

PENSION REFORM IN THE RUSSIAN FEDERATION IN THE MODERN PERIOD

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Abstract: The purpose of this paper is to form a comprehensive understanding of the problems concerning implementation of the pension reform at the present stage in Russia. This paper discusses the specifics of the Russian pension system, and the problems of pension provision. The main changes in Russia's pension legislation, and prospects for its development are analyzed. The conditions for obtaining two pensions are revealed. The state regulation of the parameters of the mixed pension system is presented. The general-methodological basis was formed by the general scientific (dialectical) method of obtaining knowledge, comparative legal and logical methods that allowed us to consider the problems of developing pension legislation within the framework of the ongoing pension reform in the Russian Federation. A system is substantiated that should stimulate the payment of contributions to the Pension Fund of the Russian Federation, as well as the improvement of financial institutions involved in the development of and investment in pension savings. The ways of solving the key and acute issues in the sphere of pension provision are proposed: implementation of the "active longevity" strategy, creation of a special pension subsystem with financial defined contribution principles for the self-employed population. The two-level pension system in Russia, which includes two subsystems, is defined. Practical recommendations and theoretical provisions presented in this paper can be useful for lawmaking and law enforcement activities, as well as in the educational process.

Keywords: pension system, pension reform, financial defined contribution component, Pension Fund of the Russian Federation, pension legislation.

1 Introduction

The implementation of pension reform is a necessary component for creation of a modern social security system. The pension system in Russia must meet all standards of life and the established world practice of pension provision.

It should be noted that 2015 was the starting point for the next stage of the pension reform aimed at improving the Russian pension system. At the same time, certain problems are becoming obvious, with which citizens will be inevitably faced in the near future in the exercise of their constitutional right to pension provision.

In particular, on January 1, 2015, the federal law on insurance pensions No. 400-FZ dated December 28, 2013 came into force; the law has introduced a new procedure for creation of the pension rights of citizens and the appointment of an insurance pension.

Upon that, the retirement age (60 years for men and 55 years for women) has remained at the same level so far. At the same time, the new Law is aimed at encouraging a later retirement: the coefficients that increase the fixed payment and the size of the insurance pension are introduced.

The requirements for minimum length of service to obtain the right to an old-age pension have significantly changed: from the period of 5 years which were required earlier, it will grow to 15 years. At the same time, the length of pensionable service necessary for the appointment of an insurance old-age pension will increase gradually: eight years in 2017; nine years and so on in 2018, until reaching 15 years in 2024.

A new condition for awarding of pension is the existence of an individual pension coefficient of no less than 30 (from 2025), taking into account the transitional provisions of Art. 35 of the Law on Insurance Pensions.

The pension reform, which has stretched in our country well into the third decade, enters its final stage. However, despite repeated experiments aimed at institutional and parametric changes in the pension system, no problem of its sustainable long-term development has been solved so far.

The reason for this is the lack of theoretical foundations for the formation of a new pension system that is adequate to the market mechanisms of social and labor relations. The generally accepted guidelines for the creation of an insurance pension system in Russia are not provided with either legal or economic instruments for consistent implementation.

2 Methods

The disintegration of the USSR, and the formation of a market economy put the Russian Federation in charge of creating an effective pension system in new economical conditions. Russian authorities take up the problems of pension provision for the third decade. However, the problematic issues remain the same: insufficient level of pensions, unchanged state system of pension insurance, ineffective use of the resources of the Pension Fund of the Russian Federation.

The pension reform that is being implemented now includes the idea that a pension consists of two components. First, it is a social pension, which is guaranteed by the state to all citizens in the same size. Gradually, the level of pensions to be paid must reach the subsistence level. Secondly, it is the resources of the Pension Fund, which citizens receive depending on the amount of money transferred there earlier by them.

The idea of pension reform was borrowed from the practice of most countries and supposed the so-called funded principle (Whiteside, 2006). The more personal savings of citizens will be accumulated in the Pension Fund of the Russian Federation, the higher would be the amount of the funded pension. Payments to the Pension Fund of the Russian Federation are held in two stages. Firstly, they are accumulated, and then are invested for the provision of pensions to citizens who, in the course of their work, deducted funds to the Pension Fund of the Russian Federation.

Turning to the international practice of pension reform, it can be noted that states ground their reforms on the support of international financial organizations (Shestakova, 2015). Undoubtedly, such financial organizations consider pension reform projects as a part of large-scale projects to modernize the country's socio-economic and political spheres. In such situations, pension reform can become not only a means of achieving material welfare, but also an instrument that improves the financial system of the state. Moreover, it can be noted that most international financial institutions form their own pension scheme, and then promote it based on experience and results achieved in other countries. The main international institutions providing intellectual and financial support for pension reforms are the World Bank and the US Agency for International Development (USAID), the statutory task of which is to defend US interests in a recipient country.

It is impossible to carry out reforms without creating favorable grounds for them. An example is the reform of the pension system in Latin American countries which have not been able to change the mentality of their population and withdraw workers from the shadow economy (Claramunt, 2004).

In the federal law "On Compulsory Pension Insurance in the Russian Federation" dated December 15, 2001 N 167-FZ, one can find the basic principles of creating a combined pension system. Modern pension reform is based not so much on updating existing pension regulations and changing the formula for calculating pensions, but on how to create an effective legal

framework that would be able to regulate pension payments and deduction rates.

3 Results

The current legislation provides the following grounds for the appointment of pension funds: achievement of retirement age; disability or loss of a breadwinner (retained in the new legislation); required length of service within the old-age retirement pension for all categories of pensioners, except for former federal civil servants.

It should be noted that the Russian legislation provides for two categories of pensions: labor pensions and State-provided pensions. The right to receive the pension of the first category is determined on the basis of the past working life. The right to receive the second category pension is associated with certain events in the life of a person (for example, working as a federal employee, disability from childhood, military trauma, disability due to a radiation disaster, etc.). From now on, it is not possible to receive two labor pensions at the same time, but it is possible to receive two pensions for certain categories of pensioners, if one of them is a state-provided pension (table 1) (Suggestions for the improvement of the pension system in Russia, 2015).

Table 1. The grounds for obtaining two pensions in the current legislation

Group of pensioners	First pension	Second pension
Persons with disabilities due to military trauma	State-provided pension for Disability	Old-age retirement pension
Participants of WWII	State-provided pension for Disability	Old-age retirement pension
Parents of servicemen	State-provided social survivor pension	Old-age retirement pension
Widows of servicemen killed in the Second World War / Finnish War and not remarried	State-provided social survivor pension	Social pension
Non-able-bodied family members of citizens affected by the Chernobyl and other man-made disasters	State-provided social survivor pension	Old-age retirement pension (disability pension)

Under such conditions, the problem of a lack of money to pay pensions arises; it can be solved by increasing the revenue side of the pension system. In this connection, a system was created that stimulates the payment of contributions to the Pension Fund of the Russian Federation. First of all, the implementation of reform faces the complexity of the pension system. It is expedient to simplify the formulas of pension payments and create transparent conditions for obtaining the right to a pension. The second component is the creation of conditions that encourage individuals to pay contributions and to a longer period of work. This, in turn, will improve the level of solvency of the whole pension system. The new pension model provides for a direct proportional relationship between the size of the salary and the size of the future pension. The higher the salary and the payments from it, the greater the amount of pension capital, and the pension calculated on its basis (Yakushev ,2012).

The reduction in the replacement rate (the ratio of the average pension to the average salary) can serve as the overall financial stability of the pension system. Effective implementation of the funded element in the pension system depends on the following points:

1. the ability of the financial sector to implement successfully the means of the funded element;
2. the ability of individuals to have an appropriate level of income from the funded element;
3. availability of guarantees in relation to pension assets.

The funded component must be developed, being translated into a corporate or voluntary format, or the size of the insurance rate for the funded part must be optimized. There is another suggestion: to make the funded component mandatory for citizens after they reach a certain, rather high level of income.

Investment of pension savings and transfer of these funds to non-state funds on the basis of applications of insured persons are regulated by federal laws "On investing funds to finance the funded part of the labor pension in the Russian Federation" No. 111-FZ dated July 24, 2002 and "On non-state pension funds" dated 07. 05. 1998 No. 75-FZ. The first law provides for the procedure for formation and investment of pension savings, determines the specifics of the legal status, rights and obligations of participants in legal relations for investing pension savings. In addition, this draft law establishes the procedure for state regulation of control and supervision in the sphere of investing pension savings.

In accordance with this law, new rights and obligations as a subject of relations for the formation and investment of pension savings are assigned to the Pension Fund of the Russian Federation.

The powers and competence of non-state pension funds as subjects of legal relations in the field of compulsory pension insurance are enshrined in the Federal Law on non-state pension funds.

Attention should be paid to the dynamics of the budget indicators of the Pension Fund in recent years. The indicator of its expenditure side implementation since 2006 to 2011 shows its increase in 3.1 times, from 1537 to 4249 billion rubles (Indicators of the Pension Fund budget, 2016). During the same period, GDP grew in 1.6 times, from 33,248 to 54,586 billion rubles (Dynamics of GDP, 2012). The ratio of the Pension Fund expenditure indicator to GDP for those six years has increased from 4.6 to 7.8%.

The dynamics of federal budget spending on pension payments does not leave any hopes for spontaneous improvement of the situation. The problems of the Pension Fund's income are exacerbated by attempts to reduce the burden on payments to extra-budgetary insurance funds for enterprises, including the burden on small and medium-sized enterprises. To remedy the situation since 2013, some privileges on deductions to this fund for individual entrepreneurs were abolished, which increases the size of these payments by about two times (Golodets, 2013).

4 Summary

Subject to the aforesaid, it is required to improve financial institutions that participate in the development and investment of pension savings. This can be achieved by increasing the effectiveness of the funded component of the pension system. Undoubtedly, the low level of the old-age labor pension is still an actual problem. In this context, it is important to bring the level of the minimum pension closer to the level of the subsistence minimum. Pension reform implies simultaneously the development of stable market institutions, since the instability of the economy leads to greater risks of long-term financial investments. This can lead to a limited functioning of the funded pension system (Kudrin,2012). In part, this issue can be resolved through the development of domestic manufacturing enterprises and import substitution policies.

In particular, it is necessary to implement the "active longevity" strategy, the essence of which is to reduce the indexation of pensions in case of timely retirement and their increase in the case of late retirement. Emphasis should be placed on increasing the effectiveness of the funded element of pensions for middle and younger ages (Barba, 2007). It will not be superfluous to create a special pension subsystem with funded principles for the self-employed population. Such a multi-level pension scheme should be supported by the social policy of the Russian Federation, affecting the internal and external elements of the pension (Aksenov et al, 2016).

State regulation of the mixed pension system parameters should be presented as follows.

State regulation of external factors that determine the parameters of the pension system in the Russian Federation should be realized through, firstly, the regulation of the dynamics, volume and structure of public production; secondly, the development of social policies and the social services market.

Regulation of the dynamics, volume and structure of public production is aimed at ensuring employment growth and reducing the level of unemployment through industrial policy, minimizing the shadow turnover; increasing the share of knowledge-intensive industries and modern technological structures; reduction of the share of trade and intermediary services, and priority development of business services (information, project investment, logistics) (Shestakova, 2015).

The development of public policy and the social services market are focused on improving the quality of health care in order to reduce the high death rate of people of working age; gradual decrease in migration growth, increase in highly skilled jobs, revival of vocational training; development of programs for a healthy lifestyle (including economic disincentives for alcohol consumption and smoking) (Sokhey, 2015).

Two-tier pension system in Russia includes two subsystems. The first is the distribution system that includes: state compulsory pension insurance; social protection mechanism (basic (social) pension); payments of non-insurance nature at the expense of the federal budget; mandatory professional pension insurance.

The funded subsystem covers: corporate voluntary pension insurance and individual voluntary pension savings insurance.

At present, "retail resources are largely formed at the expense of imports, and not due domestic production, what negatively affects the level of employment, income of the population, real domestic investment and economic development of our country" (Podkopaev, 2012). Today, pensions are characterized by a significant number of problems requiring urgent solutions.

5 Conclusion

Thus, current domestic pension system is not productive for the economy and does not provide the necessary needs of the population. In these conditions, it is necessary to introduce pension savings and actively involve non-state structures, while simultaneously applying strict control over the processes within the pension system.

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