only 11 percent of GDP by 2050. Projected increases are also more moderate in advanced economies, for which spending is projected to increase from 8 percent of GDP in 2010 to 11 percent in 2050. These lower increases in spending in other countries largely reflect the impact of reforms they have already enacted.

Achieving Equitable Outcomes

The most prominent equity issue in Russia’s public pension system appears to be the existence of preferential retirement ages. The statutory retirement age for females is five years lower than that for males even though women having substantially higher life expectancy at birth and at age 60 than do men. In addition, many individuals can take advantage of early retirement arrangements while continuing to work in their existing professions.

One possible justification for a lower female statutory retirement age is that it compensates women for the loss of earnings during motherhood and while providing informal caring functions (e.g., looking after children or frail elderly relatives). However, such concerns can be addressed through other measures, for example, by offering pension credits.

Retiring early while continuing to work is particularly widespread within the education, health care, science, and culture sectors (Góra, Rohozynsky, and Sinjavskaya, 2010). These highly educated groups have enjoyed substantial increases in life expectancy since the early 1990s, whereas those with lower educational attainment (and therefore generally lower socioeconomic status) have experienced sharp drops in life expectancy (Murphy and others, 2006), making the system even less equitable.

REFORM OPTIONS

The cost of providing public pensions depends mainly on the number of pensioners and the size of the average benefit. To contain or offset projected pension spending, there are three main dimensions along which pension reform to a PAYG system can be undertaken:

• Reducing the generosity of the system (the replacement rate);
• Curtailing eligibility (reducing the number of people receiving a pension); and
• Increasing revenues (by raising the contribution rates).

However, it is important that pension reforms do not undermine the ability of the public pension system to alleviate poverty among the elderly. Pension reforms should contribute to required fiscal consolidation efforts and support economic growth (IMF, 2011a). They should also address equity issues, for example, by ensuring a minimum income in retirement, by treating similar people in a similar way, or by ensuring that the fiscal burden of providing public pensions is shared fairly across generations.
Reducing the Replacement Rates

Absent reforms, maintaining the current replacement rate would require substantial increases in public pension spending—from 9 percent of GDP in 2010 to 12 percent in 2030 and 16 percent in 2050 (the baseline scenario described above). One option for containing the growth of spending would be to reduce benefits relative to average wages. In Russia, this reduction would take place if the current law—which decreases returns in the notional defined-contribution component of pensions—were allowed to run its course and not be overridden with ad hoc adjustments. This decline would take place because the notional return on contributions in this component is capped at the growth rate of contributions per pensioner. As the ratio of retirees per worker increases, the growth rate of contributions per pensioner, and thus the return on contributions, is likely to decline. This decline could generate savings by lowering the replacement rate. But the magnitude of the benefit cuts needed to stabilize spending would be substantial: to keep pension spending at its current level, replacement rates would have to decline from about 40 percent as of 2010 to 28 percent in 2030 and to 20 percent in 2050. However, although a lower replacement rate remains a theoretical possibility for containing spending, and indeed could happen if the current pension system were left unchanged, recent experience in Russia—including ad hoc adjustments—suggests that cuts of this magnitude are unlikely to take place and would be socially undesirable.

Reducing Pension Eligibility

One way to reduce the number of individuals eligible for pensions is to increase statutory retirement ages. Increasing the retirement age helps pension finances by increasing the years of contributions and reducing the number of years pensions are paid. In addition to its fiscal impact, raising retirement ages has other advantages: it would have a positive impact on economic growth by promoting higher employment levels; it would boost the growth of real consumption, even in the short term; and it could help avoid even larger cuts in replacement rates (IMF, 2011a).

In Russia, the objections often raised to increasing retirement ages are the relatively frail health and low life expectancy of the elderly, particularly males. The

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11 For the notional defined-contribution component, for which the savings from delaying retirement could be offset by higher benefits, increasing statutory retirement ages would also entail an adjustment of the conversion factor from notional accounts to pensions. The simulations herein assume that increases in the statutory retirement ages do not increase the replacement rate. Under current law, an increase in the statutory retirement age would offset part of the decline in the replacement rate (because returns on the notional defined component depend on the number of contributors).

12 Another objection often raised is that it would increase unemployment. However, there is little evidence that increased labor force participation of the elderly would increase the aggregate unemployment rate in the long term. See, for instance, IMF (2011a).
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argue that it will be impossible for many to extend their working lives. The Ministry of Health and Social Development of the Russian Federation (2010) notes that more than 70 percent of the recipients of early old-age pensions who have not reached the universal retirement age continue to work—the majority of them at the same jobs. Thus, the majority of the individuals who retire early do not seem to have health impediments that prevent them from working.\footnote{Kolev and Pascal (2002) examine the factors that lead pensioners in Russia to continue working and conclude that making the receipt of full pension benefits conditional on leaving the labor force could save public resources and allow higher pension benefits for those unable to work.} Therefore, delaying the effective retirement age could be a feasible option for many Russians. In addition, the expected improvements in life expectancy at retirement—about one year per decade—indicate that at least part of these gains in longevity could be spent in the workforce.

One option would be to equalize the retirement age across genders, that is, to set the statutory retirement age at 60 for both men and women. Today, most advanced economies have equal ages of retirement for both genders and many emerging market economies are in the process of equalizing them. Equalization in Russia could be done gradually over the next 10 years. Such a reform would reduce pension spending by nearly 2 percentage points of GDP in 2030 and 2050 (Figure 19.5).

A more ambitious reform could aim to gradually increase the retirement ages of both men and women to age 63 by 2030. This proposal alone would be enough to keep pension spending in 2030 as a share of GDP essentially unchanged from its 2010 level while maintaining a replacement rate of about 40 percent.\footnote{Strategy 2020 (2011) proposes increasing the retirement age to 63 for both sexes by 2030, among other proposals to provide an “adequate pension size.” Dmitriev (2011, 2012) proposes increasing the pension age to 63 for both sexes by 2025. He estimates that this reform plus a restructuring of early retirement schemes could cover two-thirds of the funding gap for the PFR. Gurvich (2010) investigates the option of increasing the retirement age to 62 for men and 60 for women, which would yield a replacement rate of 35 percent in 2030 and 31 percent by 2040, and estimates in Gurvich (2011) suggest that increasing the pension age to 62 for men and 60 for women would yield savings of 1.4–2.3 percent of GDP. Sinyavskaya (2005) emphasizes the importance of raising the retirement age for women to equalize it at age 60 with men, as well as reforming early pensions and the right to work while collecting a pension. Góra, Rohozynsky, and Sinyavskaya (2010) analyze various pension reform options for Russia, including an increase in the pension age, but do not include quantitative estimates of the impact. They note, however, that an increase in the retirement age would lead to longer participation in the labor market and reduce pressure to increase contribution rates. Nazarov (2011) notes an increase in the pension age is needed but may be politically difficult in the near term. He suggests that tightening pension indexation rules and introducing incentives for voluntary delayed retirement could be first steps on a path to future reform that should include parametric reforms of the PAYG system.} However, without further increases in statutory retirement ages, pension spending will start to increase after 2030—from 9 percent in 2030 to 11½ percent in 2050. If, instead, the pension age for both sexes were further increased to 65 years by 2050—about one year per decade, in line with the projected increases in longevity—pension spending in 2050 would be only marginally above its 2010 level. This shows that retirement age increases in line with life expectancy would be required to keep spending in check. Of course, if
Considering that the average retirement age is 52 for women and 54 for men, there would be women and men who are presently retiring before age 50 who are not captured in this simulation. Therefore, if life expectancy developed differently from what is currently projected, the required changes to the retirement age would be different. Also, it is important to note that some people might not be able to keep working much longer beyond the current retirement ages, so these proposals should be accompanied by adequate disability pensions and social assistance programs to protect those who cannot extend their working lives. For those who are able to extend their working lives, it would be important to tighten eligibility criteria for disability and survivors pensions as the retirement age is increased.

As noted, a significant share of retirees take advantage of early retirement. In the baseline scenario, it is assumed in this chapter that no one can retire before age 50 and everyone retires at the statutory retirement age of 55 for women and 60 for men. Those who have not yet reached retirement age are counted as retired if they were employed at ages 45–49 but are no longer employed at 50–54 for women or 50–59 for men.

Tightening early retirement eligibility could also help contain pension spending, though not to the same extent as increases in the retirement age. For example, if it is assumed that no individual can claim a pension before age 55 for women and 60 for men, pension spending would be decreased by about half a percent of GDP in both 2030 and 2050.15

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15Considering that the average retirement age is 52 for women and 54 for men, there would be women and men who are presently retiring before age 50 who are not captured in this simulation. Therefore,
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Increasing Revenues

Projected public pension spending increases could also be offset by increasing system revenues, for example, by increasing the payroll tax rate from its current level of 22 percent of wages to about 30 percent of wages in 2030 and to more than 40 percent in 2050. These levels of contribution are higher than the currently observed payroll tax rates in other countries—nearly all advanced and emerging market economies have pension contribution rates of less than 30 percent of wages. These large contribution hikes can have adverse labor market effects and can further promote informality. In addition, such increases would go against Russian authorities’ recent efforts to reduce the cost of labor—contribution rates were reduced from 26 percent of wages to 22 percent in 2011. Other options for increasing revenues include using alternative revenue sources, such as consumption taxes, particularly to finance the redistributive components of the system such as allowances. Similarly, Russia can aim to improve the efficiency of payroll contribution collection.

Reform Options and Their Impact on Equity

The options presented above could all help to make the Russian public pension system fiscally sustainable in the future. However, because the burden of adjustment would fall on different parts of society, their implications on equity would differ. Reducing the average replacement rate sharply in the coming decades could lead to a significant increase in pensioner poverty, would make the system less equitable, and as argued, would be socially undesirable. This result is magnified because the replacement rate for workers on below-average salaries would be even lower than the average (Dmitriev, 2013). Increasing revenues, for example, by raising payroll taxes, would similarly have an adverse effect on equity because it would introduce labor market distortions, and the increased funding needs would have to be borne by future workers. By contrast, reducing pension eligibility by increasing the statutory retirement age in general and that of females in particular, and by limiting the availability of early retirement options, would make the Russian public pension system more equitable because it would align contribution and benefit periods more closely.
CONCLUSION

The appropriate reform mix depends on country circumstances and preferences, although increasing retirement ages can have many advantages (Karam and others, 2010). First, it would promote higher employment levels, which would raise both the rate and level of economic growth. In contrast, raising distortionary payroll taxes could decrease labor supply and potential economic growth. By increasing lifetime working periods and earnings, raising the retirement age can also boost the growth of real consumption, even in the short term. Second, raising retirement ages would help avoid a socially undesirable decrease in the replacement rate. Third, increases in retirement ages could also be easier for the public to understand in light of increasing life expectancies. Fourth, out of the available options, it would have the biggest impact on equity.

Given that retirement ages are low in Russia, the most immediate policy reform option is to raise them. This chapter finds that gradually increasing statutory retirement ages for men and women to 63 by 2030 and to 65 by 2050 will largely contain public pension spending while maintaining a replacement rate of about 40 percent. If life expectancy trends beyond 2030 turn out to be different from those currently projected, these increases could be revised accordingly. At the same time, increases in the retirement age should be accompanied by measures that protect the incomes of those that cannot continue to work. Older workers should be protected fully by disability pensions where appropriate and by social assistance programs to ensure that increases in retirement ages do not raise poverty rates. This will be particularly important in a country as diverse as Russia, which is home to many ethnic groups facing very different life circumstances and with significant differences in life expectancy, and where a “one-size-fits-all” policy would have limitations.

Increases in the statutory retirement age should also be accompanied by steps to limit early retirement. One way to limit early retirement is to phase out the complex categorical system that allows certain occupations and professions to claim benefits early. Another way to limit early retirement is to strictly control alternative pathways to retirement such as disability pensions, for instance, by conditioning disability pensions on stringent medical evaluations. In any case, benefits claimed before the retirement age should be reduced to reflect the longer period over which they will be received.

Reforms to put Russia’s pension system on a sustainable footing could help support the needed fiscal adjustment in the medium to long terms to ensure an enduring return to a sustainable fiscal position.

REFERENCES

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19Life expectancy at birth is highest in Ingushetia at 78.3 years and lowest in Chukotka at 58.2 years (Rosstat, 2010).


