


Pension Reform in Russian Federation – Outcomes, International Trends, and Potential Next Steps



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RF's 2018 pension measures not surprising ...

Main Parametric Changes in the Public PAYGO Programs - Type of Parametric Change by Country (2009- December 2017)

<i>Type of Reform</i>				
<i>Increases in contribution rates destined to the public PAYGO program</i>	<i>Increases in the normal retirement age</i>	<i>Adjustment of parameters in the benefits formula</i>	<i>Cutbacks or freezing of the amount of the old-age pension</i>	<i>Increases in Taxable Income or Maximum Taxable Ceiling</i>
Andorra	Argentina*	Andorra	Andorra	Belgium
Cape Verde	Australia	Argentina	Greece	Czech Republic
Bulgaria	Azerbaijan	Australia	Italy	Germany
Costa Rica	Belarus	Belgium	Latvia	Guyana
Curacao	Belgium	Belarus	Portugal	Lithuania
Slovakia	Bulgaria	Brazil	Romania	Nicaragua
Estonia	Costa Rica	Bulgaria	Russia	Vietnam
France	Croatia	Curacao	Slovenia	
Guyana	Curacao	Czech Republic		
Kenya	Denmark	Ecuador		
Monaco	Slovakia	Finland		
Morocco	Slovenia	France		
Nicaragua	Spain	Greece		
Norway	Estonia	Guatemala		
Oman	Finland	Hungary		
Philippines	France	Italy		
Poland	Germany	Japan		
Portugal	Greece	Latvia		
Russia	Guatemala	Lithuania		
	Hungary	Luxembourg		
	Ireland	Monaco		
	Italy	Netherlands		
	Kazakhstan	Nicaragua		
	Latvia	Norway		
	Lithuania	Portugal		
	Madagascar	Romania		
	Malta	Russia		
	Morocco	Slovenia		
	Norway	Spain		
	Netherlands	Ukraine		
	Portugal	United Kingdom		
	Czech Republic	Vietnam		
	Romania			
	South Korea			
	St. Maarten			
	Ukraine			
	United Kingdom			
19	37		8	7

2011 contribution rate increase

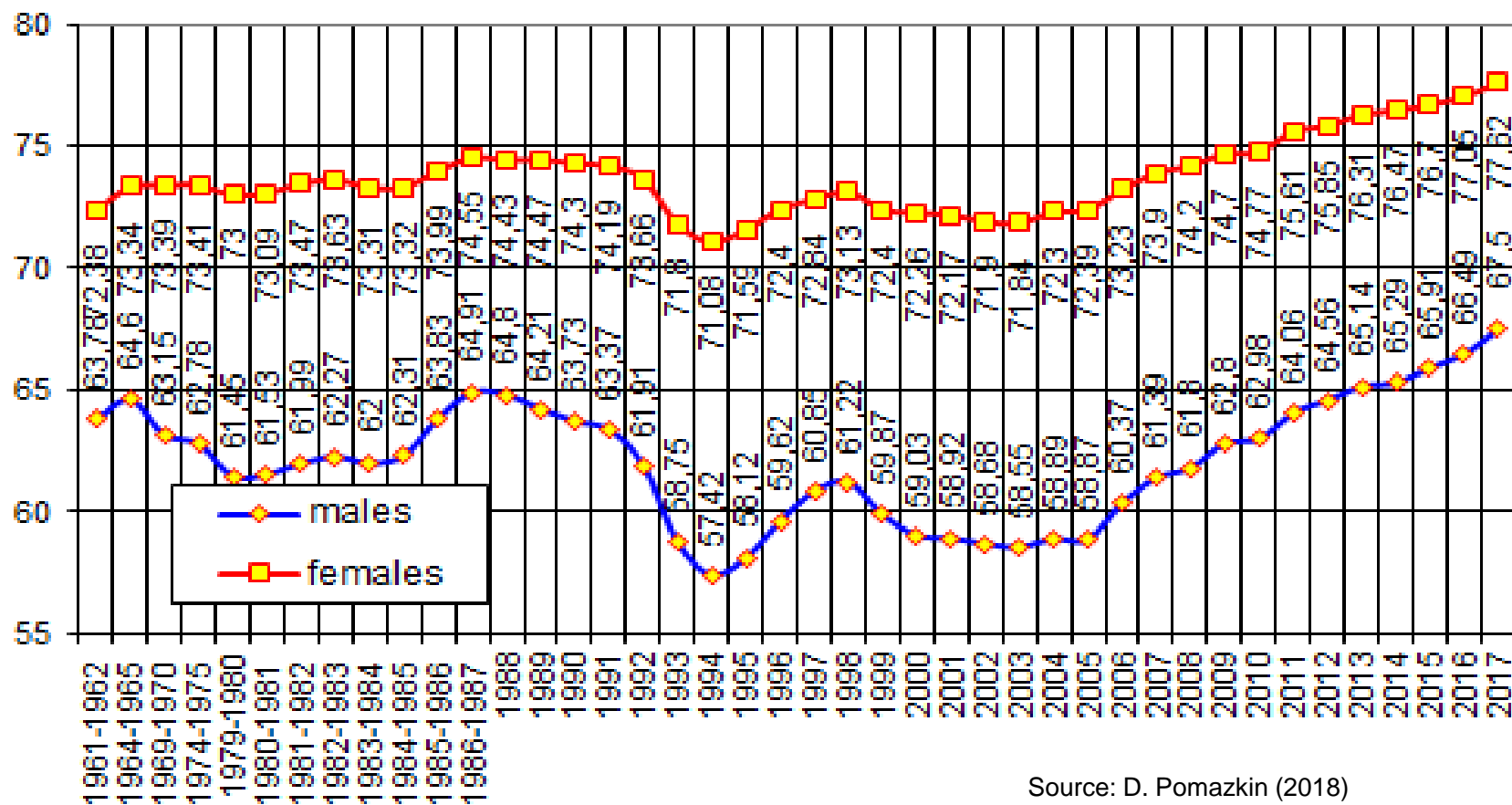
- 2016 suspension of indexation
- 2015 increase of vesting period to 15 years

-2018 PAYG pension increase
- 2018 Retirement age increase

*: Argentina: Refers to the increase in the optional retirement age, from 65 to 70 years for men and from 60 to 63 for women.

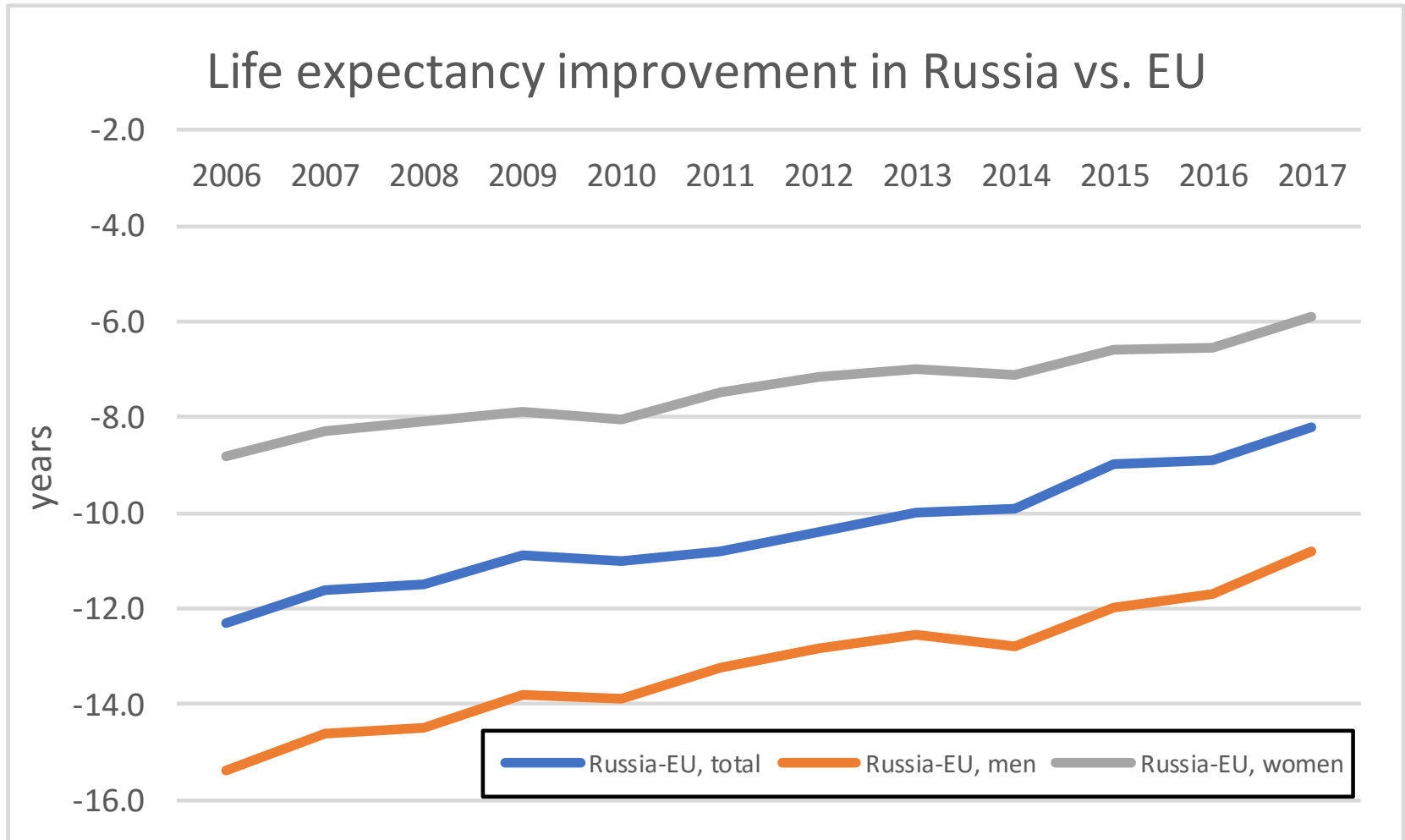
... given Russian Federation's fast aging

Life expectancy in Russia (males&females)

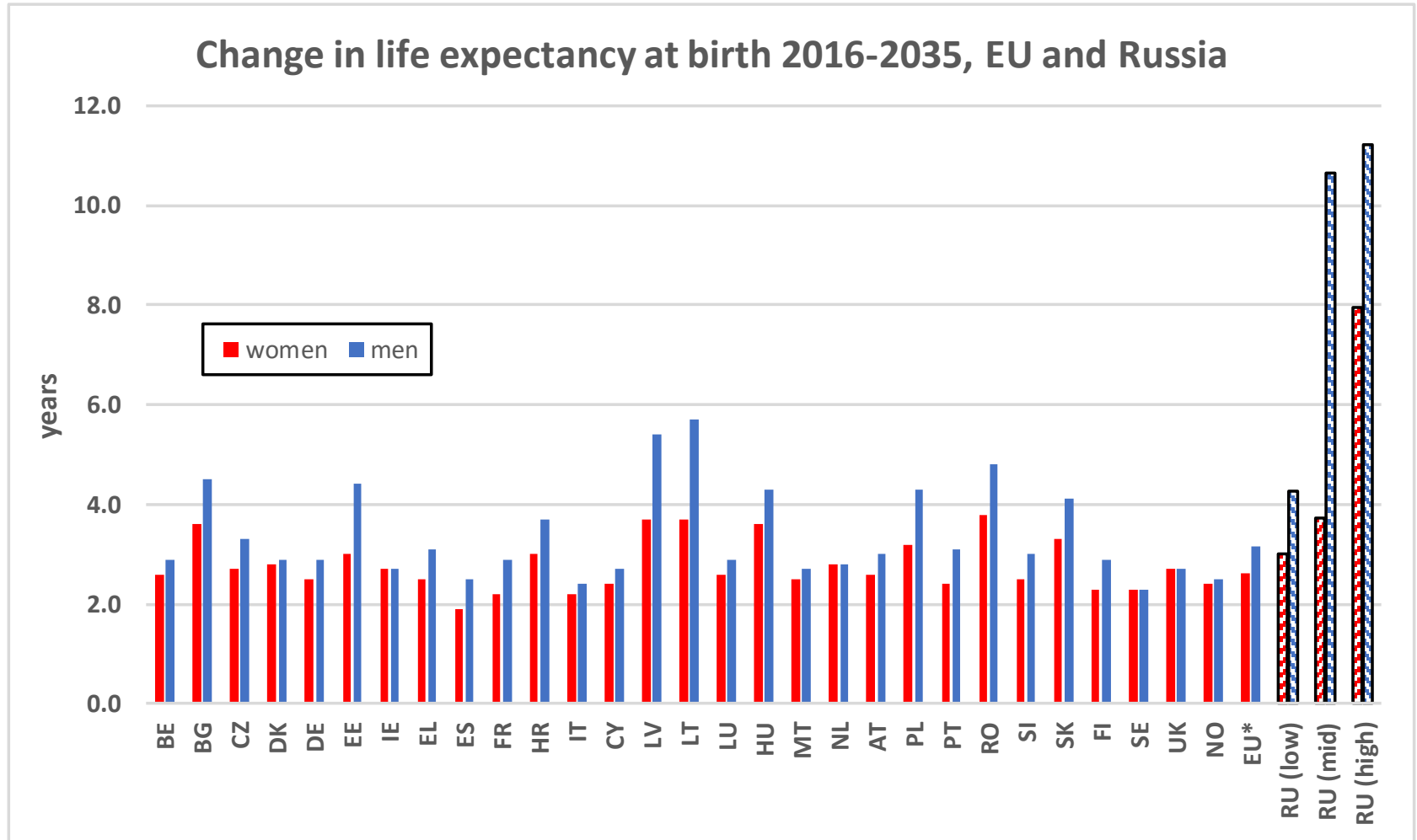


Source: D. Pomazkin (2018)

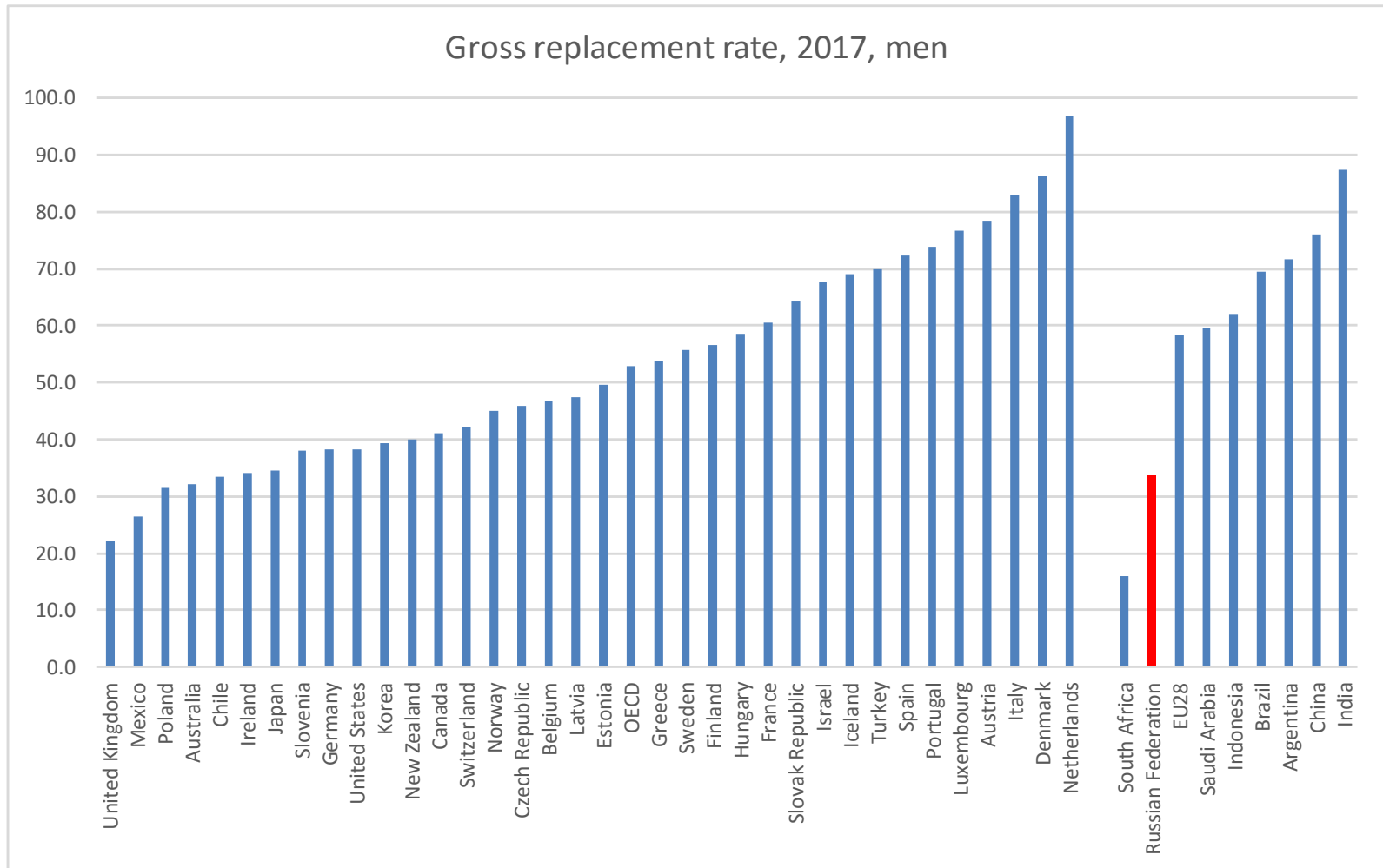
Aging in RF is much faster than in EU



Improvements in life expectancy would persist

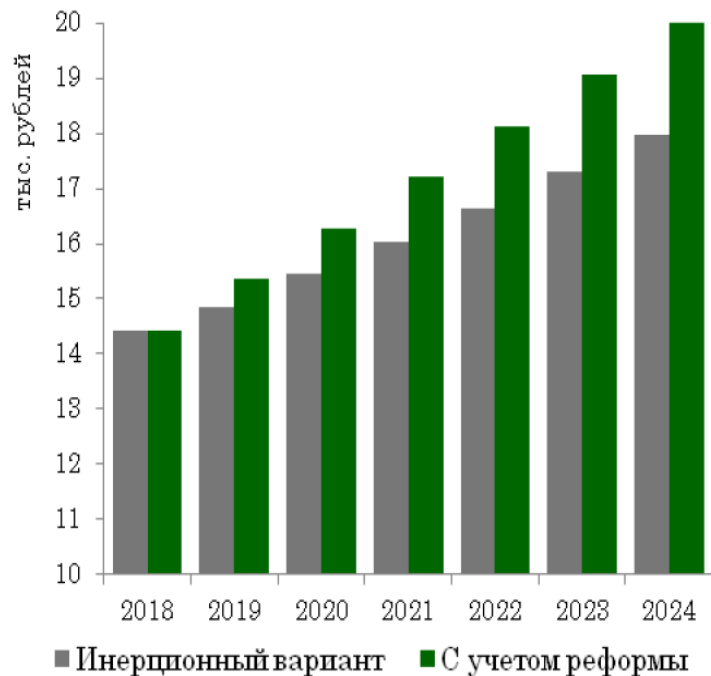


Replacement rates, among the lowest in OECD ...



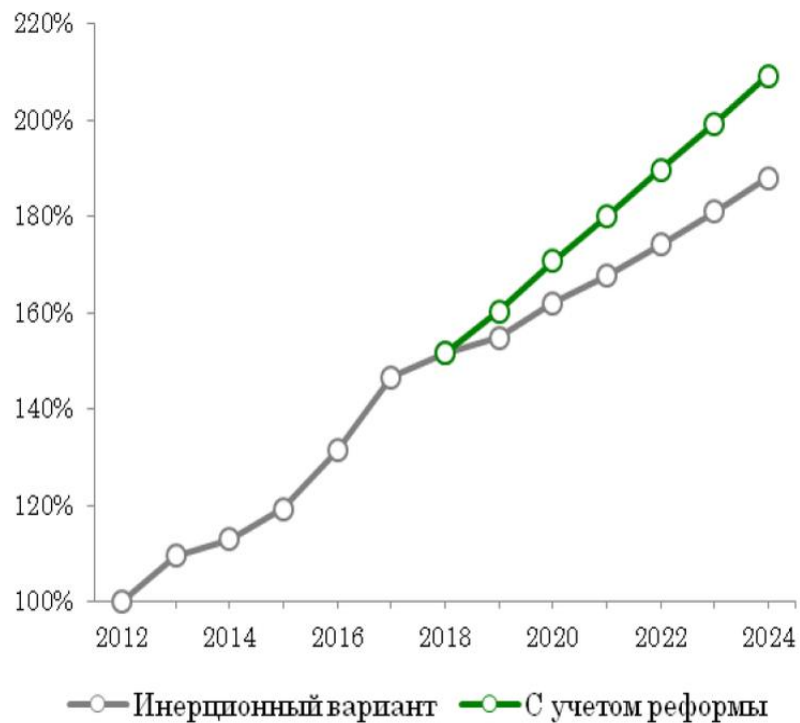
... will increase in short run

Размер средней пенсии по старости



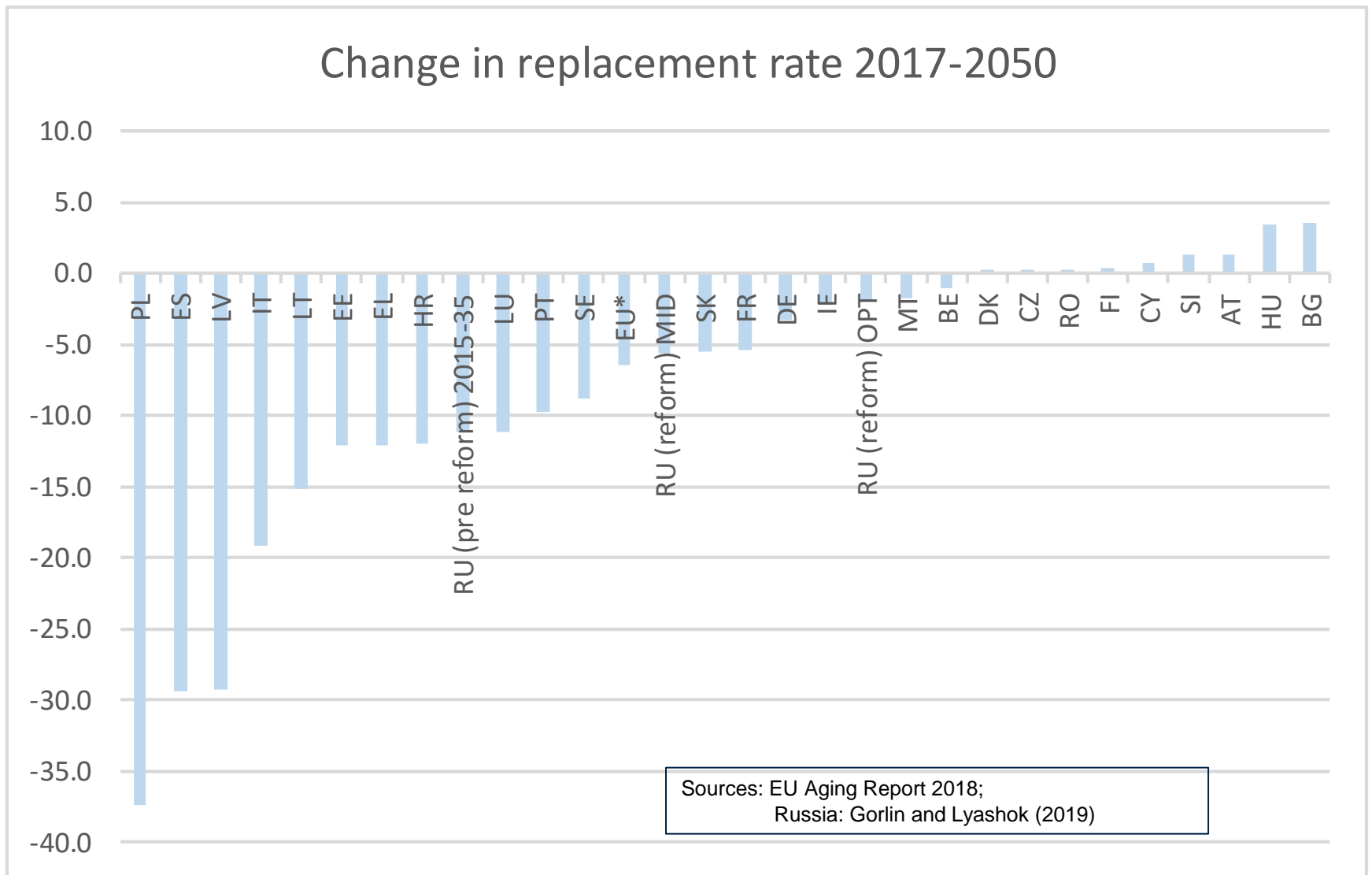
Источник: Минфин России

Рост пенсий в реальном выражении



Источник: Минфин России

... But decline in medium and long run



Overall outcomes of 2018 reform are uncertain

- Longer retirement ages would generate fiscal savings and higher pensions,
- but other measures, especially pension valorisation (7%, 6.6% 6.3% in 2019, 2020 and 2021 and 5.5% in 2023 and 2024) may result in strong increase in pensions 2019-2024 and higher fiscal costs; uncertain from 2025 with regular indexation, but likely to decline steadily,
- MOF and PFR project optimistic revenues with unchanged contribution rates (22% and 10% above top bracket) to finance higher PAYG costs,
- It would materialize only with strong growth in activity and wages.
- There is a risk of PAYG pension expansion and narrowing the fiscal space for other adequacy improving measures (like AES or reviving 2nd pillar).

Automatic enrollment systems around the world

- AEs in operation: Australia (1992), New Zealand (2006), Italy (2007) Israel (2007), UK (2012), Canada/Quebec (2014), Turkey (2018).
- AEs delayed, underway or announced: Georgia, Denmark, Poland, Ireland, Lithuania, Thailand, Germany (occupational AE going mandatory?).
- Poland swapping 2nd pillar for AEs: AE starts in July 2019 (with large firms); AE rate to grow from 3.5% to 6.5% (employer+employee; Govt welcome bonus); 25% lump sum, the rest programmed withdrawals.

Russian Automatic Enrollment – Questions

- What should be target contribution rate for AES in Russian Federation to compensate for falling adequacy? Seemingly 10%+
- Would employers and Government (or National Development Fund) participate?
- What contribution rate would individuals choose?
- Would the "escalator" work?
- Would participants trust the system?
- What would be the opt out rate? Would it be higher among the low income members?
- Would the administrator work efficiently, transparently and neutrally?

Conclusions and possible next steps

- October 2018 retirement age increase was needed given life expectancy improvements,
- Pension adequacy would improve only in the short run, with higher PAYG expenditures narrowing the fiscal space,
- For adequacy improvement additional pension savings and contributions seem unavoidable (10%+), through introducing Automatic Enrollment System with Government's matching and/or unfreezing 2nd pillar (moratorium until 2021).
- More PAYG reforms (early retirement, reduced or subsidized contribution rates for some categories, sustainable indexation, disability assessment) are needed to improve the fiscal space for adequacy improvement.