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PECULIARITIES OF RUSSIAN FEDERATION PENSION SYSTEM FUNCTIONING UNDER CURRENT ECONOMIC CONDITIONS: PROBLEMS AND PROSPECTS

The paper analyses the Russia's pension system current state with the search for the priorities of its development in the context of the pension reform's next stage. The problems of pension insurance development in Russian Federation are investigated. Particular attention is paid to the peculiarities and measures to rise the efficiency of retirement benefit accumulative part of the national pension system. The research study resulted in recommendations aimed at the conceptual foundation formation of the pension provision development in Russia.

Keywords: pension system; pension insurance; pension; accumulative part of retirement benefit.

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ОСОБЛИВОСТІ ФУНКЦІОНУВАННЯ ПЕНСІЙНОЇ СИСТЕМИ РОСІЙСЬКОЇ ФЕДЕРАЦІЇ У СУЧАСНИХ ЕКОНОМІЧНИХ УМОВАХ: ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ

У статті проаналізовано сучасний стан пенсійної системи Росії та запропоновано пріоритетні напрямки її розвитку у контексті реалізації чергового етапу пенсійної реформи. Досліджено проблеми розвитку системи пенсійного страхування в Російській Федерації. Особливу увагу приділено вивченню особливостей та заходів щодо підвищення ефективності накопичувальної компоненти російської пенсійної системи. За результатами дослідження сформульовано рекомендації, спрямовані на формування концептуальних засад розвитку пенсійного забезпечення в РФ.

Ключові слова: пенсійна система; пенсійне страхування; пенсія; накопичувальна частина пенсії.

Табл. 1. Літ. 18.

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ОСОБЕННОСТИ ФУНКЦИОНИРОВАНИЯ ПЕНСИОННОЙ СИСТЕМЫ РОССИЙСКОЙ ФЕДЕРАЦИИ В СОВРЕМЕННЫХ ЭКОНОМИЧЕСКИХ УСЛОВИЯХ: ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ

В статье проанализировано современное состояние пенсионной системы России и предложены приоритетные направления ее развития в контексте реализации очередного этапа пенсионной реформы. Исследованы проблемы развития системы пенсионного страхования в Российской Федерации. Особое внимание уделено изучению особенностей и мер по повышению эффективности накопительной компоненты отечественной пенсионной системы. По результатам исследования сформулированы рекомендации, направленные на формирование концептуальных основ развития пенсионного обеспечения в РФ.

Ключевые слова: пенсионная система; пенсионное страхование; пенсия; накопительная часть пенсии.

Problem statement. Pension system with pension insurance as the key element is one of the most important social state guarantees. It finances the maintenance of the citizens in old age and with disabilities and affects the interests of the entire working

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population because at the expense of their activity financial security is carried out. Well-functioning system of mandatory pension insurance is the key to social stability in any state. In addition, pension system has a major impact on the stability of the entire state financial system, as well as on the balance of federal and regional budgets.

The present situation in the pension system satisfies neither pensioners, nor authorities, or employees of the Pension Fund bodies, or Social Security agencies. We are searching for solutions and measures on the path of reforms. Pension reform is aimed at real pensions scale improving, increasing the insurance principles in pension provision, financial stability and balance of the pension system, involving citizens' savings into the investment process through insurance, increasing the long-term lending in the economy, legalization of earned income and stimulation of informal sector decrease at the labor market. Presence of all these unresolved issues and prospects of development of the ambiguity of Russian pension system determine the relevance of the chosen topic.

Literature review. The results of scientific research of various aspects of the securities market are presented in the works of Z.E. Akhmetov (2012), S.V. Dolbina (2013), V.Y. Kalmykov (2012), E.V. Komarova (2013), Y.Y. Kosenkova and E.V. Zobova (2012), N.V. Mironenko (2013), V.V. Potapenko and A.A. Shirov (2012), N.D. Shishkova (2013) etc.

Appreciating the contribution of the above-mentioned scholars, it should be noted that the level of a problem in terms of the prospects of scientific research on the issue of the pension system modernization, extensive opportunities to develop new approaches to formation of pension assets and their redistribution on the principles of efficiency and fairness seems to be insufficient. The issue of an integrated approach to identify the priority areas of Russia's pension system remains open.

The purpose of the study is to analyze the problems in the current pension system in Russian Federation, to estimate its current state, peculiarities and operation, as well as to determine the priority directions of its development in the context of improving effectiveness of the pension reform implementation.

Key research findings. Russian pension system is a collection of created in Russian Federation legal, economic and organizational institutions and norms that aim to provide material support to citizens in the form of a pension (Komarova, 2013). Russian pension system in its present form was introduced on January 1, 2002 and includes the relationship of formation, awarding and payment of the following types of pensions: labor pension, state provision of pensions, private pension.

In the present system of economic relations pension is understood as a monthly cash payment performed by state out of the Pension Fund and/or by the insurer out of private pension funds to the citizens who reached retirement age, became disabled and to disabled citizens who lost their breadwinners (Federal Law, 2013).

We should consider the fact that pension is multifunctional, and therefore we should denote the basic functions of pension: reproductive, promotional and social (Kurtin, 2012). All the pension inherent features allow understanding correctly the essence and contents of pension, contradictions and problems in improving the state pension system.

Since the beginning of the insurance pension reform introduction in 2002 the three-tier pension structure was formed, the pension rights of insured persons began

to form not only on the distributional but also on the cumulative basis. At the same time the source of all pension rights formation are insurance contributions (federal budget funds transferring to the Pension Fund of Russia (PFR) budget are directed exclusively to cover the shortfall in pension payments).

Since this moment the next, fundamentally new stage in the development of the pension system in Russia was originated. Previously existing model was found to be ineffective and egalitarian reflecting biasedly labor contribution to the country's economy of each working person. A new model takes into account the wage rate of each insured person during all labor activity, introduction of the accumulative part into pension scheme, establishment of a system of individual (personalized) insured persons database at the pension rights formation (Federal Law, 2013; Komarova, 2013). It was assumed that innovation could increase the citizens' interest in their own pension composition, ensure financial sustainability of pension insurance system.

10 years of this concept implementation were not equal to expectations. Like a snowball, a set of problems is growing in the pension system. In this regard, in 2013 the realization of a new three stage pension reform was launched (Table 1).

Table 1. Pension reform stages in Russian Federation, 2013–2030
(Shishkova, 2013)

Stage 1. 2013–2015
1. Tariff increase for self-employed population and hazardous industries.
2. Tariff reduction of accumulative pension part from 6% to 2%.
3. Transfer difference from tariff reduction of accumulative pension part to the insurance pension part
Stage 2. 2016–2020
1. Raising additional tariff for the employers providing work under specific conditions.
2. Creating incentives for employees to voluntarily increase the allocation in future pension expense.
Stage 3. 2021–2030
Adjustment of the undertaken pension system reform activities

Pension insurance system is affected by a complex of external and internal factors of the pension system. First and foremost, we should include a demographic component to the external factors.

First of all, the ratio of people of working and retirement age has a significant impact on the pension system. According to Federal State Statistics Service forecasts, the share of working age population in a percentage wise of the population size will decline from 61.7% in 2011 to 55% in 2031 (The official website of the Pension Fund of the Russian Federation, 2013). Accordingly, the share of population over working age will increase from 22% in 2011 to 28.8% in 2031 (The official website of the Pension Fund of the Russian Federation, 2013). Thus, the dependency ratio being one of the most important factors affecting the state pension system which is calculated as the ratio of the number of dependent age persons per 1000 of people in working-age people will increase from 622 in 2011 up to 818 in 2031 (The official website of the Pension Fund of the Russian Federation, 2013). Hence, each citizen of the retirement age will get 1.25 even unengaged in the economy citizen of working-age (excluding unemployment, informal employment, disability etc.). If we consider that the main source of funding to pay current pensions should be insurance premiums

paid by employers for working people, we may express gloom over the demographic situation.

The next major factor affecting the pension insurance system is a significant shadow economy sector, and first of all, shadow employment (Dolbina, 2013). The so-called "gray wages" lead to a shortfall of essential amounts of insurance contributions to the Pension Fund of Russia (PFR). It makes adequate provision of pension payments funding for current retirees impossible as well as to form pension rights of employed citizens in the proper amount.

Moreover, the balance of the pension system is affected by such external factors as the main macroeconomic parameters, the structure of employment, labor productivity, inflation rate, nominal wages and others (Kalmykov, 2012). The pension insurance system has the following problems. First, the tariff of insurance premiums for self-employed people is not balanced. The size of insurance premiums paid by self-employed people (in terms of the minimum of remuneration for work established by legislation) does not allow them to form the pension rights of the extent allowing claiming for a decent pension in the future. At the same time, the amount of contributions paid does not allow the PFR to use them to finance the payment of pensions to retired citizens (Mironenko, 2013). Secondly, the unresolved problem of early retirement pensions for a wide range of insured persons remains as one of the acute objectives. Due to the fact that about 10% of pensioners retire before reaching the generally established retirement age, the pension system suffers an extra financial burden (Mamii and Andreev, 2013). On the one hand, the RPF income reduces in the amount of unpaid insurance premiums for the period since the actual retirement of an insured person until he reaches the generally established retirement age. At the same time the RPF expenses increase in the amount of old-age labor pensions paid to such citizens.

Another significant problem is a disappointed accumulative component of labor pension. The main reasons for this situation can be identified as (Kosenkova and Zobova, 2012; Plaksenko, 2012):

1) citizens express no confidence to government. Currently pension savings of insured persons are allocated as follows: state management company (SMC) keeps 71.6% of the total pension savings (1358 bln RUB), private management companies (MC) – 1.4% (26.3 bln RUB), private pension funds (PPF) – 27% (510.7 bln RUB) (The official website of the Pension Fund of the Russian Federation, 2013), i.e., every year the amount of pension savings kept in the state management company is reducing, but the rate of change is extremely low;

2) the lack of well-conducted explanatory campaign. Apparently state structures considered private MC and PPF as competitors. At the same time we could observe the government's ability to conduct pension insurance propaganda. In particular, citizens were actively encouraged to participate in the state co-financing pension program. According to the Pension Fund of the Russian Federation more than 9 mln people are involved in this program (The official website of the Pension Fund of the Russian Federation, 2013);

3) denial of the opportunity to have the accumulative part of pension for citizens born in 1966 and older. This category of population was the most active in terms of building their own pension and it is more interested in various pension schemes. We

believe that the decision to refuse such citizens in shaping their accumulative pension part was made because of the desire to increase contributions to the insurance part of the pension (at the expense of the accumulative one) in order to solve the problems of the PFR budget deficit.

Thus, to date the pension system of Russia has accumulated a set of interrelated problems. There are a lot of options offered to find the way out of the situation, but they are often largely conflicting. Even the Government of the Russian Federation has no unanimity because various ministries and agencies see the way out of the pension system crisis in diametrically opposite actions. The only indisputable fact is that no change in the situation can either lead to the pension system collapse as a whole, or to a serious crisis of public finance.

It is necessary to pay attention to the following factors accompanying pension system development for efficient use of methods and techniques for public pension reform (Akhmetov, 2012; Potapenko and Shirov, 2012):

- macroeconomic factors: growth rates and structure of GDP, labor remuneration funds part in GDP, growth indices of consumer prices (inflation), the quantitative characteristics of the labor market etc.;
- demographic factors: fertility, mortality, life expectancy, age and sex structure of the population;
- labor factors: the labor market situation, a period of labor activity and structure of seniority, salary level (income) of persons paying contributions, the amount of subsistence minimum of able-bodied and disabled people and others;
- organizational structure of pension systems etc.

In order to select the areas for further pension system development, it is necessary first of all to determine the list of the most urgent problems to be solved. Summing up the conclusions of this work, it is necessary to focus on 3 fundamental aspects of the national pension system development:

- pernicious trend of the pension system development in the last decade up to the present moment, in terms of increasing the unsecured rise of pension payments and faster growth of the PFR budget deficit;
- widely discussed infrastructure principle of the pension system development, capable to partially solve the tasks of optimization and funds redistribution;
- investment principles of the pension system development, the discussion of which is postponed because of the present prevailing negative paradigm consisting of government attitude to the pension system assets considering it not as beneficiaries funds transferred for effective management, but as a source of government debt free refinancing.

Consequently, the most significant directions of the pension system reformation are conditional on the need to streamline the following (Badalyan, 2012; Shmelev and Izhaeva, 2012):

- the structure of the state pension system (its "levels" according to the World Bank terminology) and possible changes in institutional elements of pension;
- tariff policy in the areas of pension provision in general and taxation of insurance premiums for various categories of taxpayers in particular;
- methods of pension rights accounting for different categories of citizens;
- insurance contributions (seniority) accounting for pension entitlements;

- accumulative component in the structure of the old-age retirement pension;
- legislative establishment of the retirement age;
- the pension system efficiency criteria planned to achieve as a result of the implementation of various ways of the current pension system improvement.

Accumulative component of the mandatory pension system for full-fledged development is also in an urgent need for measures to increase its efficiency and reliability. Among them, the most important ones are (Plaksenko, 2012):

- Legislative adjustment of financing for payments of the accumulative part of the retirement pension and spreading rights of inheritance and distribution of pension accumulations for the payment period. NPF is offered to use not for life but as an urgent form of pension payment. It is going to be a gradual cancellation of pension savings until the exhaustion of the insured person account (The official website of the Pension Fund of the Russian Federation, 2013). The ability to transmit the balance of accumulated funds, in our opinion, will attract a significant number of people to use the accumulative system.

- Support and development of non-state pension insurance market, which suggests the need to address the following points. First, the provision of equal rights and obligations of the PFR and NPF as insurers under MPI. So, NPF along with PFR offices should get access to the single system of personified registration (with restricted access to the section of the insurance part of the retirement pension of insured person account). This measure will allow the Fund get all the necessary information on the insured person at the conclusion of the MPI agreement, thus excluding refunds due to incorrect indication of the place of accumulative pension formation (in 2012 it is 356 ths applications which makes 48.6% of the total number of failures) (The official website of the Pension Fund of the Russian Federation, 2013). The information on the declarations received from the insured persons must be sent by the NPF to the RPF unit, it will provide formation of the insured people common registry and authorization to take decisions to correct it. Information preservation and protection will be provided with its transmission over communication channels in the system personalized registration. Further development of this measure can be the conversion of the personalized registration system into a single system of pension rights registration, which in addition to pension rights in the mandatory accumulative pension system would take into account the rights of citizens formed in the system of private pension provision. Second, the core agency responsible for the NPF activity regulation and supervision with the right of legislative initiative must be established. It will ensure sustainable development of the NPF.

- Formation of regulatory instruments of pension savings investing is targeted at increasing the efficiency and profitability of pension savings while reducing the risks of their investments. This requires the liberalization of state quantitative restrictions for pension savings investing with the transition to risk-oriented supervision of NPF and management companies. The necessary condition for such a transition is the introduction of regulatory prudential supervision principles.

- Formation of a compensation mechanism for the market risk associated with investing. To ensure the safety of pension savings and fulfillment of obligations owed to the insured people to pay the accumulative part of the retirement pension from the NPF it is necessary to form its insurance system based on the principles of public-pri-

vate partnership. Thus, the Expert Council of the Public Council under the President of the Russian Federation proposes the establishment of a two-level mechanism to compensate the market risks of investing (Magomedova, 2013):

1) NPF insurance reserves on accumulative insurance in MPI;

2) guarantee fund resources, created with the participation of the state.

- On the one hand, attraction of additional resources in order to form an accumulative part of pension would increase the number of participants of mandatory accumulative pension insurance, and on the other hand it would increase the volume of pension savings. At present a lot of civil servants of federal ministries and agencies, judicial system, public security services (totaling about 10 mln people) are excluded of the accumulative process. We believe that the rule of accumulating funds for retirement should be equal for all.

- The redistribution of financial burden and responsibility to build retirement savings. Most Russian citizens do not have specific experience and skills in investment decision-making, in situation assessment in the areas such as risk and return of accumulated funds investments, but they need to make effective decisions on their pension capital management in order to increase the volume of their future pension. In this context, it seems necessary first of all to reduce substantially the amount of private management companies and non-government pension funds (there were 49 private MC and 103 NPF in 2012) (The official website of the Pension Fund of the Russian Federation, 2013), allowing in this field only financially stable and professionally working at the stock market companies. Subsequently, the choice of private management companies (investment portfolios) or NPF by insured persons should be countermanded and establish the active selection rule of governmental or non-governmental pension fund by employers or employees. Thus, the responsibility for accumulative pension formation will be redistributed between employees, employers and the state.

Implementation of the proposals presented should promote the sustainability of the Russian Federation pension fund's accumulative part. Accumulative pension insurance has a great potential and it should be used to improve social welfare in Russia. Responsible and effective investment of pension funds will allow increasing the average size of retirement pensions up to the standards recommended by international agreements and used in developed countries.

Conclusions. The basic reasons for increasing the importance of the pension system in the country are: first, the need to fulfill the constitutional obligations of the social welfare, the state of the continuity of accumulated pension debt; secondly, the inevitability of the pension system reforms based on the insurance principles of operation; third, the implementation of the established international standards and requirements for pensioners material support being the prerequisites for the country recognition as a civilized socially oriented state.

A policy regarding the future of the pension system should become an element of the country general development strategy and be formed subject to the long-term challenges the economy is facing. The key goal is to transform the pension system into an effective instrument of economic policy conducive to income growth and demand of population, on the one hand, and an increase in investment activity on the other. Pensions should not be the only income source of retirees. It is necessary to

supplement their income from savings. Thus, the dynamics of household incomes will have a direct impact on the requirements for the pension system.

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