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ANALYSIS OF PENSION PROVISION MODERNIZATION IN REPUBLIC OF KAZAKHSTAN

The paper identifies the major issues of pension reform in the Republic of Kazakhstan. The key tendencies and background which led to changes in pension legislation have been considered. The study estimates the expediency of the reform.

Keywords: pension reform; pension provision; Republic of Kazakhstan; demographic ageing.

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АНАЛІЗ МОДЕРНІЗАЦІЇ ПЕНСІЙНОГО ЗАБЕЗПЕЧЕННЯ РЕСПУБЛІКИ КАЗАХСТАН

У статті визначено основні аспекти реформування системи пенсійного забезпечення Республіки Казахстан. Виявлено ключові тенденції та передумови, що призвели до змін у пенсійному законодавстві. Проведено оцінювання доцільності проведеної реформи.

Ключові слова: пенсійна реформа; пенсійне забезпечення; Республіка Казахстан; демографічне старіння.

Рис. 5. Табл. 1. Літ. 12.

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АНАЛИЗ МОДЕРНИЗАЦИИ ПЕНСИОННОГО ОБЕСПЕЧЕНИЯ РЕСПУБЛИКИ КАЗАХСТАН

В статье определены основные аспекты реформирования системы пенсионного обеспечения Республики Казахстан. Выявлены ключевые тенденции и предпосылки, приведшие к изменениям в пенсионном законодательстве. Осуществлена оценка целесообразности проведенной реформы.

Ключевые слова: пенсионная реформа; пенсионное обеспечение; Республика Казахстан; демографическое старение.

Problem setting. In contemporary Kazakhstan, despite the positive results of market reforms and positive changes in the macroeconomic dynamics, pension provision still does not meet modern requirements. Pension reform in 1998 in Kazakhstan caused the emergence of the system focused on personal social responsibility of citizens for their support in old age. It should be noted that the general principles of pension reform were genuine. At the initial stage the reform has brought benefits, ending pensions delays, and stabilized the overall situation in the field. At this historical moment Kazakhstan faced numerous challenges inherent to other countries as well, such as investment return below inflation, growing demographic ageing, and retirement age increase. In this regard, Kazakhstan reformed in 2013 its pension legislation.

Recent research and publications analysis. Pensions provision in the world faces two significant and reinforcing challenges. Demographic change and global economic pressure impact the provision of public pensions by increasing social spending and depending on the method of financing, the base of government's revenues from which these programmes are funded (Duru, 2006; Ney, 2000) argues that "permanent

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crises of social security budgets caused by increasingly competitive global markets, persistent unemployment, and demographic ageing remind us that social policy seems to be about adapting welfare states, including pension systems, to harsher economic climates". The basic subject of pension reform is presented as "re-establishing the compatibility of social policies with socioeconomic changes by means of economic competitiveness and cost containment in the area of pension system (Bonoli, 2000). Explicitly, as J. Myles and P. Pierson (2001) indicated that the major drive behind there form has come from the "rising pressures on public budget, creating incentives for policy makers to off load the rise in retirement costs to firms and individual workers". Thus, all modernization in pension provision should be based on the overview of the economy-based perspective on the financial aspects of state and local public pensions (Brown, Clark and Rauh, 2011).

The research objective is evaluating the effectiveness of the pension provision modernization in Republic of Kazakhstan.

Key research findings. In 2013, Kazakhstan has attempted to solve the problems and reformed its pension system. The modernization, carried out in 2013, had changed the pension legislation.

The law stipulates a gradual increase in women retirement age throughout 10 years, and by 2024 the women retirement age will be equal to the retirement age for men, 63 years. This change was due to the increased number of the elderly. Population ageing is a common problem in the world (Arhtur, 1981). This trend is characterized by the increase in the number of pensioners, thereby increasing pension costs financed from budgets. Increase in the population aged 60 and older in Kazakhstan is evaluated in Figure 1.

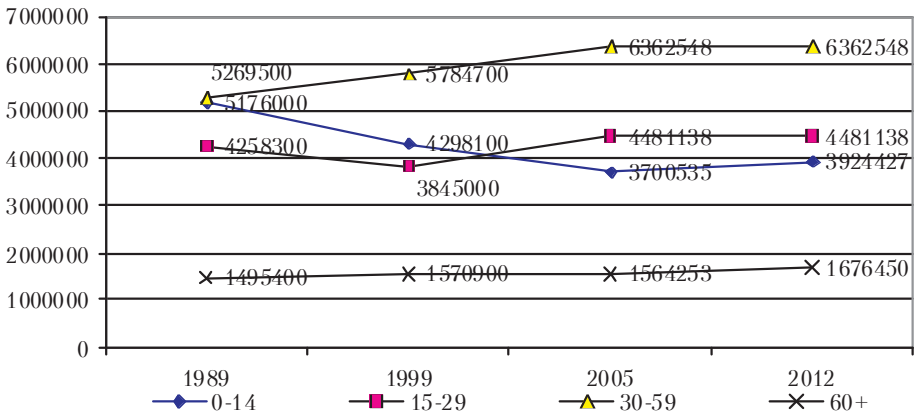


Figure 1. **Age structure of the population in Kazakhstan**, calculated by the author based on the data gathered from the Statistics Agency of the Republic of Kazakhstan

The analysis of Figure 1 reveals that number of elderly aged 60+ increased from 1,495,400 in 1989 to 1,676,450 in 2012. It suggests that the increase in the retirement age as already experienced by developed countries is the right solution.

But the situation changes significantly when we come to the analysis of life expectancy in Kazakhstan.

Table 1. Retirement age in developed countries

Country	Men	Women
United Kingdom	65	60
United States of America	62–67	62–67
Japan	60–64	60–64
Australia	65	64.5

Source: Retirement age in Australia, USA, UK and Japan.

Figure 2 shows that life expectancy of the elderly population after 65 years in 2010 was only 13.8 years, which is 6–9 years below Europe and the US. But despite all the mentioned reasons increase of the retirement age for women is a strategic measure justified by the following demographic features. Kazakhstan has a very strongly defined gender imbalance as shown in Figure 3.

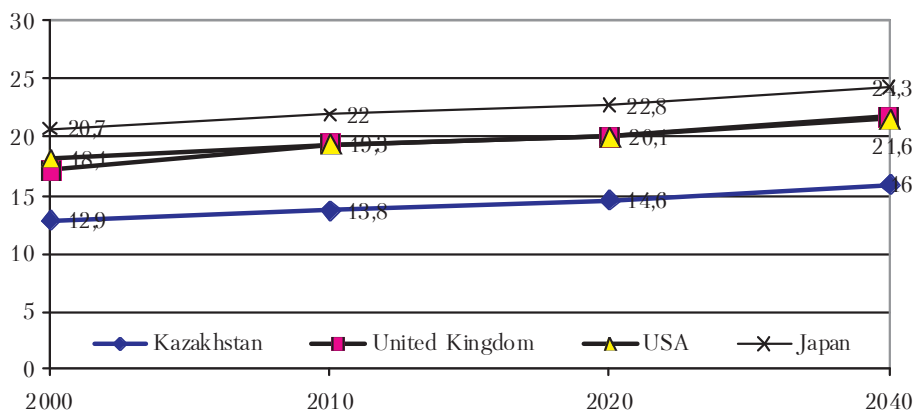


Figure 2. Life expectancy at 65+ years, values for 2020, 2040, calculated based on the UN medium variant projections (World Population Prospects)

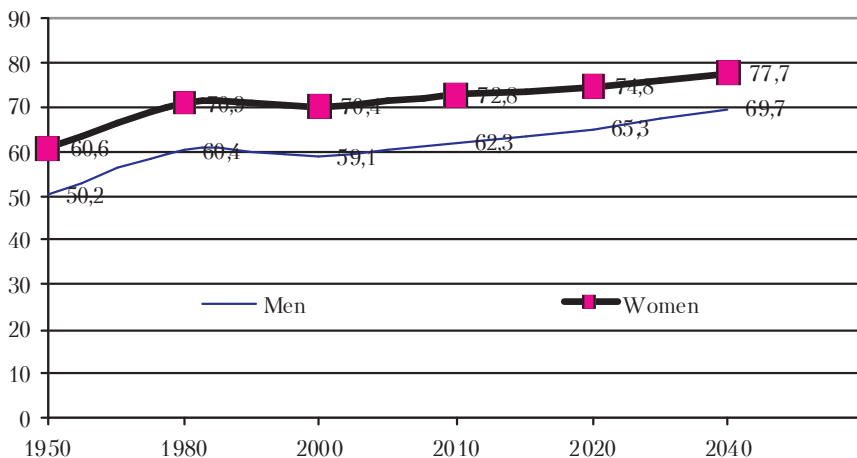


Figure 3. Life expectancy at birth for men and women in the Republic of Kazakhstan, values for 2020, 2040, calculated based on the UN medium variant projections (World Population Prospects)

It should be noted that the female population life expectancy in Kazakhstan according to 2010's data is 10 years longer than male. Thus, for the current period, we can state only the female population ageing in Kazakhstan. Currently, 70% of country's pensioners are women (1.2 mln), 36% of these 1.2 mln people are women aged 58–63 years. So it is obvious that now it is an additional burden on the budget. And this load will grow with time since many 2015–2025's pensioners will receive pensions from the PAYG system which is provided from the state budget.

Reorganization of pension market players is the next significant reform. In 2013 Kazakhstani pension market was represented by 11 pension funds. The bulk of the depositors were in the 3 largest pension funds: "UlarUmit", "GNPF", "Halyk Bank of Kazakhstan". Their joint market share was 69%. Preservation and profitable investment of pension savings is the main task of accumulative pension funds. But in connection with the last crisis in 2007 the investment yield of accumulative pension funds was lower than the inflation rate during the last 6 years. The pension market before modernization is shown in Figure 4.

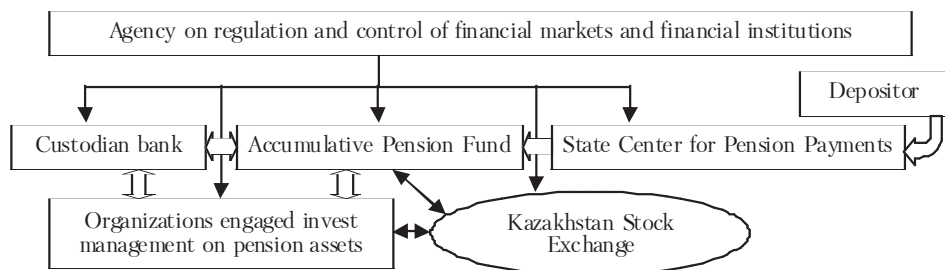


Figure 4. Structure of pension market before modernization, compiled by authors

On the basis of the factors mentioned above, in 2013 it was decided to merge the pension funds into the Unified Accumulative Pension Fund. Transfer of pension funds' assets at 3791.8 bln must occur in 2014. National Bank will manage the assets of the Unified Accumulative Pension Fund. If we consider that the commission of pension funds was 15%, the unification of pension funds is the appropriate solution. The changes at the pension market are shown in Figure 5.

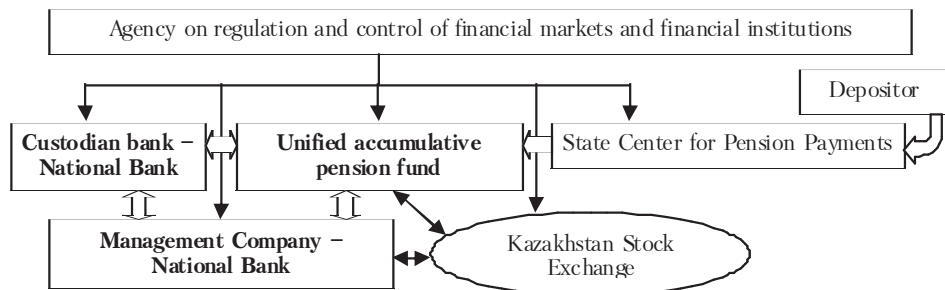


Figure 5. Structure of pension market after modernization, compiled by authors

Substantive changes relate to the following players, such as pension funds, which were unified, custodian bank and management companies. All pension funds were

offered to remain as management companies or work with voluntary pension contributions. This upgrade is due to rising public responsibility that soon will have to pay the difference in inflation indexation. Therefore, the work carried out to reduce pension costs by reducing the number of pension funds thereby reducing the amount of commissions paid to pension funds is a strategic measure. Of course, in this regard the critical issue is competition and the fact that the number of pension funds should be regulated by a free market. But since no answer is found so far how to find a compromise between safety and investment return of pension savings and the state is fully responsible for savings return to pensioners in the future, such necessary measures justify the state activities to regulate this market.

Conclusion. In conclusion, it must be recognized that all the changes do not radically reform Kazakhstan's pension provision. These measures are aimed at further improving the system while preserving its basic principles. Modernization of pension includes raising the retirement age for women, the union of all existing pension funds into one, maintaining the mandatory occupational pension contributions provided by employers. But of all these innovations most discussed were the first two. Therefore, in this article the authors analyze the pension reform focusing on the advisability of raising the retirement age for women and the unification of pension funds.

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