Russian Pension Plan Study

2014

MetLife WELBI Raiffeisen PENSION FUND TOWERS WATSON

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Study background

Russia's existing pension system with its mixture of state social security, obligatory pension insurance and non-state pension funds (NSPF) was effectively created in 2002 to ease the fiscal burden of state pension payments and boost the emergence of a financial market. The most common entry date into the market was 2008 for the providers surveyed here as part of this first Study of Russian Pension Plans by Towers Watson. National spending on pensions is already high and is expected to increase from 8.9% of GDP in 2010 to a projected 16% of GDP by 2050.

Russians today may still have unrealistic retirement expectations based on what they have seen in previous generations. Their expectations are not being fulfilled, and they now commonly need to rely on family support or keep working beyond their normal expected retirement age.

In the former Soviet Union the starting income replacement rate was 55% of the final wage, rising to 75-85% for workers with more years of service.

As part of our research, we spoke with the leading employee benefits providers in Russia that took part in our Study. Their experience revealed that the total average Russian state pension is broadly RUB 10,000 per month and the average salary is about RUB 30,000 per month, giving a typical replacement rate of 30%. However, in larger companies and foreign multinationals salaries are likely to be higher, which provides an even smaller replacement ratio. Data analysis performed by Towers Watson using actual employee salaries at a small number of clients has revealed that, whilst the average pensions of former employees appears consistent with the national average, the average monthly salaries actually paid were closer to RUB 65,000 per month. This implies actual replacement ratios of around 15% or less, especially in the large Russian cities (Moscow and St Petersburg) where earnings are generally higher than elsewhere in Russia.

We are aware of other studies that indicate higher replacement rates for Russia, such as the 2013 OECD study that shows a typical replacement level of 61% for Russia. However, we believe that this study is less relevant to many of Towers Watson's clients' situations as its conclusions appear to be based on significantly lower employee salary levels.

There is an obvious need for supplementary pension provision, especially as the deficit of the state pension fund continues to widen, and continues to be covered by top-ups from the federal budget. The Towers Watson Data Services (TWDS) General Industry Russia Survey 2013 indicates that approximately 20% of large local and multinational companies provide some form of supplementary pension arrangement. Yet, supplementary pension provision remains a minority practice in Russia. This is due to the following reasons (though not limited):

- Russian employees have a strong preference for immediate cash rewards over deferred pay arrangements, such as pensions;
- There continues to be concern about setting aside savings for lengthy periods of time with financial organisations, such as banks and insurance companies (two country defaults in 20 years lives long in the memory);
- Design issues that relate to tax effectiveness, investment restrictions, and communications weakens the case for introducing and maintaining local pension plans;
- Financial awareness and education on financial issues is poor across the general population, given the lack of a long history of pension or long-term savings in Russia.

We expect significant attention to be directed towards workforce retirement management in Russia over the next few years, especially as the workforce matures and a higher proportion of employees approach retirement age.

A small bespoke Towers Watson survey conducted in 2013 revealed that only 1 out of 13 respondent companies had well-defined incentive programs to stimulate employees to retire upon reaching the statutory retirement age, however we are also aware of a number of 'practices' (that is, not formal plans) also employed locally. These 'practices' normally consist of paying indemnities that depend on the employee's past service and can represent significant (and sometimes unreported) accounting liabilities that should be recognised in the companies' financial statements according to international accounting standards. We are aware of companies that are phasing out the payment of these retirement indemnities as they expect that supplementary accumulated defined contribution (DC) pension savings grow to the extent they are able to deliver an adequate amount of retirement income that will allow employees to retire voluntarily.

The Towers Watson Study presented here covers supplementary plans already in place and offered by some of the major Russian pension Providers: WELBI/Blagosostoyanie MNC (ex-Aviva), MetLife and Raiffeisen. It covers several industries with pension plans primarily covering employees in Russia (although some cover Ukraine). The Study covers main features of supplementary pension plans from investment vehicle, number of active members, plan design, waiting and vesting periods, contributions of both employers and employees, and distribution options. The data for the study was gathered between late 2013 to early 2014.

Overall results

Most of the market for supplementary pensions is dominated by the non-state pension fund vehicles (NSPF), with a smaller overall percentage delivered through insurance arrangements. In our study, 60% of the plans (77 out of 127) were NSPFs.

About 18% of participants were from the Industrial sector, 13% from the Oil & Gas industry, 9% from Banking & Finance and 9% from Food & Drink. Provision of supplementary pensions is more prevalent in fast moving consumer goods industries, where attraction and retention of employees is key.

NSPF

Almost all NSPFs are DC plans, with no guaranteed investment returns, although a minimum 0% return guarantee is understood to be present for nearly all plans. In contrast, almost all Insurance (referred to here as Life plans) plans have a guaranteed investment return.

Almost three-quarters of the NSPFs had 200 active members or fewer, with the median plan having 67 active members. However, there were a number of larger plans captured in our Study, the biggest of which had more than 7,000 members. As for deferred members, where reported, the average plan had around 128 deferred members, with the median plan having around 17 deferred members.

Eligibility of membership is extended to all employees of the sponsoring company in three quarters of the surveyed plans with a minority setting eligibility as executives only or grade and seniority based.

Waiting and vesting periods

Waiting and vesting periods are usually used as design features in supplementary plans as a means of retaining employees. The most popular waiting period seems to be three months, which corresponds to the maximum probationary period for employees (excluding executives) allowed by Russian labour law.

The majority of NSPFs have vesting criteria defined by years of service with the employer, with about a third defined by years of plan membership. Only a small minority had immediate vesting, which indicates that vesting rules are commonly used for retention purposes. Over 90% of vesting designs used phased-vesting over an average period of five years.

Although we are seeing some instances of an unusual retirement tactic known as 'reverse vesting', this is not a common practice in Russia, and it is only used by two NSPFs in our sample. This feature, which takes away employer contributions if employees work beyond retirement may, however, become more prevalent as employers seek to incentivise older workers to retire.

Employer contributions

When it comes to contributions, about 85% of supplementary pension plans offered the same contribution structure to all employees, with a minority of plans offering contribution structures that vary by grade or time in service. About 45% of plans had no core employer contributions; hence on average core contributions were about 2%. However, when contributions were actually made, the median core contributions stood at about 4%. Plans with no core contributions from the employer offered more generous matching contributions.

The most common contribution matching ratio was 1:1 matching, as exhibited by 25 of the 77 NSPFs in our study. About a fifth of the plans had no matching contributions from the employer; however we observed that those tend to be the plans that offer more generous employer core contributions. A small minority had hybrid matching schemes that changed at different salary thresholds.

Just over half of the plans required at least a 1% employee contribution or did not have a formal minimum employee contribution requirement in order to trigger employer contribution matching. We did note some plan designs that introduced employer matching contributions at higher employee contribution levels only, as a means of encouraging a higher level of employee participation in the pension plan. Where there was a limit to maximum matching employer contributions, the most common ceiling was 5%.

Employee contributions

As for employee contributions, 27% of pension plans did not have a minimum required level of contributions for employees. Where this was required, the most popular minimum contribution level is 1%, as exhibited by 40% of the pension plans. The median limit on employee contributions was 3%.

30% of plans had no maximum for employee contributions. Another 30% of plans did not allow employee contributions at all (that is, had a maximum employee contribution of zero); these plans tended to have higher core contributions from the employer, reflecting a more paternalistic nature of these plan designs.

> "... (the Study) includes 127 plans, including 77 non-state pension fund (NSPF) plans and 50 life insurance Plans (Life). "

Distributions

At retirement, employees are offered all options for benefit payments; in about a quarter of cases they are offered temporary annuities. We understand that life annuities, common in more established DC pension markets such as the UK, are less frequently chosen by members.

Life plans

Six in ten Life plans had 50 employees or fewer, where the median plan had 30 employees. There was less observed variation in size, and the largest Life plan had approximately 700 members. We understand that the Life plans did not have deferred members due to factors such as limited contract terms or members being paid out upon leaving. Coverage extended to all local employees in 72% of the Life plans, whereas nine of the fifty Life plans restricted coverage to executives only.

Waiting and vesting periods

We see the same pattern of waiting periods in Life plans where about a fifth of plans had no waiting period, and almost two-thirds had a waiting period of three months.

Almost 40% of Life plans had vesting periods defined by years of service with the company, and another 40% defined by years of membership of the Life plan. Only a minority of Life plans (around the 10% mark) exhibited immediate vesting.

Around two-thirds of Life plans in the study indicate that phased vesting is used, and 16% of plans use flat/cliff vesting. The average and median vesting period was five years for the Life plans in our study.

Employer contribution

When it comes to employer contributions, about one third of Life plans offered the same contribution structure to all employees (a fixed monetary amount as core contribution was fairly common), with another third offering salary-dependent contribution structures. A smaller proportion of Life plans (approximately 20%) exhibited contribution structures that were either grade or service-related.

When disclosed, about 12% of Life plans had no core employer contribution, with the median plan having a contribution of 3%.

Half of the Life plans do not have any matching contributions by the employer, but when there is matching the most popular ratio is 1:1 matching. Plans with maximum matching employer contributions (about half of the Life plans in our study) typically used 5% as the ceiling.

Employee contribution

With employee contributions, over half of Life plans had no required minimum contribution level. Where this was required, the most popular minimum contribution level was 0%. Employee contributions up to 5% typically attracted some employer matching.

Distribution

When employees retire they are mostly offered lump sum pay outs with only a minority offered other options for their benefits.

Section 2: Overview of participants

Industry sectors

This Towers Watson Russian Pension Plan Study 2014 (the 'Study') includes 127 plans, including 77 non-state pension fund (NSPF) plans and 50 life insurance plans (Life). The Study covers a number of industry sectors with almost half the sample belonging to the following sectors: Banking and Finance, Industrials, Oil & Gas and Food & Drink.

There were 21 plans from organisations that did not fit within our broad industry sector categories and thus we have classified them as 'other'. A full breakdown by industry is as shown in **Figure 01**.

Figure 01. Industry overview

	NSPFs		Life Plans	
Industry	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
Industrials	14	18.2%	9	18.0%
Food & Drink	12	15.6%	0	0.0%
Oil & Gas	10	13.0%	6	12.0%
Consumer Goods & Retail	7	9.1%	0	0.0%
Pharmaceuticals	6	7.8%	3	6.0%
Banking & Finance	5	6.5%	7	14.0%
Insurance	5	6.5%	0	0.0%
Technology	3	3.9%	5	10.0%
Telecoms	1	1.3%	6	12.0%
Education	1	1.3%	0	0.0%
Engineering & Power	1	1.3%	0	0.0%
Construction & Property	1	1.3%	0	0.0%
Transport & Travel	0	0.0%	2	4.0%
Mining	0	0.0%	2	4.0%
Other	11	14.3%	10	20.0%
Total	**77**	**100%***	**50**	**100%**

*Rounded

Plan size (membership) and start date

Nearly three quarters of NSPFs have 200 or fewer active members. Life plans were smaller, where 62% of plans had up to 50 active members compared to just over 44% of NSPF.

Most NSPFs had a small number of deferred members (up to 50), whereas for Life plans, when disclosed, there were no plans with deferred members.

Figure 02. Active membership

	NSPFs		Life Plans	
	Number of Plans	**Percentage**	**Number of Plans**	**Percentage**
1-50 employees	34	44.2%	31	62.0%
51-200 employees	23	29.9%	12	24.0%
201-1,000 employees	13	16.9%	7	14.0%
More than 1,000 employees	7	9.1%	0	0.0%
Total	**77**	**100%***	**50**	**100%**

*Rounded

Figure 03. Deferred membership

	NSPFs	
Membership size	**Number of plans**	**Percentage**
No employees	5	12.2%
1-50 employees	24	58.5%
51-200 employees	5	12.2%
201-1,000 employees	5	12.2%
More than 1,000 employees	2	4.9%
Total	**41**	**100%**
Undisclosed	36	

Additionally, almost all of the plans offered coverage within Russia only, we did identify two plans in our study extending coverage to the Ukraine.

For both NSPFs and Life plans, approximately two-thirds of the plans were set up prior to 2009. The period between 2006 and 2009 was the most popular for establishing supplementary pension plans whether NSPF or Life plans.

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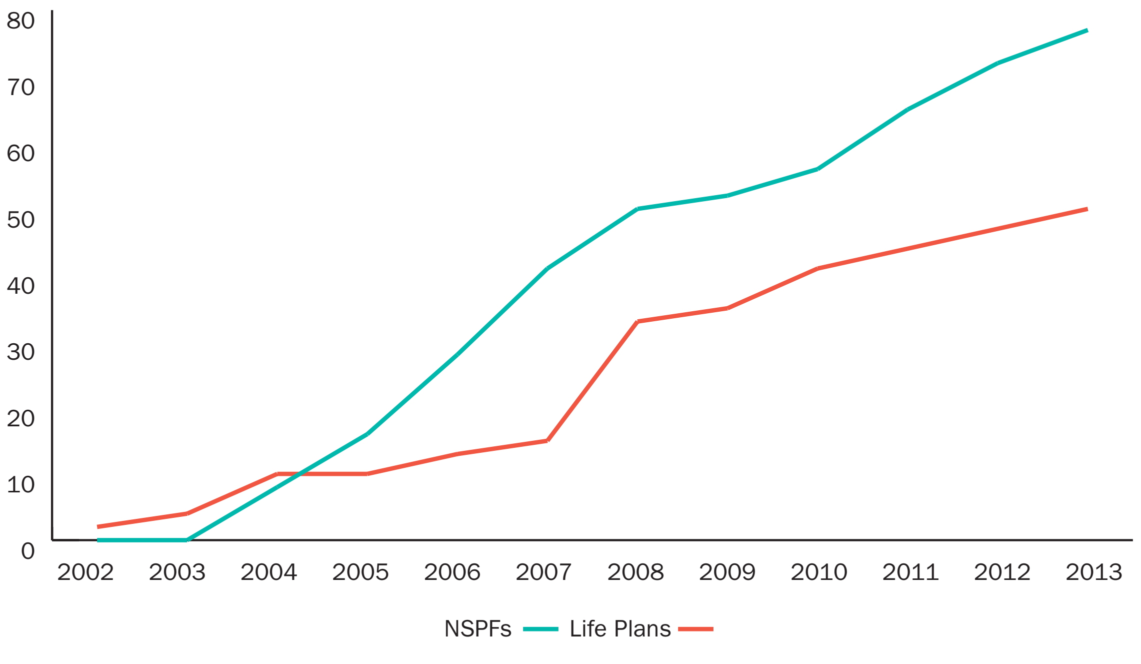
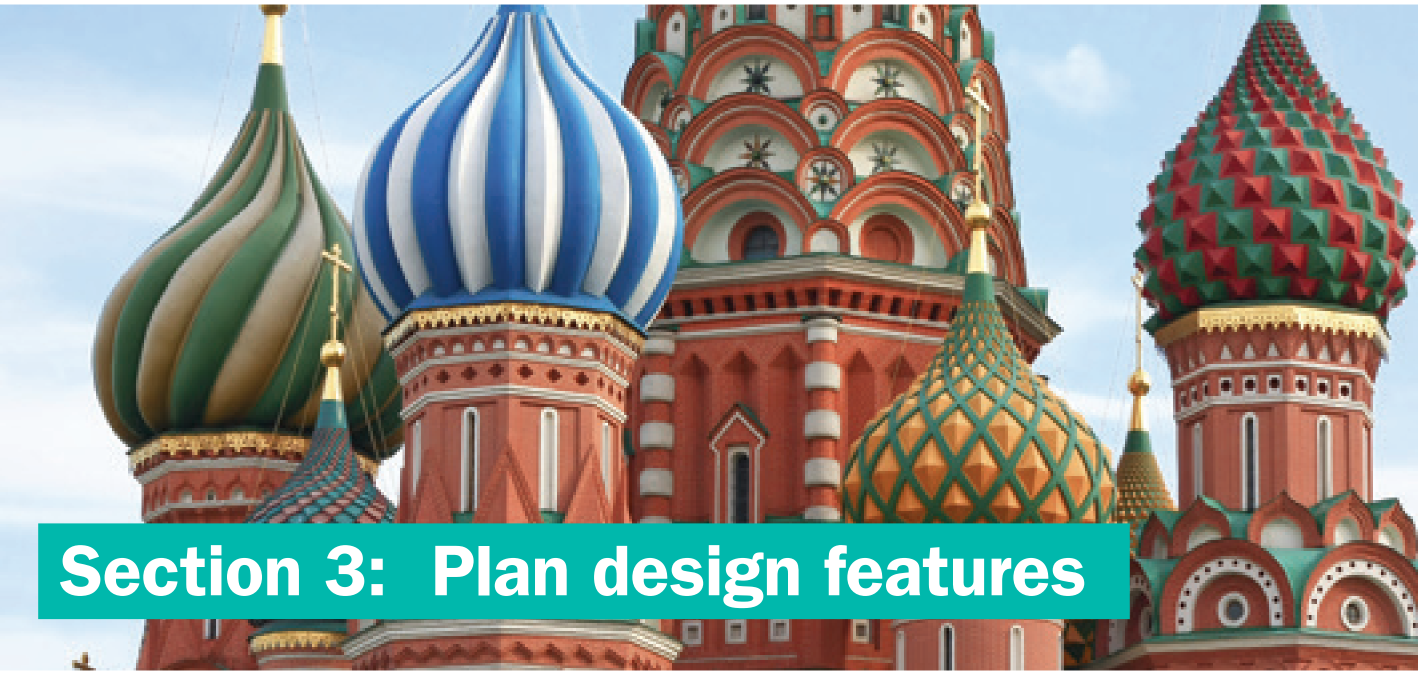
Figure 04. Plan start dates

	NSPFs		Life Plans	
Plan start date	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
2002	0	0.0%	2	4.0%
2003	0	0.0%	2	4.0%
2004	8	10.4%	6	12.0%
2005	8	10.4%	0	0.0%
2006	12	15.6%	3	6.0%
2007	13	16.9%	2	4.0%
2008	9	11.7%	18	36.0%
2009	2	2.6%	2	4.0%
2010	4	5.2%	6	12.0%
2011	9	11.7%	3	6.0%
2012	7	9.1%	3	6.0%
2013	5	6.5%	3	6.0%
Total	**77**	**100%**	**50**	**100%**

Figure 05. Growth in supplementary pensions in Russia





Section 3: Plan design features

Employee eligibility and membership

Market practice indicates that when a supplementary pension plan is available it tends to be offered to all employees, while certain companies offer their plans based on an employee's grade, especially for executives.

In almost 80% of NSPFs employees continue to accrue benefits after the retirement age if they continue to work. Accrual beyond the retirement age stops in one-fifth of plans, even if the employee continues to work. The situation is different for Life plans, as with all plans the employee continues to accrue benefits after retirement age, if he/she continues to work.

Over 72% of NSPFs did not have a minimum age for employee eligibility, and only 26% of NSPFs had a minimum age of 18. With Life plans, only 18% do not have a minimum age for eligibility, with the rest (82%) setting the age of 18 as the minimum age for employees to be eligible for the Life plan.

Waiting periods and vesting criteria

Imposing a waiting period before an employee can join a pension plan is typical practice in Russia, where this period typically ranges between three months to one year. Roughly one fifth of plans do not require a waiting period. The most popular waiting period for both types of plans was 3 months, which corresponds to the maximum probationary period for non-executives allowed under Russian labour law.

Figure 06. Employee eligibility

	NSPFs		Life Plans	
Employees eligibility	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
All local employees	57	74.0%	36	72.0%
Grade-based eligibility	5	6.5%	0	0.0%
Executives only	7	9.1%	9	18.0%
Seniority-based: only after certain years of service	8	10.4%	2	4.0%
Other	0	0.0%	3	6.0%
Total	**77**	**100.0%**	**50**	**100.0%**

Figure 07. Waiting periods

	NSPFs		Life Plans	
	Number of plans	**Percentage**	**Number of plans**	**Percentage**
No waiting period	14	18.4%	11	22.0%
3 months	48	63.2%	32	64.0%
1 year	10	13.2%	5	10.0%
Other	4	5.3%	2	4.0%
Total	**76**	**100%***	**50**	**100%**
Unknown	1			

* Rounded

Most plans have a vesting period that is defined by tenure or length of membership in the pension plan. The majority (56%) of NSPFs used the years of service with the company to define the vesting period, with a third using the years of plan membership as their vesting criteria. However, Life plans were almost equally split between length of service (38%) and length of pension plan membership (40%) in how they defined their vesting criteria.

Figure 08. Definition of vesting periods

	NSPFs		Life Plans	
Vesting period definition	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
Years of service with company	43	55.8%	19	38.0%
Years of pension plan membership	26	33.8%	20	40.0%
Immediate	4	5.2%	7	14.0%
Other	4	5.2%	4	8.0%
Total	**77**	**100.0%**	**50**	**100.0%**

Vesting periods

Vesting can encourage employee retention, and can be very important in plan design. Different types of vesting options and different vesting periods can serve different objectives. An employee becomes vested when acquiring ownership/rights to the funds in the plan for their benefit.

The vesting can be partial (for example 25%, 50%), or full, in which case the beneficiary will then have rights to all the funds in the plan.

Vesting can be used as a retention tool, depending on the structure of the plan (for example Immediate, Phased, Flat/Cliff), and vesting years.

Phased vesting periods seem to be the most popular design for both NSPF and Life plans where over 90% of NSPFs and over two-thirds of Life plans contained this feature. Flat/cliff design seems to apply to only 16% of the Life plans.

Figure 09. Types of vesting periods

	NSPFs		Life Plans	
Vesting period	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
Immediate	4	7%	7	14%
Phased	52	93%	34	69%
Flat/cliff	0	0.0%	8	16%
Total	**56**	**100.0%**	**49**	**100.0%***
Unknown	21		1	

* Rounded

Most pensions vest in under 5 years, where the most common vesting period is 4 to 5 years, for both NSPF and Life plans, followed by 6 to 10 years and 1 to 3 years. The median vesting period for both types of plans is 5 years.

Figure 10. Vesting periods

	NSPFs		Life Plans	
Vesting period - Years	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
0 years	6	8.2%	6	12.2%
1 to 3 years	15	20.5%	6	12.2%
4 to 5 years	33	45.2%	27	55.1%
6 to 10 years	15	20.5%	9	18.4%
Other	4	5.5%	1	2.0%
Total	**73**	**100.0%**	**49**	**100.0%***
Unknown	4		1	

* Rounded

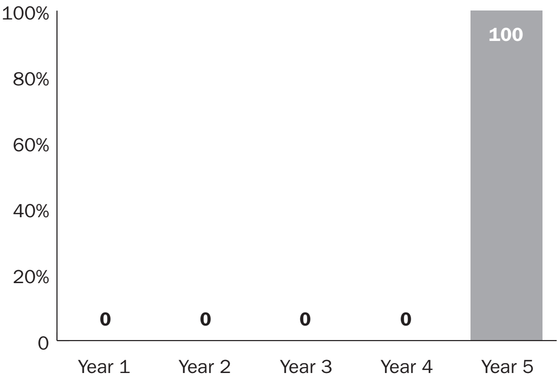
"Vesting can encourage employee retention, and can be very important in plan design."

Vesting scales

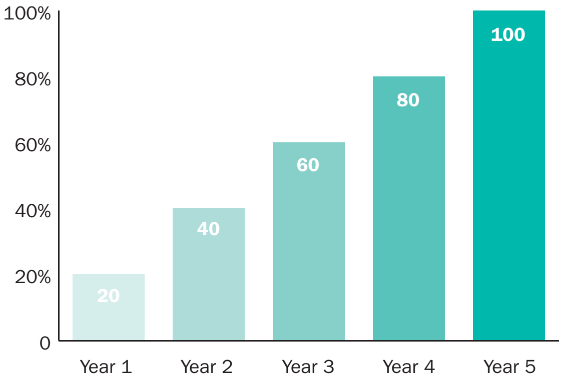
The plans in our study did not exhibit a unified pattern for vesting. In the figures below we present the three most popular vesting scales disaggregated by type of plan. It is clear from the figure below that full vesting does not take place, except after at least three years, in the top three most popular patterns for NSPFs, whereas for Life plans that is after five years.

Figure 11. Vesting scales

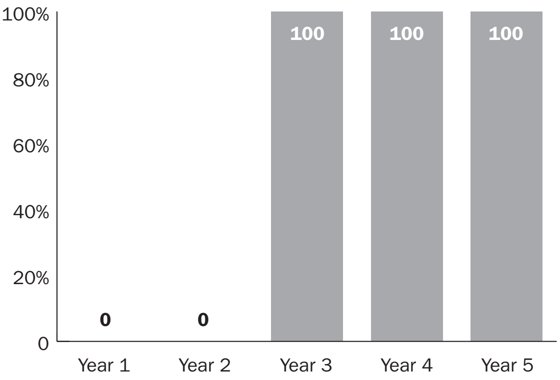
NSPF vesting scale – Top 1



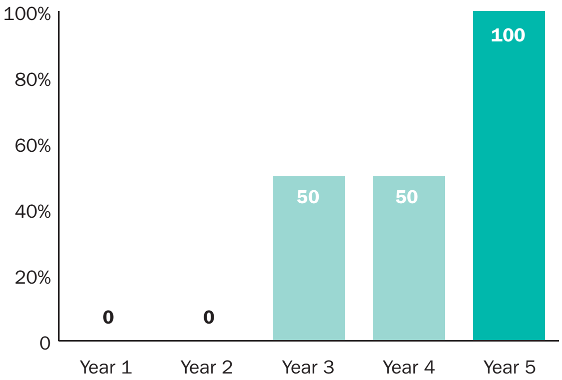
Life vesting scale – Top 1



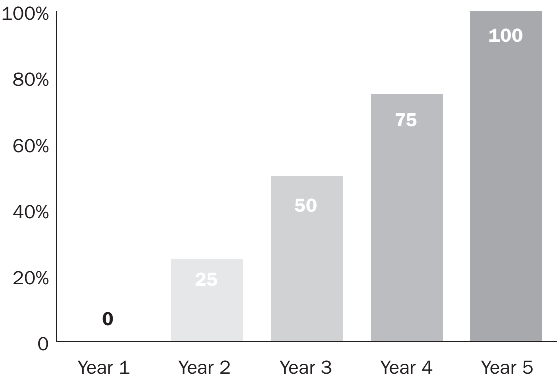
NSPF vesting scale – Top 2



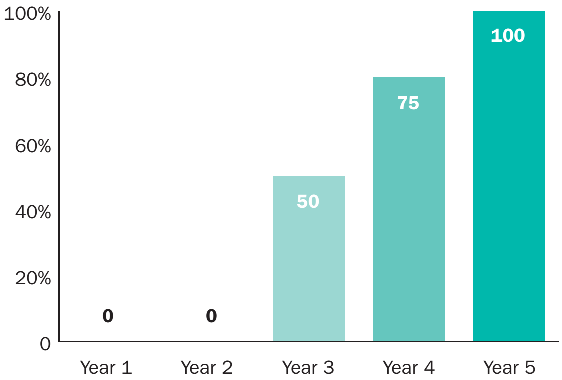
Life vesting scale – Top 2



NSPF vesting scale – Top 3



Life vesting scale – Top 3



Reverse vesting

As a result of Russian labour legislation, Towers Watson understands that employers cannot force employees to retire upon reaching their retirement age, and some employers are starting to be confronted by a lack of any pension or long term savings amongst their employees, which can clearly act as a disincentive for employees to retire.

As employers are starting to come to terms with an ageing workforce, Towers Watson has seen some, albeit rare, instances of 'reverse vesting' being used, whereby employers effectively penalise employees who are over the national retirement age by taking back a proportion of the employer contributions paid out of the DC fund for every year the employee continues working after the retirement age (for example 10% of the employer contributions each year).

Reverse vesting is not a common practice in Russia, as it is only used by two NSPFs in our sample. This feature, although a rather aggressive tactic, may potentially become more prevalent as employers seek to incentivise older workers to retire.

It should be noted, however, that reverse vesting is just one potential course of action currently available to employers to incentivise retirement.

"Reverse vesting is not a common practice in Russia, as it is only used by two NSPFs in our sample. This feature, although a rather aggressive tactic, may potentially become more prevalent as employers seek to incentivise older workers to retire."

Contribution structures

The contribution structure was the same for all employees in the vast majority of NSPFs, with a minority of plans having different structures, which are service or grade related. For Life plans, only a third had the same contribution structure for all employees, and a little over a third being salary based, where the contributions kick-in at different salary thresholds.

Figure 12. Contribution structures

	NSPFs		Life Plans	
Contribution structure	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
The same contribution structure is used for all employees	65	86.7%	17	34.0%
Service-related	6	8.0%	7	14.0%
Employee grade-related	2	2.7%	3	6.0%
Salary-based (thresholds)	0	0.0%	18	36.0%
Other	2	2.7%	5	10.0%
Total	**75**	**100.0%***	**50**	**100.0%**
Unknown	2		0	

* Rounded

Employer core and matching contributions

For NSPFs close to half (48%) did not have any employer core contributions. The plans with no employer core contributions had more generous matching, with 50% of plans offering a 1:1 matching, compared to 27% of plans with higher core contributions. Only one plan offered core contributions of 2% combined with the more generous matching level of 2:1 matching. However, plans which did not offer matching contributions tended to offer more generous core contributions, with more than 70% of plans offering a core contribution of 5% or more.

In about one-fifth of Life plans, employers contributed a fixed monetary amount to the Life plan. Life plans tended to have higher employer core contributions, with a median of 3% and an average of 4%. NSPFs tended to have lower employer core contributions, with average and median core contributions of about 2%, however when contributions were made (that is excluding 0% core contributions) the contribution level rose to 4%.

Figure 13. Employer core contributions

	NSPFs		Life Plans	
. Employer core contributions	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
0%	37	48.1%	4	8.2%
0.5% to 1%	0	0.0%	4	8.2%
2%	5	6.5%	8	16.3%
2.5%	1	1.3%	0	0.0%
3%	8	10.4%	2	4.1%
4%	5	6.5%	0	0.0%
5%	13	16.9%	7	14.3%
6%	2	2.6%	3	6.1%
7%	0	0.0%	3	6.1%
8%	1	1.3%	1	2.0%
9%	1	1.3%	0	0.0%
10% or more	0	0.0%	1	2.0%
Variable	0	0.0%	6	12.2%
Fixed amount	0	0.0%	10	20.4%
Other	4	5.2%	0	0.0%
Total	**77**	**100.0%***	**49**	**100.0%***
Unknown			1	

*Rounded

The most common employer contribution matching was 1:1 matching for both NSPF and Life plans. In over half of the Life plans in the Study there was no employer matching of employee contributions.

Figure 14. Matching levels of employer contributions

	NSPFs		Life Plans	
Employer contributions - Matching level	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
2:1	2	3.0%	0	0.0%
1:1	25	37.9%	17	35.4%
1:2	7	10.6%	1	2.1%
1:3	2	3.0%	1	2.1%
3:5	4	6.1%	0	0.0%
Hybrid - different matching at different salary thresholds	2	3.0%	0	0.0%
Hybrid - different matching at different year of service	0	0.0%	1	2.1%
Other	13	19.7%	3	6.3%
No matching	11	16.7%	25	52.1%
Total	**66**	**100.0%**	**48**	**100.0%**
Unknown	11		2	

For three in ten NSPFs, employers did not have a minimum matching contribution and over half had minimum contribution levels that ranged between 1% and 3%. Whereas for Life plans about just under one half of the plans had no minimum matching contribution and over a third had minimum matching contributions that also ranged between 1% and 3%. The median contributions did not show considerable differences between different types of plans, with both Life and NSPFs having a median of 1%.

Figure 15. Employer minimum contributions

	NSPFs		Life Plans	
Employer minimum contributions	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
0%	20	29.0%	17	45.9%
1% to 3%	36	52.2%	14	37.8%
3.5% to 5%	10	14.5%	4	10.8%
More than 5%	3	4.3%	2	5.4%
Total	**69**	**100.0%**	**37**	**100.0%***
Unknown	8		13	

*Rounded

As for maximum matching contributions, about three in 10 NSPFs had no maximum matching contribution and another three in ten had a maximum that ranged between 3.5% and 5%. About one-fifth of NSPFs had maximum matching contributions that exceeded 5%. The median maximum employer matching contribution was 5% for both NSPF and Life plans.

Figure 16. Employer maximum contributions

	NSPFs		Life Plans	
Employer maximum contributions	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
1% to 3.0%	15	21.7%	2	5.9%
3.5 to 5%	20	29%	7	20.6%
More than 5%	14	20.3%	8	23.5%
None	20	29%	17	50.0%
Total	**69**	**100.0%**	**34**	**100.0%**
Unknown	8		16	

Employee contributions

The most common level for minimum employee contributions for NSPF and Life plans was 1% to 3%, where seven in 10 NSPFs fell within that range. Half of all Life plans that disclosed a minimum employee contribution showed no floor to employee contributions. Plans that allow employees to not contribute typically had higher employer core contributions, which probably stems from the paternalistic nature of these firms that seek to ensure that their employees have some pension savings when they retire. NSPFs appeared to have higher minimum employee contributions with a median of 1% compared to no minimum in Life plans. Both types of plans had an average of about 1% for minimum employee contributions.

Figure 17. Employee minimum contributions

	NSPFs		Life Plans	
Employee minimum contributions	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
0	17	24.3%	18	50.0%
1% to 3%	49	70.0%	13	36.1%
3.5% to 5%	1	1.4%	3	8.3%
More than 5%	1	1.4%	0	0.0%
No Minimum Contribution Level	2	2.9%	0	0.0%
Fixed Amount	0	0.0%	2	5.6%
Total	**70**	**100.0%**	**36**	**100.0%**
Unknown	7		14	

Interestingly about a fifth of NSPFs and almost a third of Life plans did not allow any employee contributions (maximum contribution is zero). About 29% of NSPFs had no limit on the maximum contribution. However, we note that those plans with zero maximum contribution are more likely to have a higher employer core contribution. Additional voluntary contributions by the employee are not allowed in all programs, but are just allowed in 66% of NSPFs and 44% of Life plans.

Figure 18. Employee maximum contributions

	NSPFs		Life Plans	
Employee maximum contributions	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
0%	16	21.3%	12	31.6%
1% to 3%	14	18.7%	4	10.5%
3.5% to 5%	9	12.0%	3	7.9%
More than 5%	14	18.7%	17	44.7%
No Maximum Contribution Level	22	29.3%	0	0.0%
Other	0	0.0%	2	5.3%
Total	**75**	**100.0%**	**38**	**100.0%**
Unknown	2		12	

Pensionable salary definition

Base Salary is the most common definition of pensionable salary used in both NSPF and Life plans. However, a small minority of plans also included bonuses when calculating contributions.

Figure 19. Pensionable salary

	NSPFs		Life Plans	
Pensionable salary	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
Base salary only	71	92.2%	31	91.2%
Base + bonus	6	7.8%	1	2.9%
Other	0	0.0%	2	5.9%
Total	**77**	**100.0%**	**34**	**100.0%**
Not reported			16	

Investment options & flexibility

Providers typically operate defensive asset allocation investment strategies for the one or two pension funds that they offer their clients in Russia. NSPFs choose to invest predominantly in domestic government and corporate debt, money market and bank deposits, perhaps with some exposure to real estate and limited exposure (if any) to the Russian equity market. Life Insurance companies invest in domestic government and corporate debt, money market and bank deposits with typically no exposure to real estate or to the Russian equity market, which makes insurance programs less risky with no negative results historically.

This has meant that Providers have achieved investment returns in line with the “unofficial” government and corporate debt and money markets. Accordingly, real returns have been low when inflation rates in Russia are taken into consideration. Without an independent body that can assess relative investment performance, comparing pension fund performance against each other is difficult as there no truly objective standard measures available and therefore Providers will typically look to show their best performance. In our study we see that NSPFs do not have embedded guarantees as the plans are DC, although a minimum 0% guarantee is active for almost all plans. On the other hand, Life plans have a guaranteed investment return.

Figure 20. Embedded guarantees

	NSPFs		Life Plans	
Embedded guarantees	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
No - plan is pure DC	74	96.1%	0	0.0%
Yes - there is guaranteed investment return	2	2.6%	47	94.0%
Yes - there are other guarantees for example currency-related	0	0.0%	3	6.0%
Other	1	1.3%	0	0.0%
Total	**77**	**100.0%**	**50**	**100.0%**

Global pension providers operating in the supplementary pension plan market have been looking to create a wider range of pension fund investments, which would differentiate them by alternative asset allocation strategies and therefore risk levels, thus creating defensive funds, balanced funds and more aggressive funds. This feature remains in its infancy, although we expect further developments in this area.

Many plans remain fairly simple in their day-to-day running requirements, with over half of NSPFs having a level of administrative complexity that is well below average across DC globally, and as identified by respondents. Life plans loosely follow the same pattern, where six in ten Life plans are of average complexity.

Figure 21. Level of complexity in scheme administration

	NSPFs		Life Plans	
Level of complexity in scheme administration	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
Very simple	23	29.9%	3	6.0%
Less than average complexity	19	24.7%	12	24.0%
Average complexity	21	27.3%	31	62.0%
More than average complexity	10	13.0%	3	6.0%
Very complex	4	5.2%	1	2.0%
Total	**77**	**100.0%***	**50**	**100.0%**

*Rounded

The use of electronic documentation exchanges varies depending on the type of plans, as it is used in 82% of Life plans and in only 19% of NSPFs. Secured transmission of members' personal data is used by employers in all plans.

Benefit payment options

NSPFs in Russia tend to offer different options to benefit payments upon their reaching retirement age. However, offering a lump sum payment is the most prevalent option for Life plans.

Figure 22. Benefit payment options

	NSPFs		Life Plans	
Benefit payment options	**Number of plans**	**Percentage**	**Number of plans**	**Percentage**
Lump sum	0	0.0%	31	62.0%
Life annuity	1	1.3%	0	0.0%
Temporary annuity (for example five year)	20	26.0%	0	0.0%
Member is offered all options right at retirement	55	71.4%	9	18.0%
No pension benefits paid yet	0	0.0%	10	20.0%
Other	1	1.3%	0	0.0%
Total	**77**	**100.0%**	**50**	**100.0%**

Section 4: Case studies

Why do companies offer supplementary pension plans in Russia?

Clearly, provision of any form of supplementary pension plan or long term savings arrangement is not market practice yet in Russia.

Employers that have chosen to offer a supplementary pension plan have done so for four main reasons:

- Paternalism;
- Differentiation;
- Global policy provision;
- Competitive practice.

Investment bank

A global Investment Bank introduced a supplementary pension plan in Russia to both differentiate itself, but also to respond to competitive pressures within its specific sector in Russia, where prevalence of supplementary pension plans is higher.

Fast moving consumer goods manufacturer

A global organisation in the Fast Moving Consumer Goods (FMCG) industry implemented a pension plan for its Russian employees in 2008.

As a paternalistic employer, the company were keen to ensure that employees had an opportunity to save for their retirement. They saw this as being particularly relevant in Russia, where State retirement provision does not deliver an adequate pension income to retirees. Using effective communication tools and by good governance (through monitoring key areas such as Plan design, investments and member voluntary contributions), this organisation has utilised its pension plan as an attraction and retention tool, ultimately offering employees the opportunity to save long term to enable a satisfactory transition into the retirement phase of their lives with an adequate income.

Consumer goods manufacturer/retailer

An international Consumer Goods Manufacturer/Retailer introduced its pension plan in Russia as a consequence of a global corporate policy around offering a pension to its many employees around the world. In all its locations, this company is aiming to offer a savings facility to its local employees, regardless of market practice or any other considerations.

Glossary

Annuity
An annuity converts a lump-sum retirement account into regular payments. A pension plan member can typically buy a lifelong annuity from an insurance company or the balance of the retirement account can be paid annually in instalments over a set period. There are different types of annuities to suit member circumstances, including whether there is provision for spouse's pension, increasing / non-increasing pension, a minimum payment guarantee and so on.

Asset class
A specific class of investment, such as equities or bonds.

Defined contribution plan
A defined contribution plan is a pension arrangement where the level of contribution payable to the plan is specified and invested in a retirement account for each member. The benefit that is payable then depends on the accumulation of these contributions together with interest and/ or investment returns. Pension plans in Russia are almost always of a defined contribution design.

Investment options
Active investment is a style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing, or stock selection (or a combination of these).

Passive investment is a style of investment management that links the investments to a particular index (e.g. the S&P 500 or FTSE All Share index), so that the portfolio value moves in line with the index.

Most Russian pension plans are actively managed.

Life plans
Life plans are savings vehicles sponsored by insurance companies that aim to provide retirement income to employees. They may share design features with NSPFs, and are typically defined contribution in design. In addition to retirement provision, certain insurance benefits, for example death-in-service or disability may also be provided, but this would depend on individual plan design.

Non-state pension fund (NSPF)
NSPFs are privately managed multi-employer pension funds which are regulated by the government. They offer tax-relief on contributions and were created to stimulate companies and individuals to make investments in the area of voluntary pension provision. NSPFs are typically defined contribution plans by design.

Reverse vesting
Reverse Vesting is a plan design feature used to encourage employees to take retirement at the normal retirement age. According to plan design, for every year of service beyond retirement age, the vesting amount may decrease. Assuming normal male retirement age of 60, someone with 100% vesting at age 60 may become 90% vested at age 61. Similarly to vesting period, this measure is only applicable to the employer-sponsored part of the benefit.

Retirement account
An individual member's account into which contributions and investment adjustments are allocated. In Russia, employer-sponsored part of the benefits is typically kept in a separate account from the employee's own contributions.

Vesting period
A vesting period is the number of years of service required from the employee before they have a full claim to the employer-sponsored part of the benefit. For example, upon leaving the company, an employee may be entitled to 33% of the employer-sponsored funds after one year of service, 66% after two years, and 100% after three years of service. Once full vesting amount (100%) is reached, all subsequent employer-sponsored contributions are effectively immediately vested.

Vesting periods do not apply to employee contributions.
In cases of termination initiated by the company, a different vesting criteria may apply. For example, employees may immediately become 100% vested upon termination.

Waiting period
A waiting period is specified as the number of months that an employee is required to work at the company before being allowed to join the pension plan. Upon completion of the waiting period, employees are typically automatically enrolled into the plan.

About Towers Watson

Towers Watson is a leading global professional services company that helps organisations improve performance through effective people, risk and financial management. With more than 14,000 associates around the world, we offer consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management.

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