

IMF conference: Designing fiscally sustainable and equitable pension systems in emerging Europe in post-crisis world

**Reform strategies –
the experience of
emerging European
economies and
their effects on
sustainability and
equity:
Russia**



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РАЗРАБОТОК

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Part 1

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

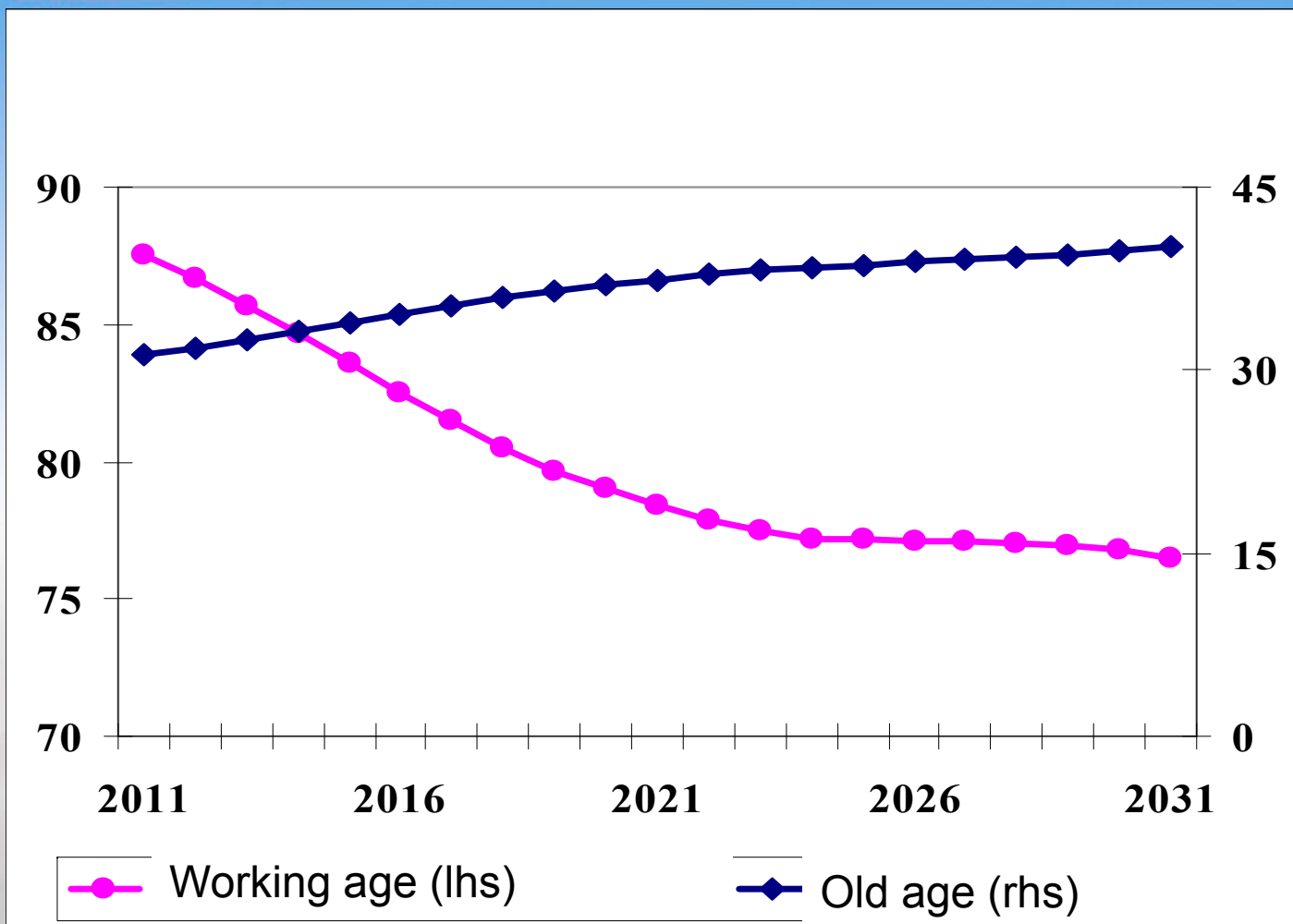
CHALLENGES TO THE RUSSIAN PENSION SYSTEM



ЦЕНТР

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

WORKING AGE AND OLD AGE POPULATION IN RUSSIA



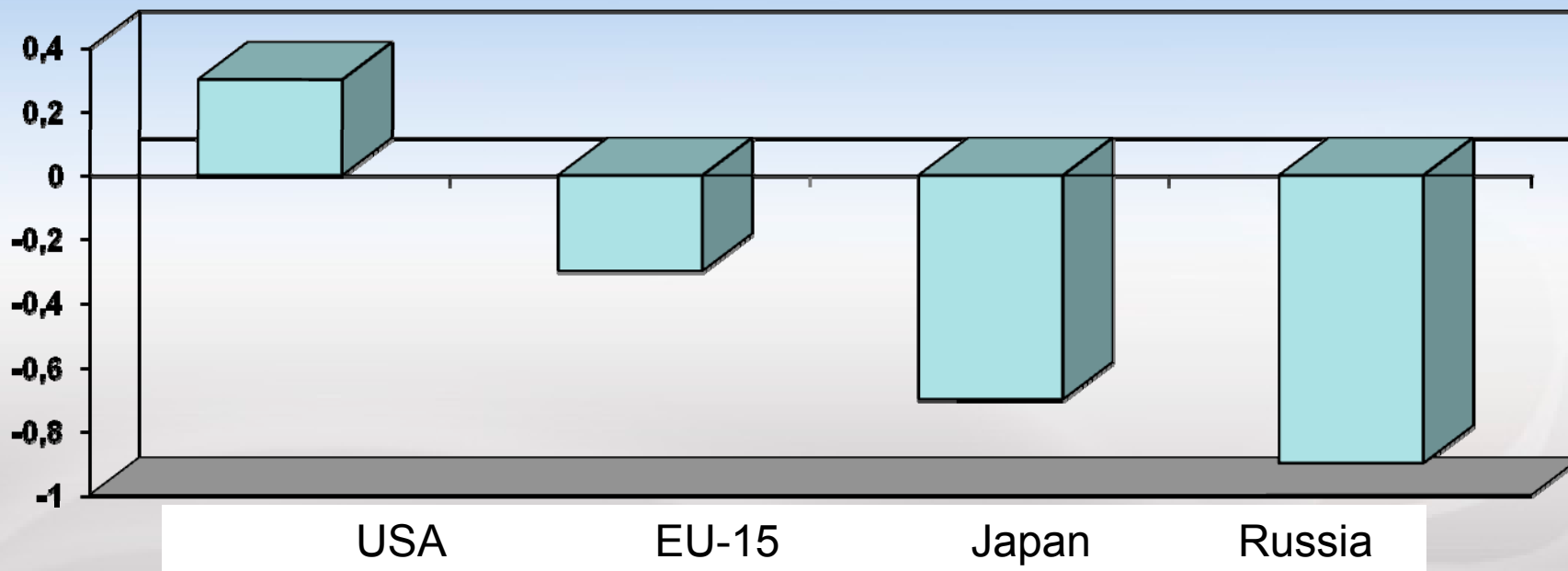


ЦЕНТР

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РАЗРАБОТОК

Working age population declines

Annual average growth projections for working age population



Source: The Economist, CSR

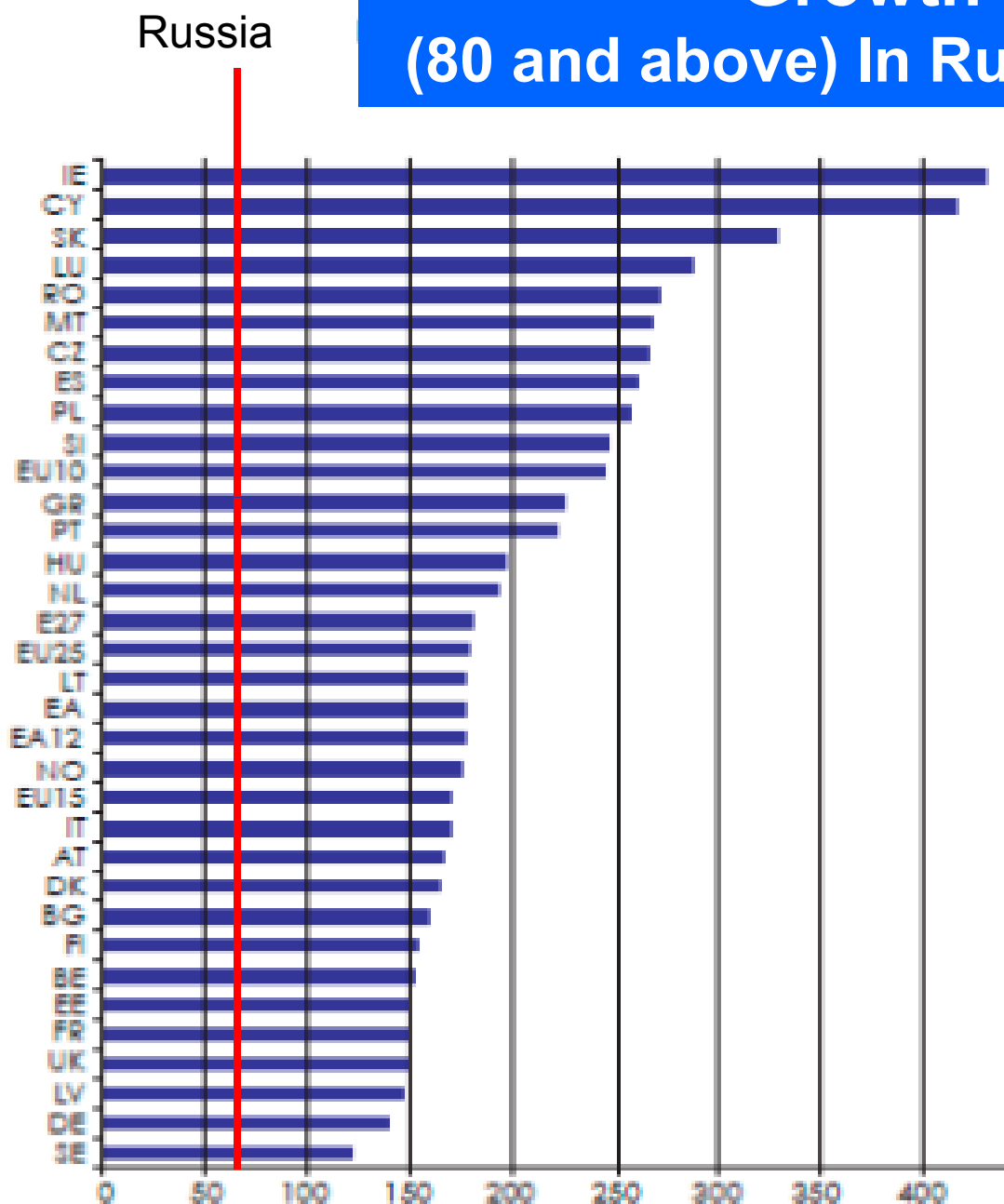


THE IMPACT OF OLD-OLD

СТРАТЕГИЧЕСКИХ
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- Share of the very old in Russia is much lower than in Europe and Japan
- It will remain low by comparison to most of advanced economies
- By 2050 Russia may only catch up with the current numbers of very old in the advanced European economies
 - share of Russians above 80 years old will be at 7% (just as in Italy today);
 - only 1/4 of Russian pensioners will be above 80 years old vs 1/2 in Japan

Growth of older-old (80 and above) In Russia and the EU by 2060



In Russia growth of older-old (80 and above) during the next 50 years will be much slower than in any of the EU members

Source: EU 2009 Ageing Report, CSR

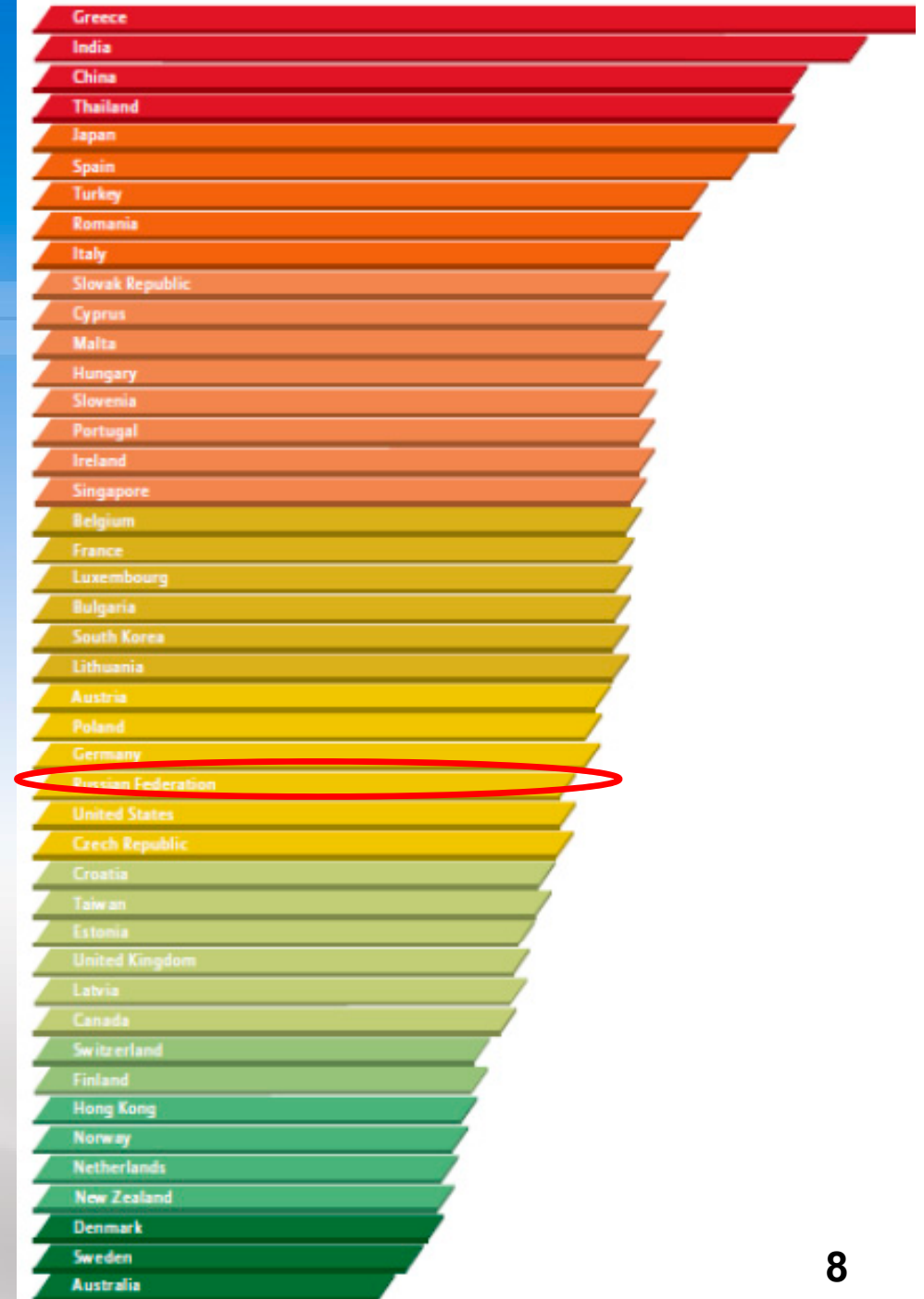


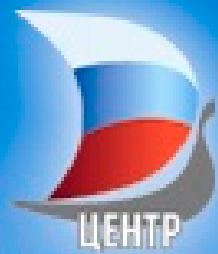
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СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

Private sector international benchmarks for the sustainability of the pension systems are rather favorable for Russia

Source: Allianz Global Investors.
2011 pension Sustainability Index





SUMMARY OF DEMOGRAPHIC CHALLENGES

СТРАТЕГИЧЕСКИХ
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- Russia will suffer from one of the world's fastest working age population decline
- However, life expectancy, particularly for males will stay much below the OECD
- Share of the very old will remain low by comparison to most of advanced economies
- Current retirement age (with the account of widespread early retirement practices) is very low
- Therefore, the forthcoming demographic deterioration could be offset by standard parametric reforms which have already been carried out in majority of advanced economies

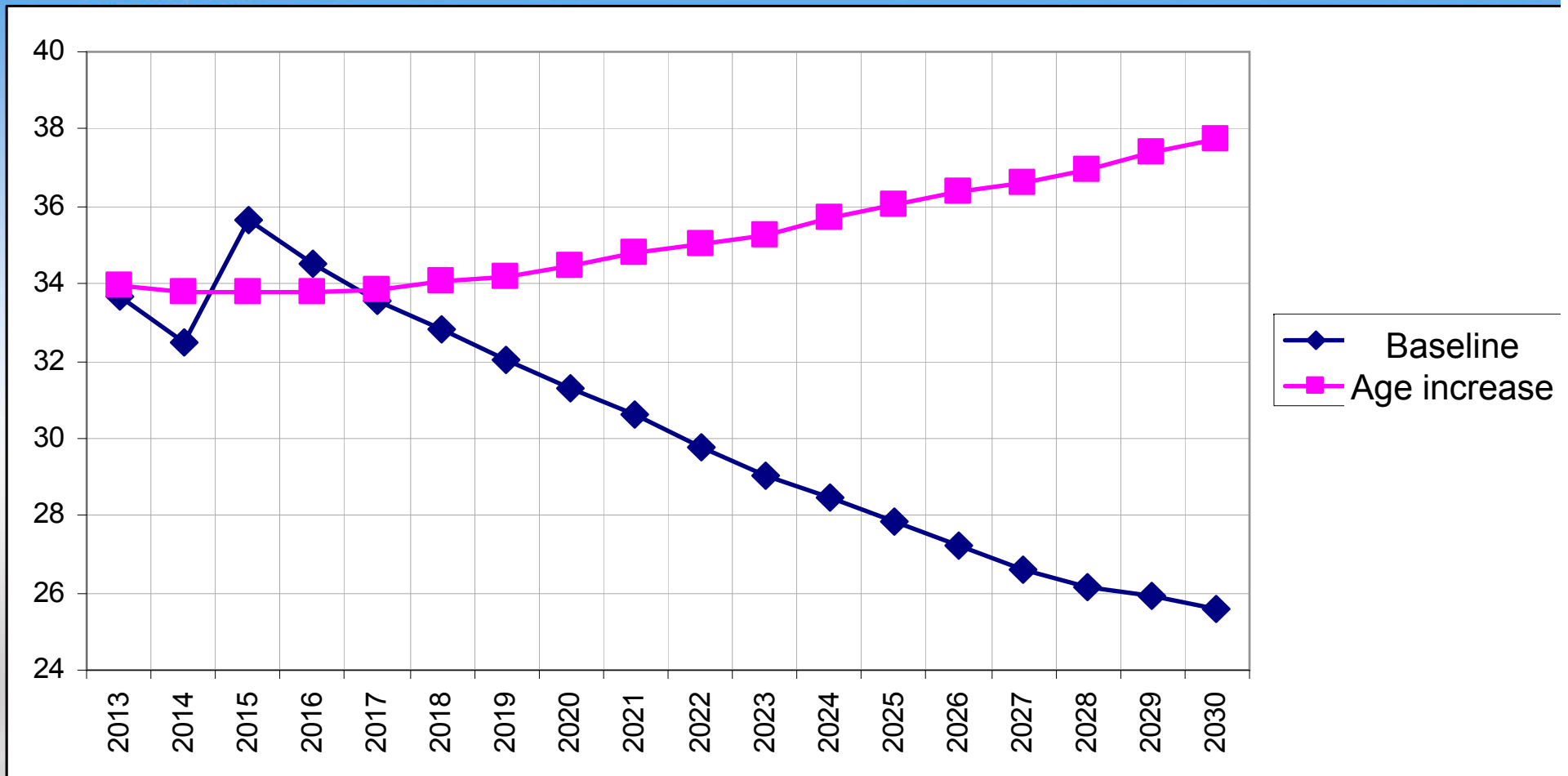


IMPACT OF RETIREMENT AGE INCREASE ON REPLACEMENT RATE

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

ЦЕНТР

(64 for males and females by 2030)





ЦЕНТР

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

THE BEST SOLUTION: parametric reforms

- Increase of retirement age (up to 64 by 2030)
- Early retirement reform
- Preservation of mandatory funded pillar

More than
enough for a
sustainable
solution

But retirement age increases are ruled out by politicians because such decision is highly unpopular among the public



CHALLENGES IN THE FUNDED PILLAR

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

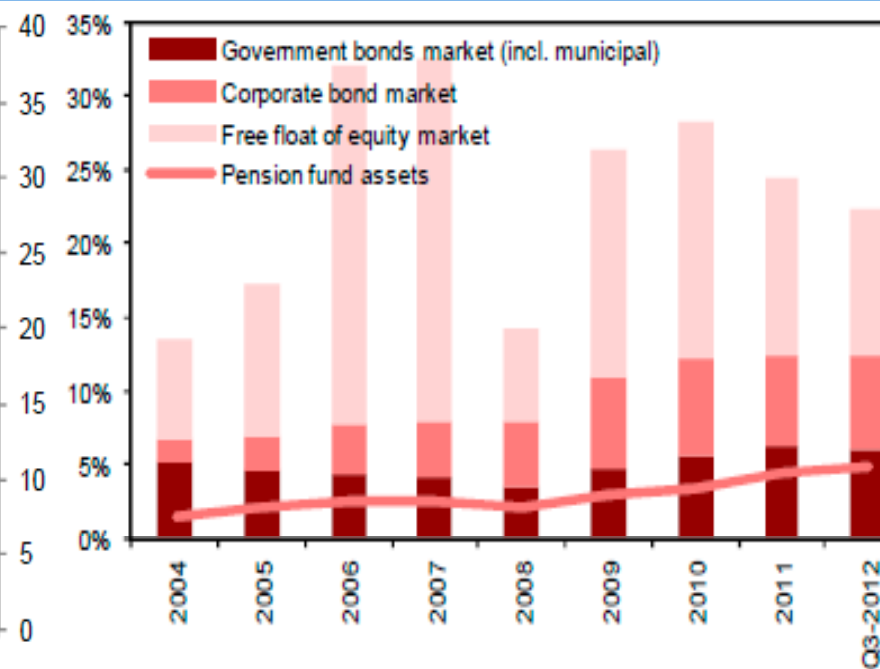
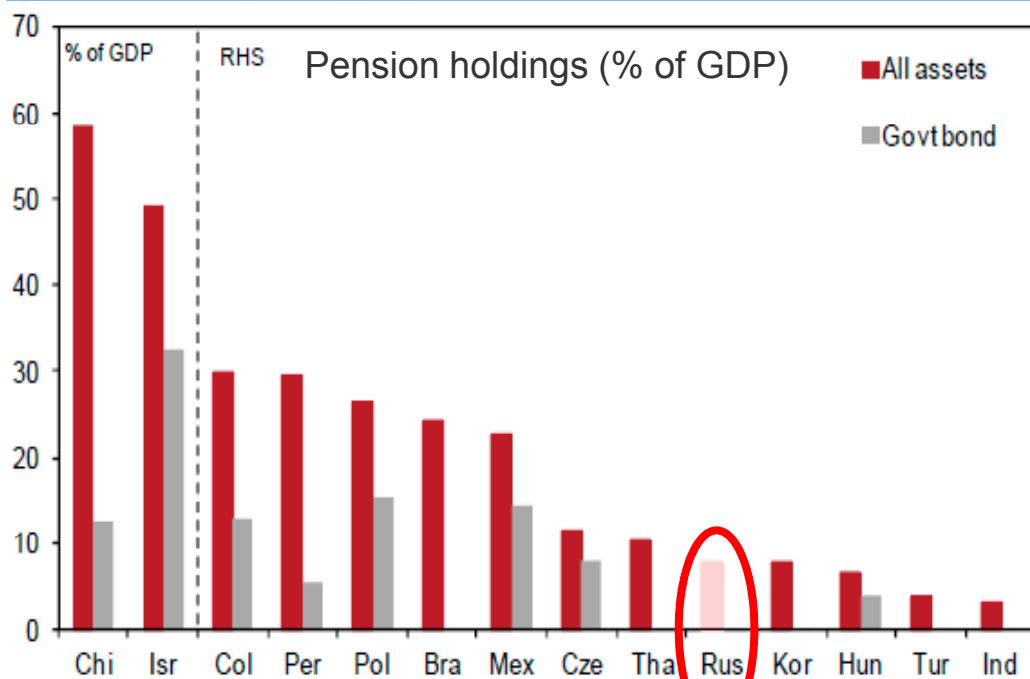
- **Negative real returns**
- **Lack of portfolio diversification**
- **Poor governance**
- **Regulatory inadequacy and fragmentation**
- **Ineffectiveness of supervision**



ЦЕНТР

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

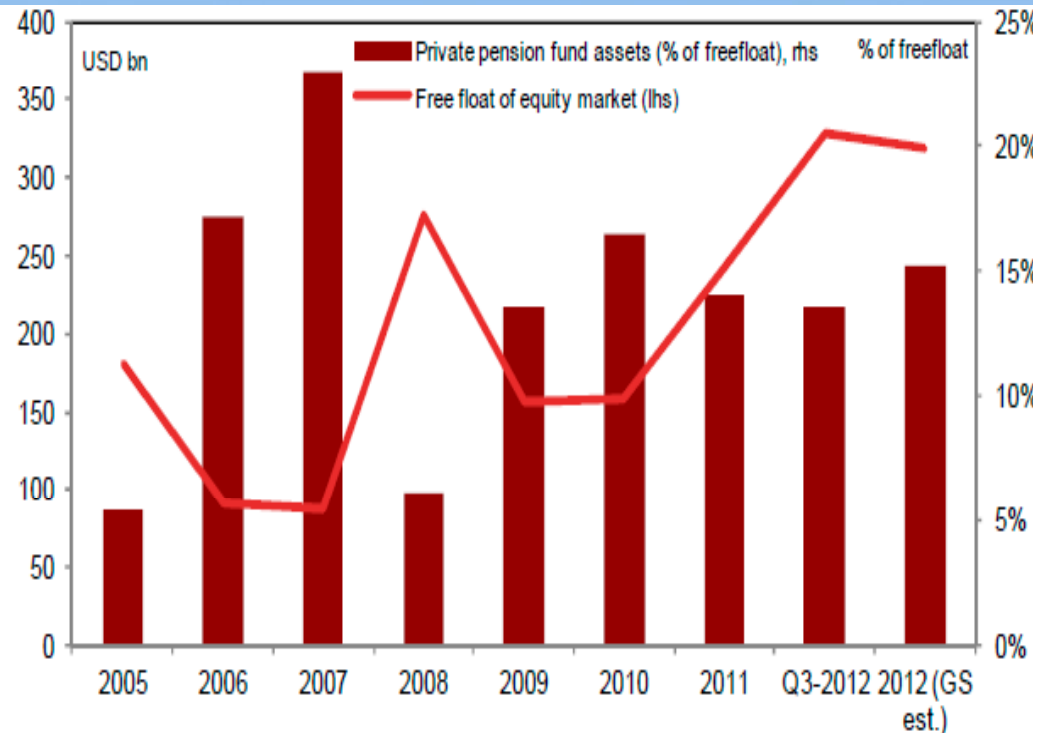
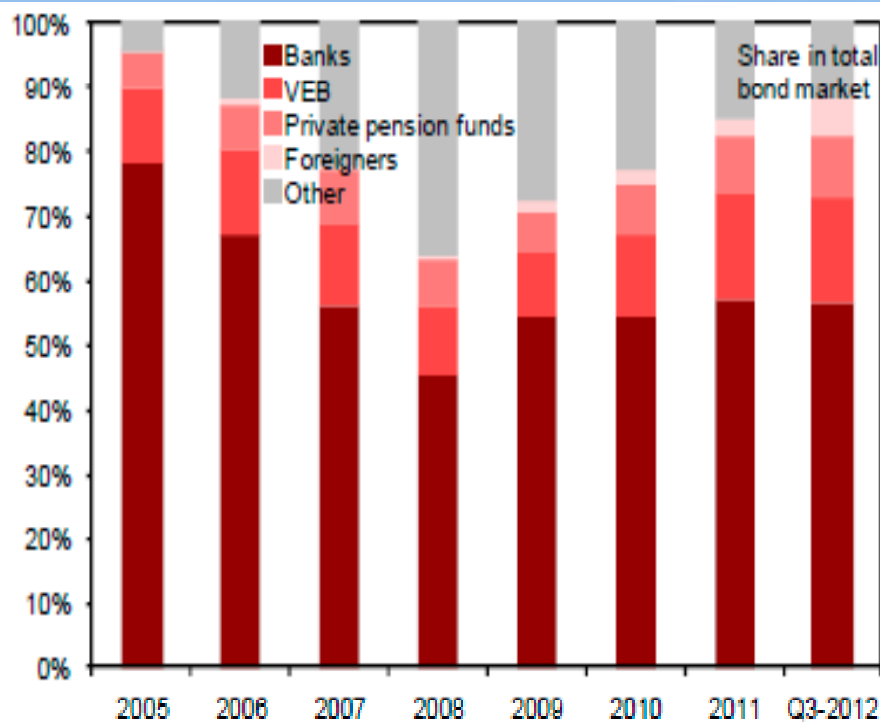
RELATIVE SIZE OF THE FUNDED PILLAR: small in percent of GDP but substantial with regard to domestic financial markets





FUNDED PILLAR AND FINANCIAL MARKETS: important for the bond market and compatible with the equity free float

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК





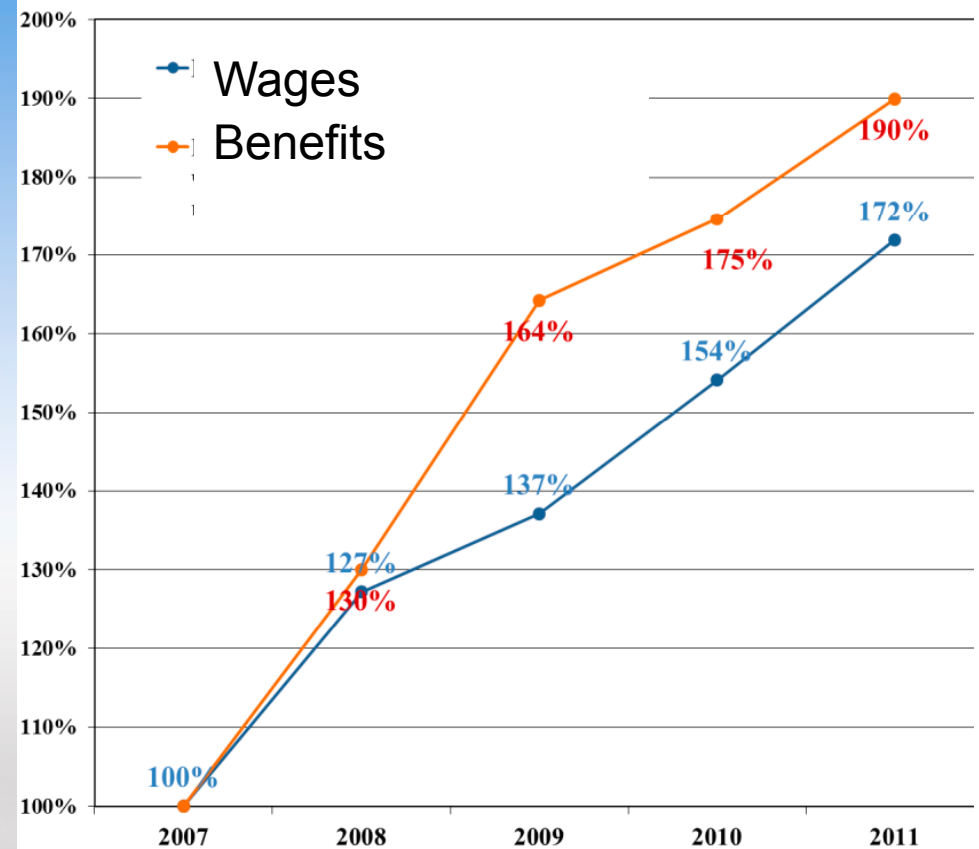
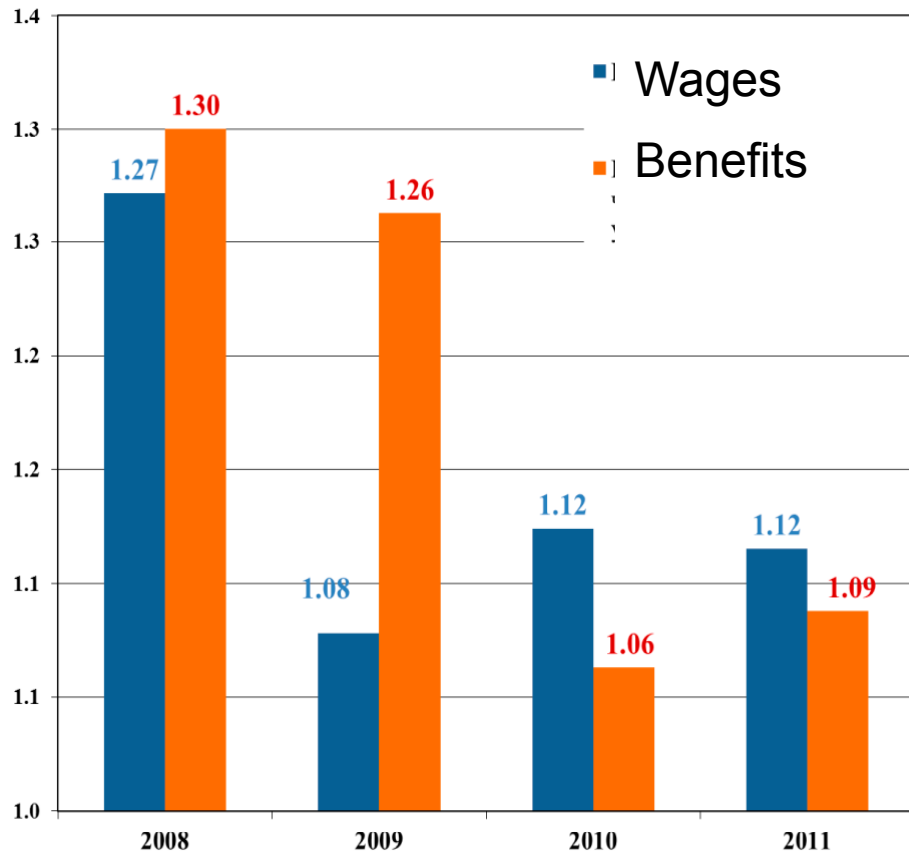
Part 2

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

THE GENESIS OF THE 2012 REFORM



THE GENESIS OF THE CURRENT CRISIS: Acceleration of benefits beyond the means

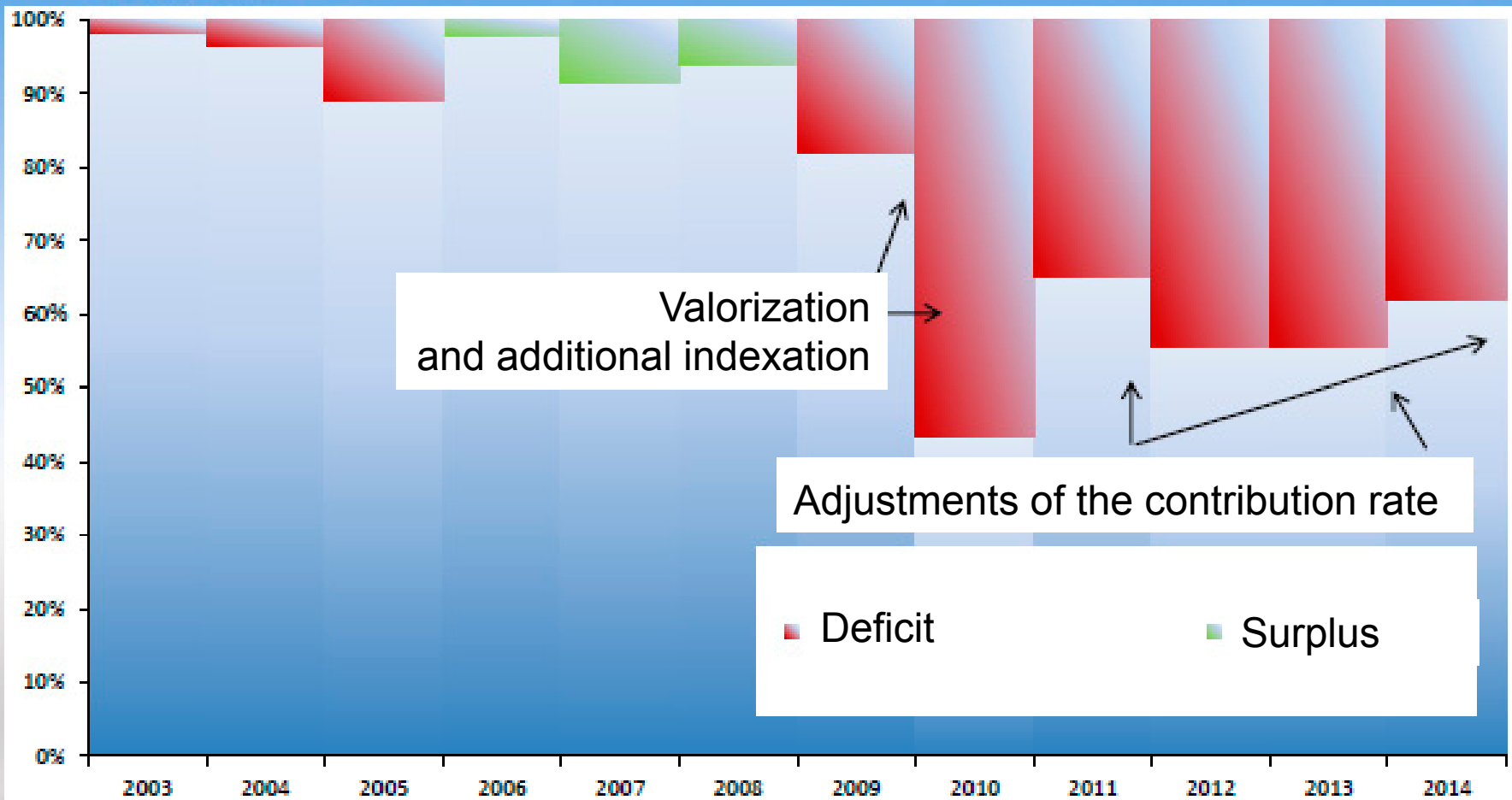




ЦЕНТР

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

IMPACT ON THE THE PENSION FUND: Mounting deficit





INITIAL REFORM PROPOSAL (July 2012)

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

- **New PAYG formula: emphasizing the role of the years of service instead of contributions**
- **Redirection of 6% funded contributions to PAYG**
- **One-for-all voluntary opting out to the funded pillar with 6% contributions**
- **Reform of early retirement schemes**



PROPOSAL DECLINED (November 2012)

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

- The initial proposal faced a strong and well articulated criticism by representatives of:
 - business community
 - financial markets
 - civic society
 - the media
 - parts of the Government (including MinFin and Ministry of Economy)
 - The World Bank and the OECD
- The proposal was portrayed as counter-modernisational and driven by bureaucratic self-interests
- In November 2012 it was turned down by V.Putin



СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

Part 3

THE REVISED REFORM PACKAGE



New PAYG formula: emphasis on voluntary delayed retirement

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

Old age pension = **Basic pension** + **Insurance pension**

Basic pension

=

Normative basic pension

*

Age ratio
(for voluntary delay of retirement)

Insurance pension

=

Years of service ratio

*

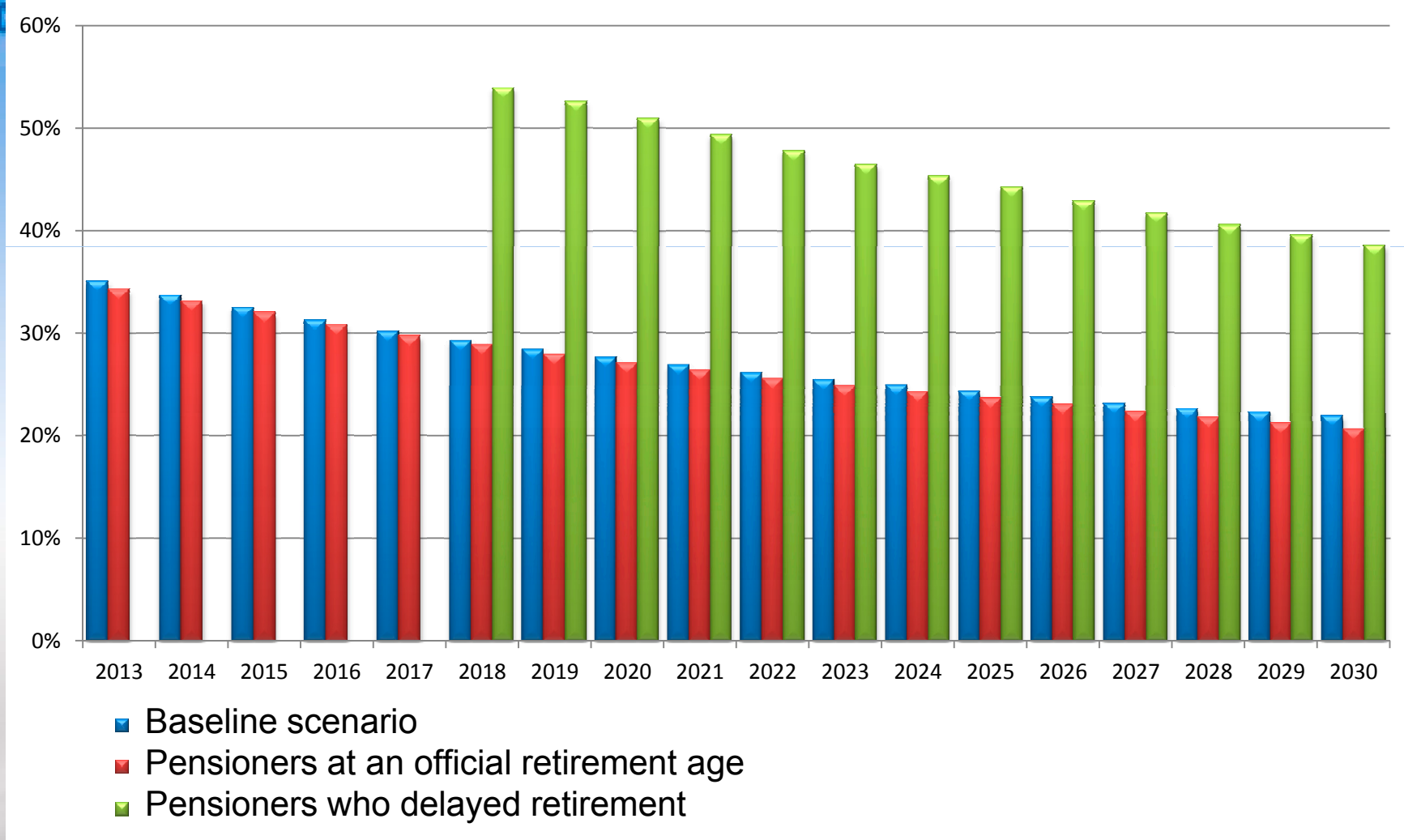
Age ratio
(for voluntary delay of retirement)

*

Current value of one point



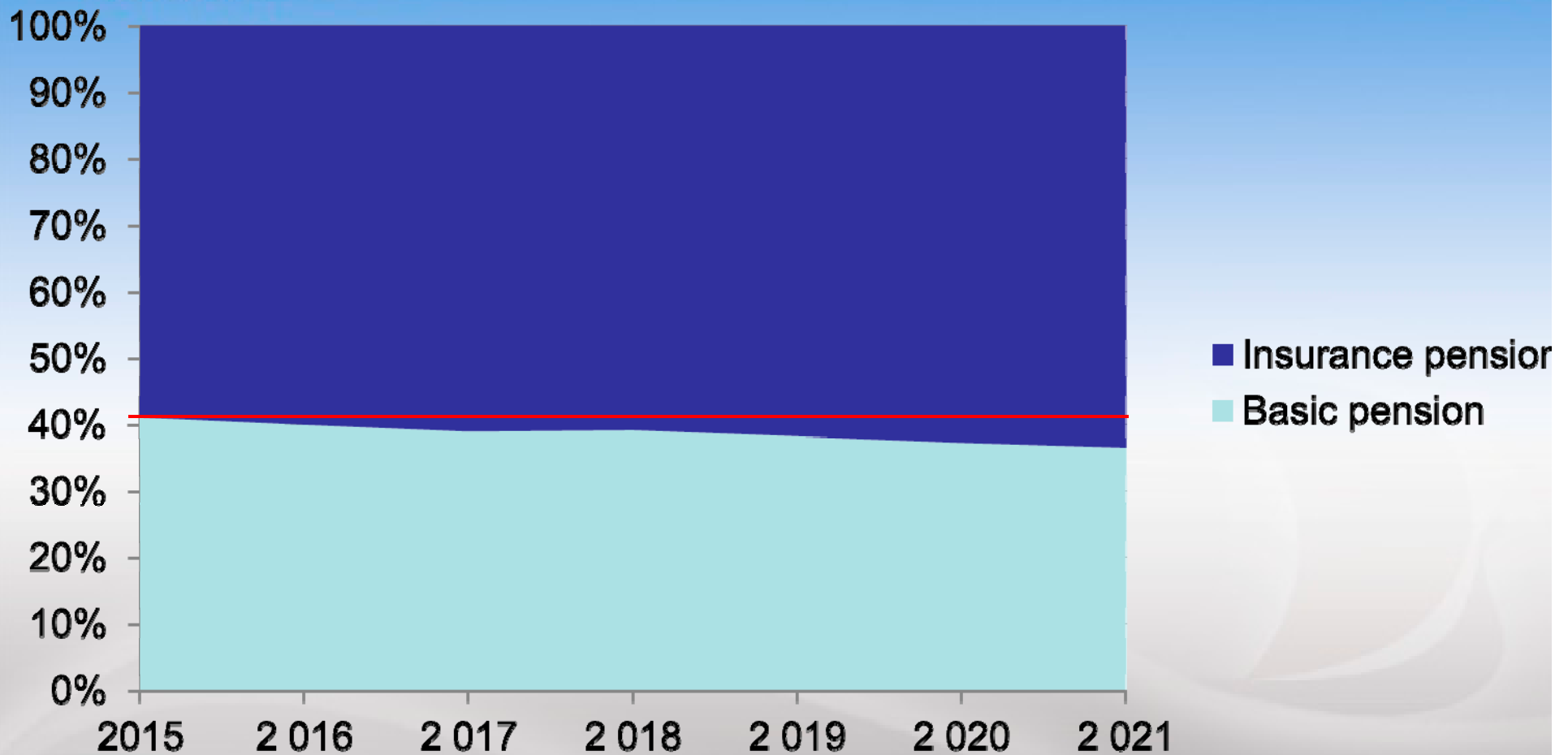
For the pensioners retiring at the official age replacement rate will gradually decline to 20%





The indexation of the basic pension will be detached from the indexation of the insurance pension

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК



Source: CSR



Pension Fund deficit under the flexible retirement age scenario

СТРАТЕГИЧЕСКИХ



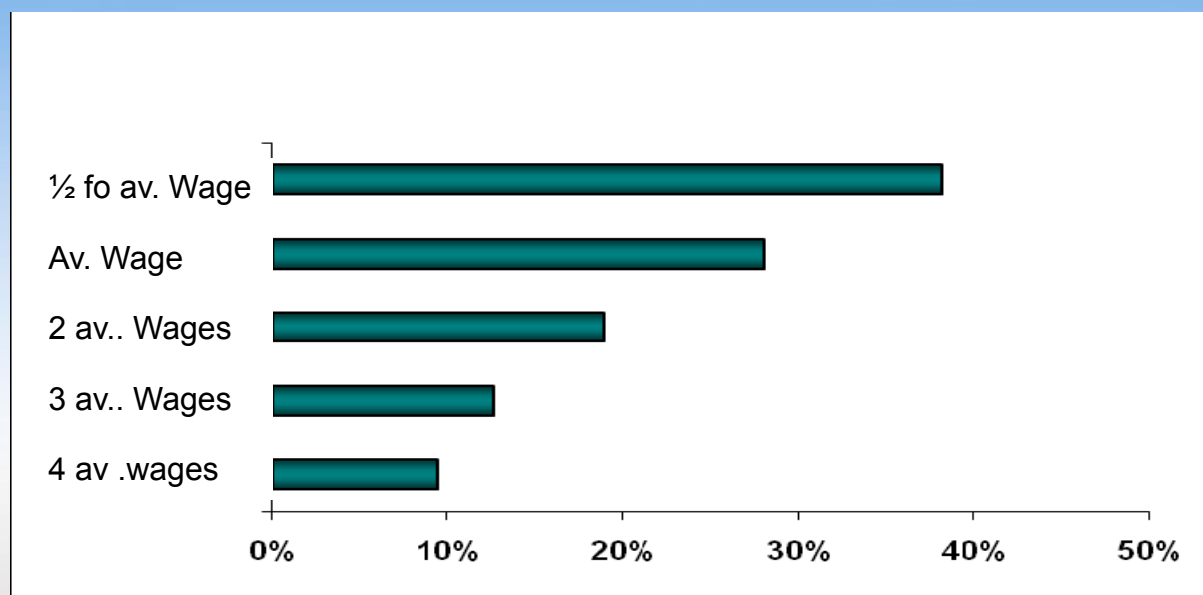
- - - Indexation adjustment
- x- Incentives for later retirement
- ▲- Combined

1



Individual replacement rates in 2022 for wages below and above average

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

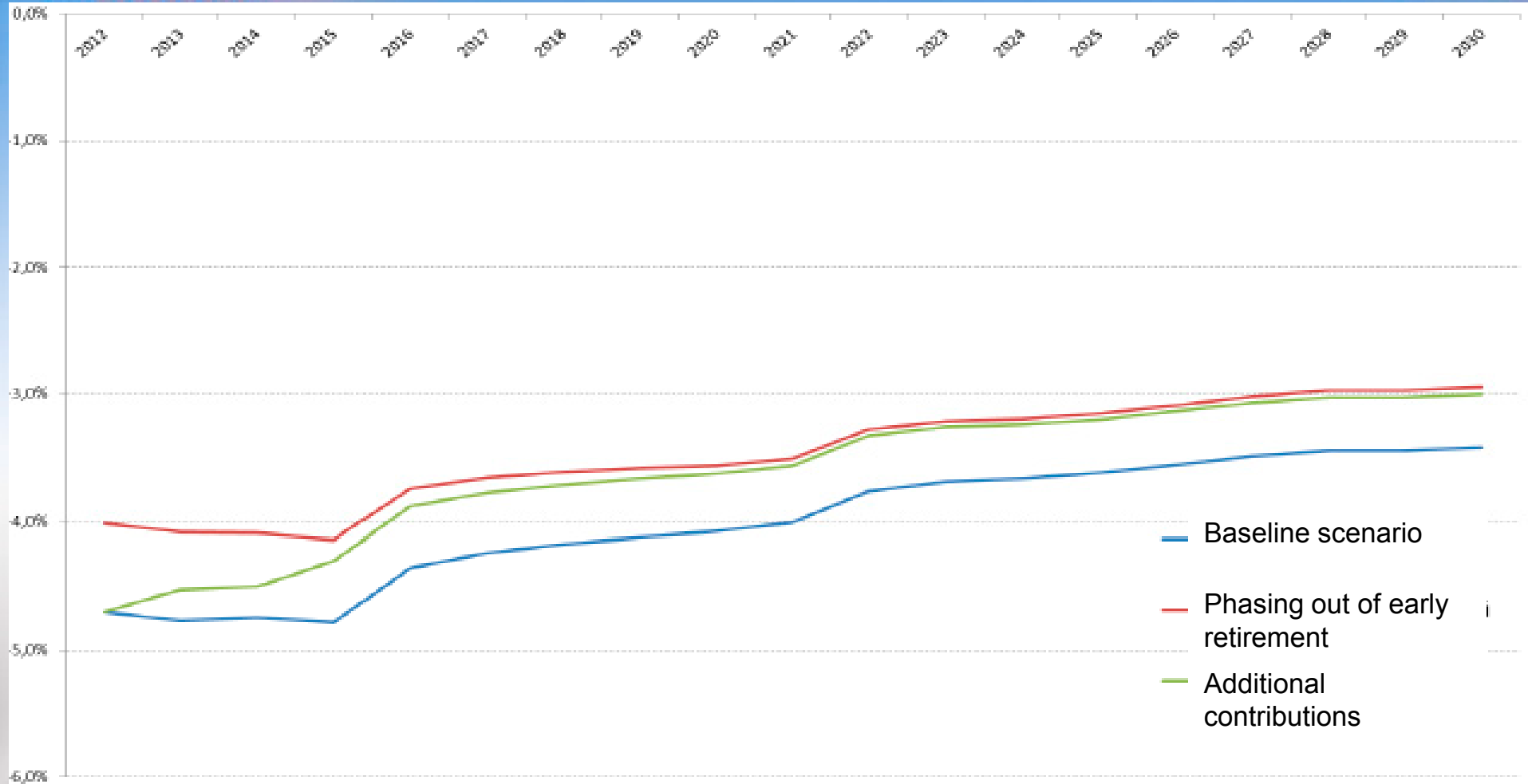


Source: CSR



Early retirement reform: impact on the Pension Fund deficit

СТРАТЕГИЧЕСКИХ





REFORM AGENDA FOR THE FUNDED PILLAR

СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

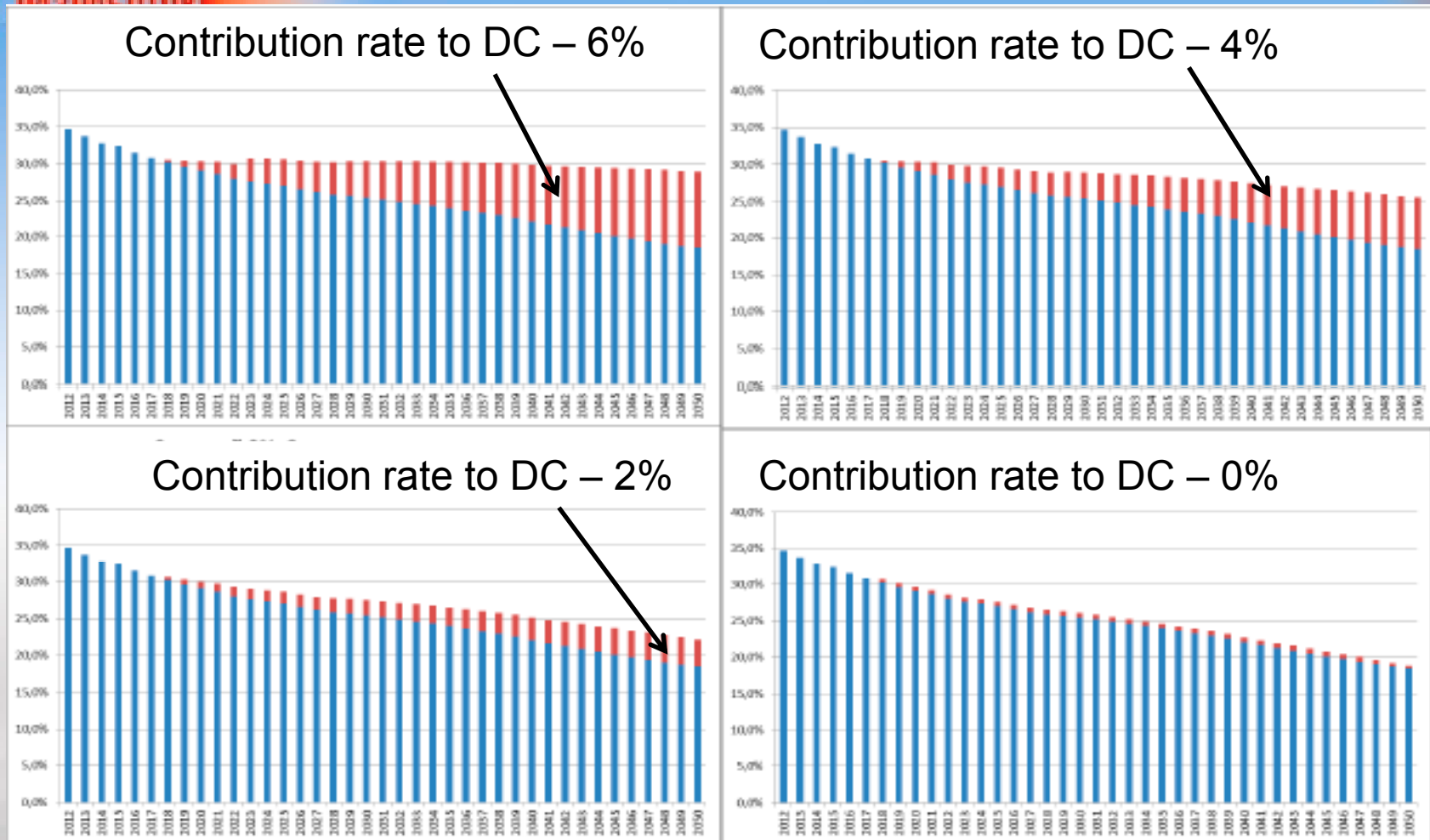
- Voluntary opting in and opting out
- Implementation of the new payment law
- Portfolio diversification
- Introduction of guarantee scheme
- Consolidation of regulatory and supervisory authority
- Strengthening of pension fund governance
- Elements of self-regulation
- Risk-based regulatory and supervisory framework
- New form of commercial legal entity for private pension funds



MANDATORY FUNDED PILLAR: OPTING OUT PRINCIPLE outcome: downsized but not wiped out

ЦЕНТР
СТРАТЕГИЧЕСКИХ
ИССЛЕДОВАНИЙ

Replacement rates for various contribution rates



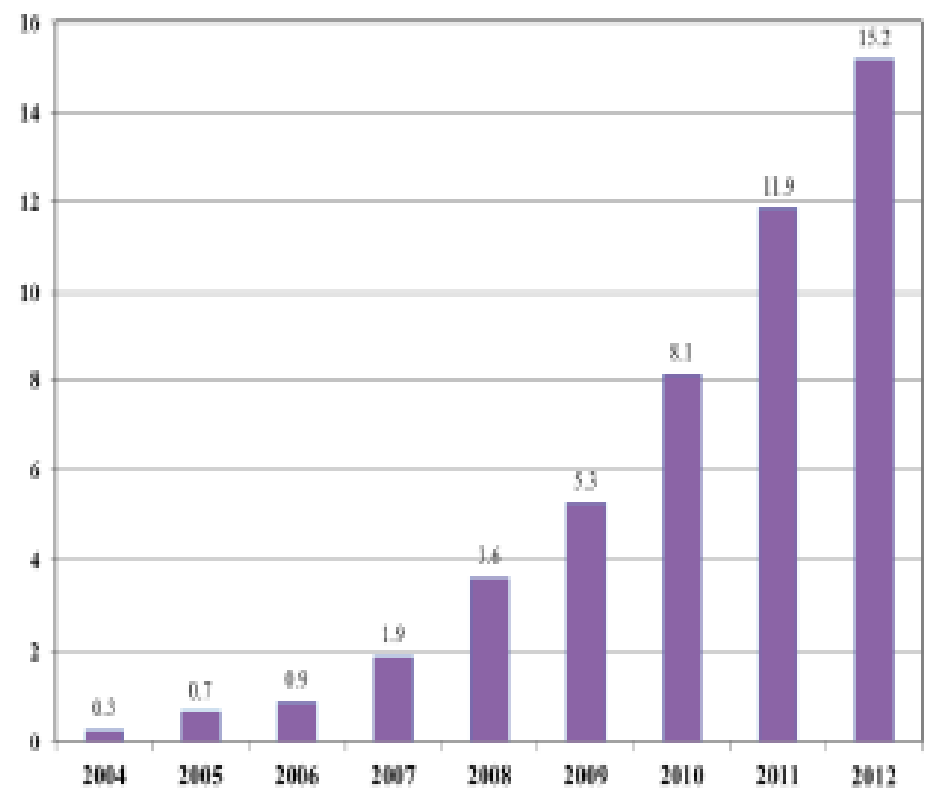
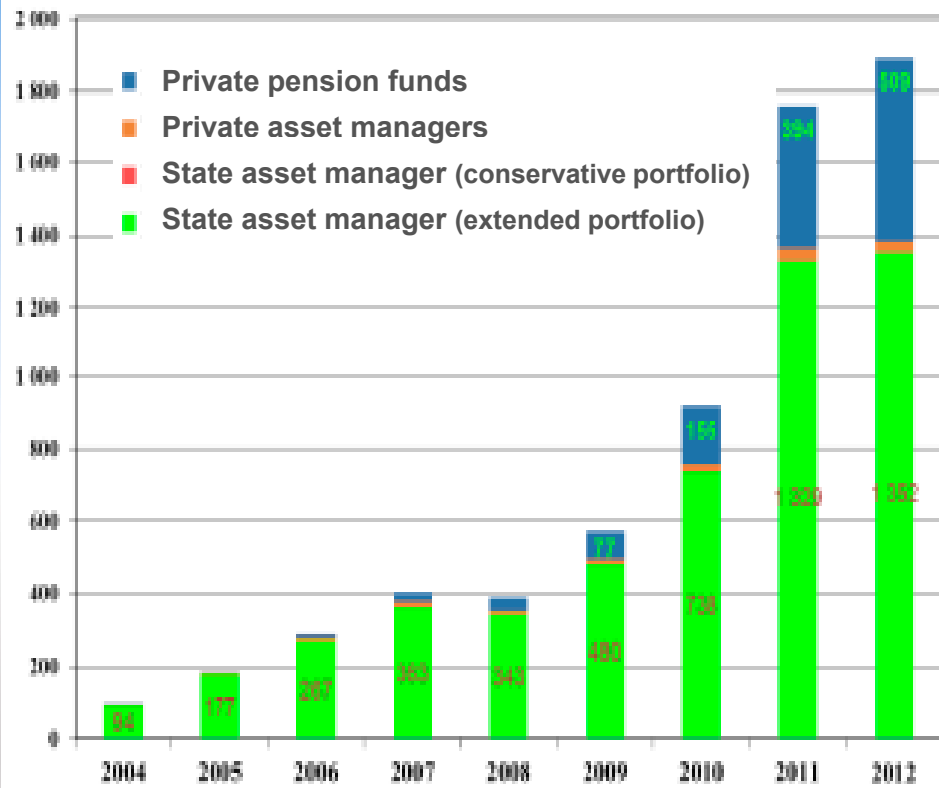


CURRENT SIZE OF THE MANDATORY FUNDED PILLAR

СТРАТЕГИЧЕСКИХ

**Distribution of assets
(bln rubles)**

**Number of contributors who opted out to
the private pension funds (mln)**



(Est.)

(Est.)



СТРАТЕГИЧЕСКИХ
РАЗРАБОТОК

Thank you for attention