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CURRENT PROBLEMS OF PENSION PROVISION IN RUSSIA AS COMPARED WITH EUROPEAN EXPERIENCE

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The article highlightsthe basic issues of pension provision in both Russia and Europe.Studied are the main problems that Russia's pension system faces.

In fact, experts reveal top 5 problems with Russia's pension reform. They are as follows:

1. Cancelation of the funded portion in 2014 for all categories of contributors. Workers who are saving their pensions in private pension funds will only miss out on one year of the funded portion. Those who leave their entire pension with the Pension Fund of Russia will lose out on the funded portion forever.

2. Moratorium on moving money from the Pension Fund to private funds until those private funds go public and pass inspection by the Central Bank, which the experts say could take up to five years.

3. New pension formula assigns workers points instead of simply tracking their contributions over the years. The number of points a person earns depends on his or her years of experience, salary and age upon retirement. Not surprisingly, the designers of the new formula think it is simple and fair, but future retirees are finding it as clear as mud.

4. Workers are poorly informed about pension rules. Most future retirees don't even know about the reforms, much less understand them.

5. Lack of trust in the pension system. Workers move their money to private pension funds not to earn better returns, but to safeguard their money from the government.

Moreover, one of the most important problems is that Russia's population will age rapidly in the coming decades. The share of the population older than the retirement age will rise from 20 to about 30 percent. Russia's aging problem is further aggravated by the fact that its population is rapidly shrinking, at an expected rate of about 0.5 percent per year until 2050. This will imply a decline in contributions to the pension system, while payouts will increase.

In spite of the fact that for last 20 years the pension system in Russia was re-modified several times, actually, it remains the slightly changed Soviet system based on the generations solidarity principle. Today the Russian pension system may be briefly described as the system where pension expenditures as share of GDP is equal to OECD (Organization for Economic Cooperation and Development) of advanced countries and significantly above the average for the emerging markets; the payroll tax exceeds the average OECD level and may be increased further; the level of pensions (measured by the replacement coefficient) remains 1,5-2 times below an OECD average (36% compared to 56%).

Thus,the subject of pensions is rarely out of the news these days. According to the data of Russian Public Opinion Research Center concerning whether Russians follow the changes in the pension reforming, and how they perceive the obligation to make pension contributions, more than half of Russians (60%) follow the changes to the pension reforms; at the same time, 17% of respondents do that regularly, and 43% do that from time to time. The share of those who are not interested in that is 39%. Those who try to be informed about the pension reforms are middle-aged Russians (68% among 35-44-year-old respondents and 73% among 45-59-year-old ones), residents of average cities (68%) and respondents with high level of income (71%).

Most of Russians think that pension contributions should be compulsory (66%). Forty-eight percent of them believe that it is the government's responsibility to take care about the pensions savings because many people start thinking about the retirement too late (in 2012, 39% of respondents). Eighteen percent of Russians believe that employee should discuss the pension schemes with the employer. Every fourth respondent (24%) believe that people should decide to make pension savings or not by themselves (in 2012, 33%).

Pension Fund of the Russian Federation (PFR) is the largest system of social services in Russia. The Fund ensures timely payment of pensions for every citizen of Russia in full accordance with his pension rights. More than 100 million people are members of the system of obligatory pension insurance. However, there is a deficit of the Pension Fund. In 2014, it will be at the level of 1.79% of the GDP and will make 1,006 trillion rubles.

President Vladimir Putin has signed the law "On the budget of the Pension fund of the Russian Federation for 2014 and planned period of 2015 and 2016".

According to the law, budget of PFR for 2014 is formed for revenues in the amount of 6.29 trillion rubles, which stands for 8.6% of the country's GDP. Of these 6.2 trillion rubles in the parts not related to the formation of the means for the funded part of labor pensions.

The amount of intergovernmental transfers from the federal budget to PFR in 2014 totals 2 trillion 450 billion rubles.

In accordance with the budget expenditures of PFR will amount 6 trillion 420 billion rubles or 8.8% of GDP in 2014. Of these 6.39 trillion rubles in the parts not related to the formation of the funded part of labor pensions.

The draft budget provides indexation of the labor pensions on February 1 (by 6%) and April 1 (by 2%). In total labor pensions will increase by nearly 8.1%. From April 1 social pensions will increase by 17.6%.

Revenues will amount 7.09 trillion rubles in 2015 and 7.73 trillion rubles in 2016. Expenditures are provided in the amount of 6.96 trillion rubles in 2015 and 7.41 trillion rubles in 2016.

Consequently, on February 1st2014 labor pensions of 37.8 million Russian pensioners were adjusted by 6.5% based on the growth of consumer prices in 2013. As a result, the average amount of the old-age labor pension has reached 11,400 rubles. As for the further growth of pensions in 2014, additional indexation of labor pensions was expected on April 1st , taking into account PFR revenues raise per one pensioner and indexation of social pensions taking into account the growth rate of subsistence minimum in the Russian Federation over the past year. At the same time from April 1st monthly cash benefits were adjusted by 5%. In August labor pensions of the working pensioners will be adjusted non-declaratively.

With that, the financial provision of Russian citizens will be no less than the regional minimum of subsistence. If the total amount of pensioners' financial provision does not reach minimum of subsistence established in the subject of the Russian Federation, then social supplementary benefit is set for such pensioners.

Another change in 2014 Russia's pension system is that since February every citizen will be able to monitor his or her pension savings funds accumulating in real time. To ease the process, each worker will have an online account to follow their employers paying pension insurance contributions – the exact amount and regularity, as now many are not aware of this process at all. So, people will see concrete figures and will be able to calculate their payroll, savings and pension using the so-called "pension calculator". This allows people manage their pension scenario.

Nevertheless, neither President, nor Prime Minister of the country tried to survive on the sums that Russian retirees get monthly. Average monthly pension in Russia makes about USD 325 while the average pension in the USA amounts to USD 1100 - 1200. It is to be noted that monthly housing and public utilities payments make about the half of this sum or even more.And for eating normal food sufficient for the healthy life a person living in Russia needs no less than 3,000 rubles weekly. The authorities are very far away from the common people and especially from the retirees. They can not realize or do not want to realize the reality of about 40 million common retirees in Russia.

The government try to solve the problem of the lack of money in the social funds trying to increase taxes for business. Some business in Russia is not at all Gazprom business and requires more care. Huge taxes can kill it. The business is strong mainly in large cities like Moscow or St. Petersburg – in other cities and towns of Russia people work hard to make their business profitable. Besides, huge taxes make the business to do the following: to compensate it by increasing the prices for all kinds of goods and services in the market.

Most Russian retirees have nothing else to do but to survive. Some things are unreachable for them – like a vacation somewhere abroad or private medicine; like buying new clothes or some electronics for their houses. Having only 11,400 rubles for the whole month they sometimes can afford themselves nothing but thebasic necessities to live.

Discussing the issues of pension reform in Russia, we by all means,turn to foreign experience. How does pension system work abroad? For example, the pension in Germany is protected from macroeconomic risks like inflation and even from possible change-overto another currency. In fact, the German pensionersare completely protected from poverty and miserable existence. Elderly people have the worthy standard of living comparable with the years of their active work.

What scale of pension is considered to be normalin Germany? The average pension in Germany in 2013 was more than 1,200 euros per month, and under certain conditions it made up 70% of a former salary. If necessary, the state grants subsidies for housing payment. All this allows Germans not to worry about possible decline in living standardsafter their retirement, and to start saving for pension just after the beginning of their professional activity.

Pension system of Great Britain is one of the oldest in the world (it has been working for more than 100 years). The British pensioners can receive both basic pension from the state, and labor pension from the national insurance system, depending on salary and work experience.

In the Scandinavian countries one can see the state model of organization of social protection (the so-called “Swedish socialism”). Sweden is the homeland of a new type of pension system that was adopted to some extent by many countries. The pension there consists of three parts: conditional-accumulative, accumulative and guaranteed (an obligatory minimum). One person can receive several pensions at once, the coefficient of replacement of a former salary here is close to 70%.

However, the financial crisis has served to magnify the pension challenges across Europe, and in a survey published in 2013, Pensions Europe (the trade association representing the national associations of pension funds across Europe, encompassing the trade bodies of 16 EU member states and five other European countries), analyzed the national policy actions that targeted or impacted pensions and pension provision in its wake. These include an upward adjustment to pension age eligibility.

For example, in Finland, for pension contributions to be eligible for tax relief, the pensionable age has been raised from 62 to 68. In France, the government increased the rate of tax applied to pension contributions from two percent to 20 percent in 2012. In 2010, the UK government announced a reduction in the amount that can be saved tax-free in a pension (the lifetime allowance) from £1.8 million to £1.5 million, alongside other changes, including a reduction in the annual pension contribution allowance. The UK then reduced the lifetime allowance further to £1.25 million in 2011.

In Spain, contributions to public sector pension plans were suspended in 2012 and 2013, and a temporary property tax on pension funds was introduced. In Ireland, the government nationalized the pension funds of non-commercial organizations such as universities, transferring assets of €2 billion (with liabilities of approximately €3 billion) to the National Pensions Reserve Fund (NPRF) to become part of the unfunded public sector scheme. In addition, the Irish government used approximately 80 percent of the assets of the NPRF to recapitalize the banking sector.

It is clear that recent policy actions on the part of a number of European governments, while perceived as political imperatives, will make solving Europe's pension crisis more difficult. The very fact that Europe is so fragmented in terms of pension provision has long been a focus of concern at the European Commission. In a number of countries, workplace pension provision is the norm, whereas in several other EU countries pensions are, in the main, the responsibility of the state on a pay-as you-go basis; it is estimated that 60 percent of European workers have no workplace pension provision at all.

To sum up, it should be said that in Russia all citizens of elderly age receive pensions independent of their seniority. At present the standard labour pension age is 55 for women, 60 for men; social pension age is 60 for women, 65 for men. More than 39 million retirees receive pensions through the Pension Fund. The PFR establishes and pays the pensions, both within the system of obligatory pension insurance (old age labour pensions, disability and survivor's pensions) and state pensions (social pensions, pensions to the Great Patriotic War veterans, people involved in elimination of the Chernobyl catastrophe, civil servants, etc.).

State social security is provided to the citizens, who for some reasons are not entitled to labour pension - I, II and III group disabled, including disabled from little up, disabled children, men of 65 and women of 60, who have not enough insurance length, etc.

Having studied the main issues of pension provision in today's Russia we came to the conclusion that 2015-2025 will be critical for Russian demography as Russia is going to faceserious decline in its population and labor force that will be a strong challenge for its economy and society. Population aging leads to the inevitable growth of pension burden over the economic system. According to Rosstat, by 2030 population at pension age will increase by 9 million people while the number of people in the working age will decrease by 11 million people. As a result, the "pensioners to employed ratio" will increase to 45 % by 2020 and to 52 % by 2030.

In order to keep the current replacement coefficient it is necessary toincrease a transfer from the federal budget by 1 p.p. of GDP every fiveyears, or to increase the rate of the payroll tax by 1 p.p. every year.

Thus, the problems of the Russian pension system rather soon willbecome not simply fiscal but macroeconomic and systematical problemof the economy.