Study Visit of tripartite delegation of

the Russian Federation

13-14 September

Introduction

Based on the official request made by the Ministry of Labour and Social Protection (MLSP) of the Russian Federation (RF) in May, 2016, the high-level tripartite delegation consisting of the Government (MLSP and Pension Fund), Trade Union and Employer's representatives of the RF, visited ILO HQ to take part in a 1.5-day technical workshop on pension age issues on the 13-14 of September 2016. The main objectives for this visit were: (1) to strengthen comprehensive knowledge on global pension reform trends, including the European Union and OECD trends on pension age increase and (2) to exchange experience and discuss how the pension reform experience systems in other countries can be applied to the current Russian context.

1. The Russian Pension Reforms

Pension reform 2002 made significant changes in Russian pension system. An existing Pays-As-You-Go pension system at that time was added by two additional pension components, insurance component and funded component. As a result of the pension reform, the pension starting to be composed of three components and named as:

(a) "base component (BC)";

(b) "notional defined benefit (NDC)" (insurance component); and

(c) "Defined contribution (DC)" (funded component).

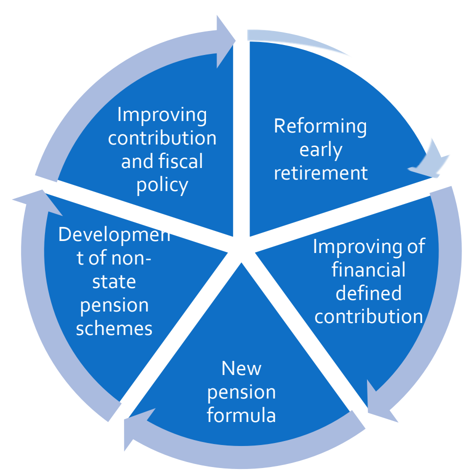
"Labour period" term was renamed to "insurance period". This is a qualifying period, when which means a qualifying period, during what pension contributions were paying to the pension fund. All contributions are recorded in the personal account of the insured person. Minimum requirements for pension entitlement are to have 5 years of insurance period (qualifying period) and retirement age at 60 years for men and at 55 years for women.

Pension reform 2013. The Russian pension system had two main challenges; for a long time, the pension system was dependent on the state budget transfers and, since in 2001 the personal saving account was implemented, it has been ineffective. Ageing of the Russian population was another challenge for the country doing improvements related to the pension system. In order to mitigate these challenges, another pension reform was initiated in 2013, which was based on the National Long-term Strategy (National strategy) approved by the Government in 2012. The main directions of the Strategy are reflected in Figure no. 1.

Table no. 1 Contribution rate 2001 to 2016

Years	Pension contribution rate, in %
2001- 2004	28
2005-2010	20
2011	26
2012- present	22

Figure 1 Main direction of the Strategy



In order to enact Strategy's actions, several new law packages concerning pension insurance (NDC) and funded pension (PSA) were adopted. Since January 1st 2015, the law "On insurance pensions" introduced new pension entitlement requirements and new method of the pension rights formation (pension formula) for nationals. The new pension formula shall sustain financial balance of the pension system and make the pension system incentive-based. It may motivate older workers to continue working after retirement without receiving pension (MLSP).

The new pension formula significantly increases the qualifying period (contribution period) - from five to fifteen years. As anchored in the law, the contribution period increase will be made gradually, thus in 2016, the minimum contribution period is already 7 years, and in 2024 should be 15 years.

Now the pension amount depends on a worker's working period and wage, contributions paid and its record on personal account of the worker.

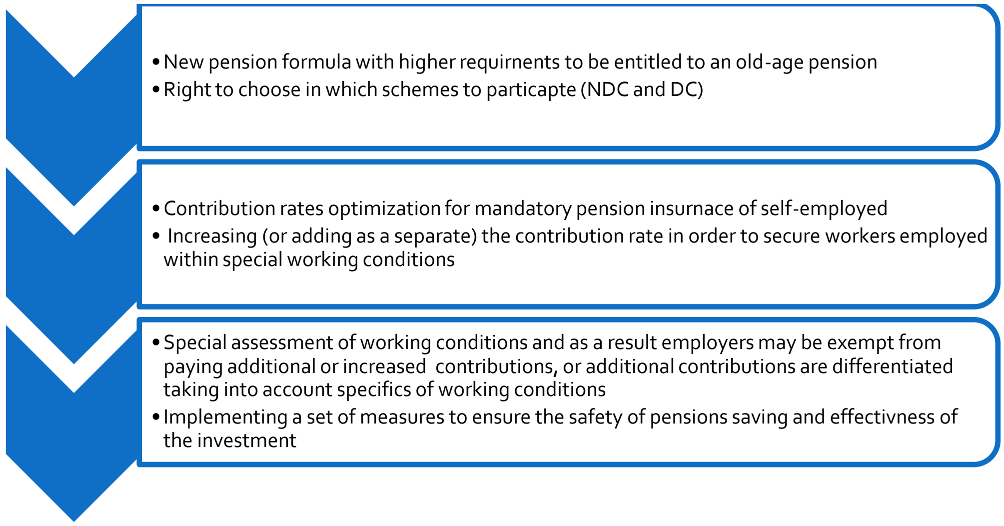
Table No.2. New pension formula: the right to the insurance pension depends on the years of insurance period

Year	Insurance period	Required amount of individual pension coefficients
2015	6	6.6
2016	7	9
2017	8	11.4
2018	9	13.8
2019	10	16.2
2020	11	18.6
2021	12	21
2022	13	23.4
2023	14	25.8
2024	15	28.2
2025	15	30

The pension system has implemented special rules, called "individual pension coefficients", in order to motivate the employees to continue working after retirement. The applied coefficients increase the final pension level, i.e. the longer a person works, the higher amount of pension s/he will receive. However, there is an exception when these special rules are not applied, when a person decides to continue working time. Therefore, worker pensioner receives an old-age pension without any additional cash supplements.

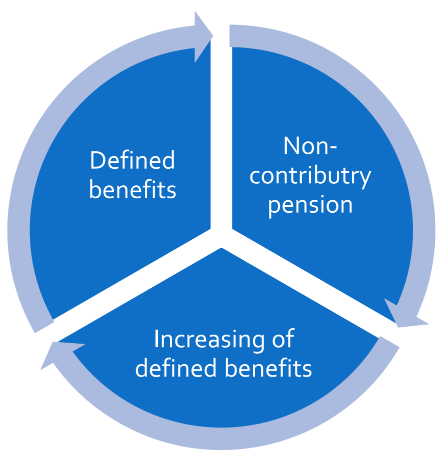
"retirement age increasing shall be done by short phases, for example by one month and not by 6 months as it is proposed by some of participants of the national dialogue" (A. Soloviov, Pension Fund).

Figure 3 Implemented measures of the Strategy: procedural and institutional measures



If persons have accumulated and recorded means in the account part of the NDC or special account designated for funded pension, they can be entitled to a funded pension, only when they reached the general retirement age. The level of the funded pension depends on the means accumulated and life expectancy of the pensioner after retirement.

Figure 2. New pension formula



In addition to the National Strategy, it is necessary to highlight an important scope such as reforming of the early retirement pension. Most of early pension entitlements are granted to the workers employed in industries with special working conditions. The current system, which grants an early retirement, was established during the USSR market economy. Moreover, financing of the early retirement pensions is made by general revenues of the pension fund budget, i.e. they are not financed by additional insurance contributions from employers or employees.

In order to develop new types of social guarantees for workers, the Ministry proposed a phased reforming of the early retirement system, as well as the provision of conditions, guarantees and compensation for workers and in accordance with their interests. None the less, along with the early retirement reform, it is necessary to improve the system of compulsory social insurance in case of employment injuries and occupational diseases.

At this stage, the National Strategy implementation has the following topics:

- Increasing the qualifying period up to 35 years in order to ensure balance between rights and obligations;
- Further development of the defined contribution (funded component), namely the promotion of voluntary pension savings;
- Comprehensive transformation of early retirement pension.

The pension reform has not ensured any changes regarding increasing the standard retirement age. It was decided to increase (phased) the retirement age only for public servants - up to 65 for men and 63 years for women.

Target evaluation criteria of raising the retirement age in Russia

1. Achieving decent standard of pensions for all socio-demographic groups of the population:
   - Achievement of the replacement rate of the labour old-age pension up to 40% of lost wages (with the regulatory experience and the average salary);
   - Provision of a medium-sized labour retirement pension at the level of 2,5 - 3 pensioner subsistence minimums;
2. The financial security of long-term government pension liabilities;
3. Promote the active participation of all categories of able-bodied citizens in shaping their own pension rights.

Actuarial reasonable set of measures for improving the insurance mechanisms of the pension system:

1. Strengthening the revenue side of the budget:
   - Actuarial adjustment of the tariff policy (rate and size of insured wage base);
   - an increase in the requirements for the duration of insurance for the replacement rate;
   - regulation of the funded component;
   - abolition of all the privileges on pension contributions (in accordance with the activities, self-employed people);

2. The reduction of budget expenditures by reducing payments and non-contributory redistribution:
   - Financing the early period of the pension before reaching the retirement age from the pension contributions at the generally established conditions;
   - Employment creation to stimulate the continuation of work after the normal retirement age;
   - Increasing the normal retirement age on the basis of real Russian demographic and economic conditions

Figure 5. Present model

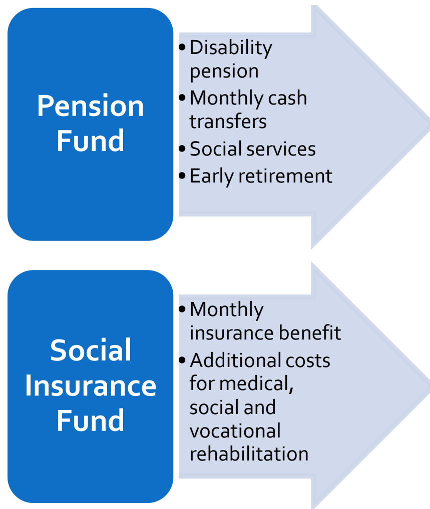
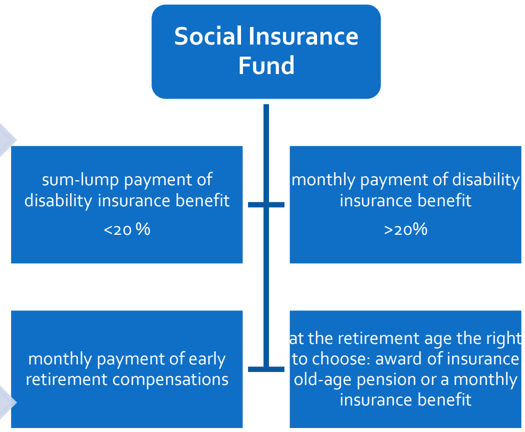


Figure 4. Projected model



2. Pension reforms and pensionable age in the world: Trends, considerations and principles

All countries mitigate the ageing impact by reducing the coverage and benefit ratios, and most countries decrease the replacement rate of social security pensions. Some countries increase reliance on funded schemes affected by financial markets.

In Europe, two waves of pension reforms have taken place – before and after 2008. A lot of countries had parametric reforms before 2008.

Wave #1: from 1990's till the crisis of 2008

Parametric reforms:

- Restricting access to early retirement;
- Tying individual benefits closer to contributory records;
- Raising the number of qualifying years for a full pension;
- The 4th parametric reform – increasing pension age in order to equalize pension age of both sexes;
- Final parametric reform – started introducing balancing mechanisms in order to sustain the financial system.

Non-parametric reforms:

- Expansion of pre-funding component – reserve funds and mandatory private pension provisions;
- Introduction of mandatory defined-contribution funded schemes – replacing a part of Pay-As-You-Go or partially funded defined-benefit schemes.

Wave #2: after 2008

A number of countries had difficulties in coping – transition costs. Public budget – countries had reversed this prefunding component. Countries cancelled the private pensions.

Halting and reversing the expansion of pre-funding components

- Difficulty in funding significant transition cost out of public budget.

"More aggressive" reforms for financial sustainability

- Increasing pensionable ages in line with life expectancy prolongation
- Cutting pensions in payment

  Giving the EU a much larger and more direct role in national pension reforms

Considerations in raising pensionable age

The following pension policy issues should be taken into consideration in raising pensionable age – protecting the elderly

- Coverage of all the elderly;
- Mitigation of the old-age poverty;
- Old-age income protection for the maintenance of decent living standard;
- Inter-generational and intra - generational solidarity and equity through redistribution of income;
- Long-term financial sustainability.

In any case, any measures concerning increase of pensionable age shall be formulated through national social dialogue.

Considerations based on ILO social security standards on retirement age and ILO policy on old-age workers

Age of retirement

- Age should be set "with due regard to the working ability of elderly" (C.102)
- Age should be set "with due regard to demographic, economic and social criteria" (C128);
- Lower retirement age than 65 for persons in arduous or unhealthy occupations (C128) or when otherwise justified socially.

Scope to follow an integrated social, economic and fiscal policy approach for older-age workers.

- Employment policies (to protect from layoff and to stimulate new recruitment/ employment at older working ages) advanced working ages need to be compatible with pension age legislation;
- Measures and policies need to account for income security for older people - the inter-linkages between unemployment, disability and pre-retirement opportunities;
- The impacts of the policies should be accountable for the net fiscal considerations taking into account of fiscal expenditure and social outcomes together.

Labour market conditions

The scheme's dependency ratio depends not only on the general demography, but also on labour market conditions, for example, a higher employment rate reduces the dependency ratio.

Mechanical pensionable age increases may create problems, for example, if the labour market does not provide employment opportunities for the elderly, there will be more problems of unemployment and poverty among the elderly.

Reforms in deferring pension take-up in line with life expectancy prolongation

- Increasing standard pensionable age
- Legislated increases of pensionable age
- Automatic increases through periodic reviews: (a) maintain the life expectancy at pensionable age and (b) maintain a ratio of a pension period to a working period
- Adjusting pension benefits in line with life expectancy prolongation
- Sustainability factors or life expectancy coefficients
- Introduction of a notional-defined-contribution (NDC) scheme: automatic increase of an annuity conversion factor at pensionable age
- Increasing qualifying conditions in line with life expectancy prolongation
- Increasing number of years to qualify for a full pension

Examples of automatic increase of statutory pensionable age

- Denmark – increase in line with the life expectancy prolongation at age 60 (calculate every 5 years and give 15-year notice in advance)
- UK – maintain ratio of pension period to working period (review every 5 years)
- Portugal – increase each year by ⅔ of increase in life expectancy at age 65 measured two years earlier
- Netherlands – retirement age increased by 3 months each year if increase in cohort life expectancy at 65 is more than 3 months
- Cyprus – automatic increase every 5 years to maintain life expectancy at statutory retirement age

Automatically pension reduction at award in line with life expectancy prolongation

- Sustainability factors or life expectancy coefficients (a) Germany: based on changes of old-age dependency ratio; (b) Finland: life expectancy coefficient (c) Spain: sustainability factor
- Notional-defined-contributions (NDC) schemes in Sweden, Italy, Poland and Latvia.

Increased life expectancy is automatically translated into a higher annuity conversion factor of notional account balances to pensions.

Concluding remarks

Balancing adequacy and financial sustainability, including raising pensionable age, are always defined nationally as a part of the broader implicit or explicit social contract. Fiscal rules solely cannot overtake social policy objectives. Coordination between employment and social security policies essential so that old-age people should not lose the source of income and so that overall social protection resources should be efficiently utilized.

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