

WAYS TO IMPROVE RUSSIAN NON–STATE PENSION FUNDS AS AN INTEGRAL PART OF THE PENSION SYSTEM

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ABSTRACT

The main financial institutions that play the role of a major institutional investor in the Russian stock market are non–state pension funds, which are an integral part of the pension system. However, their activities, as well as the activities of the entire pension system, cannot be considered effective. In order to solve the issue of improving the efficiency of the functioning of the Russian pension system, an analysis of its quantitative and qualitative parameters was carried out, which allowed us to draw the main conclusion that the state pension system formed in Russia is incomprehensible to the vast majority of the population and does not meet the expectations of citizens about the desired retirement provision in old age. As a result of the study, the authors conclude that in order to further expand the practice of mandatory and voluntary accumulation of funds, measures are needed to stimulate the development of non–state pension funds as institutions that, on the one hand, provide the national economy with investment resources, on the other hand, allow for the formation of an additional pension for citizens.

Keywords: Pension system, Insurance pension, Funded pension, Voluntary pension, Pension savings, Pension market, Non–state pension funds (NPF).

INTRODUCTION

In its modern form, the Russian pension system has been functioning since 2002, when its reformation began. At that time, the funded component of the labor pension was introduced for a certain age category of Russian citizens (women and men born in 1967 and younger took part in it), which was formed on a mandatory basis. The prerequisites for the reform were: demographic factor (increase in life expectancy and decrease infertility); the need to establish the relationship between the pension level and earnings, requiring the use of unique knowledge and skills by a citizen, that is, avoiding the equalizing nature of the state pension system; the need to reduce the dependence of state obligations in the field of social security on social payments.

During its functioning, the Russian pension system has gone through several transformative events. In general, it is characterized by the same modern trends as in foreign pension markets. The Russian pension market has grown by 48.7% over the past 5 years: from

3.08 trillion rubles in 2016 to 4.5 trillion rubles by mid–2021. The development of the Russian pension market is accompanied by a redistribution of property, a steady reduction in the number of non–state pension funds (NPF) with an increase in assets under their management, a consolidation mainly around financial groups close to the state. The reasons for the reduction in the number of NPFs should include:

- a) The lack of development of the pension industry (since the introduction of a pension moratorium in 2015 on the transfer of insurance contributions to the funded part of the pension);
- b) Relatively low bank interest rates based on the key rate of the Bank of Russia;
- c) High regulatory burden and requirements.

Nowadays, non–state pension funds still do not sufficiently use Western experience in terms of the formation of new pension products, and they have not fully realized the opportunities provided by such an organizational and legal form as a joint–stock company. Therefore, it is extremely important to develop proposals that would contribute to the more efficient functioning of Russian non–state pension funds.

METHODS

The methodological basis of this work is logical, theoretical–empirical, retrospective, and statistical methods. The information basis of the study was made up of analytical materials of the Bank of Russia, documents of the Federal State Statistics Service, and materials of scientific periodicals on the subject of the study.

Analytical methods of the conducted research include:

- a) Analysis of works on pension topics by well–known Russian economists – Abramov A.E. (2014); (Danilov & Buklemishev, 2017); (Shvandar & Anisimova, 2018); (Napso, 2019); (Kulikova E.I., 2019–2021), (Niyazbekova et al., 2021), (Nazarenko et al., 2020), (Nurpeisova et al., 2021), (Khussainova et al., 2017), (Zhartay et al., 2020) etc.;
- b) Analysis of statistical data on the Russian labor market, employment, and wages;
- c) Analysis of the functioning of Russian non–state pension funds.

RESULTS AND DISCUSSION

The main document regulating the functioning of the pension system of Russia and the ways of its modernization is the Strategy for the Long–term Development of the Pension System adopted in 2012. As noted in the document, one of the main goals of the Russian pension system is to guarantee a socially acceptable level of pension provision by solving, among other things, the following key quantitative tasks:

- a) Ensuring the replacement rate with an old–age labor pension of up to 40% of lost earnings with a standard insurance record and average salary, which complies with Convention No. 102 of the International Labor Organization "On Minimum Standards of Social Security", which Russia ratified in 2019;
- b) Ensuring the average size of an old–age labor pension of at least 2.5–3 living wages minimums of a pensioner.
- c) The tasks related to the development of non–state pension provision are:

- d) The development of a three-tier pension system for groups with different incomes (for medium- and high-income categories based on voluntary pension insurance and non-state pension provision);
- e) Improving the efficiency of the accumulative component of the pension system.

However, the goals defined in the Strategy have not yet been achieved. Thus, the average size of assigned pensions in 2020 in relation to the living wage minimum was 177.1%, down from 191.1% in 2012, and its increase is not projected in the next three years (Table 1). The ratio of the average size of the insurance pension to the average amount of accrued wages (that is, the coefficient of replacement of wages with an old-age labor pension) decreased from 36.8% in 2012 to 29.2% in 2020. According to the forecast, the replacement rate will decrease for at least three more years: in 2021 – 32.9%, in 2022 – 32.5%, in 2023 – 32.1%.

Thus, the tasks that were set in 2012 in the Strategy are not only not achieved, but their quantitative indicators are deteriorating.

Table 1
SOME INDICATORS OF THE RUSSIAN LABOR MARKET AND WAGES

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Dollar exchange rate, RUB/USD	3,04,987	3,21,715	3,03,189	3,26,816	5,65,828	7,27,534	6,09,193	5,76,101	6,93,107	6,17,658	7,41,291
Average amount of assigned pensions, RUB/USD	7476/ 245,13	8203/ 254,98	9041/ 276,64	9918/ 303,47	10786/ 190,62	11986/ 164,75	12391/ 203,40	12887/ 223,69	13360/ 192,76	14163/ 229,30	14986/ 202,16
The value of the subsistence min on average per capita, RUB/USD	5688/ 186,50	6369/ 197,97	6510/ 214,72	7306/ 223,55	8050/ 142,27	9701/ 133,34	9828/ 161,33	10088/ 175,11	10287/ 148,42	10890/ 176,31	11312/ 152,59
Average monthly accrued wages of employees, RUB/USD	20952/ 686,98	23369/ 726,39	26629/ 878,30	29792/ 911,58	32495/ 574,29	34030/ 467,74	36709/ 602,58	39167/ 679,86	43724/ 630,84	47867/ 774,98	51352/ 692,73
Pension amount / average monthly salary	0,36	0,35	0,34	0,33	0,33	0,35	0,34	0,33	0,31	0,3	0,29
The size of pensions / the cost of living	1,31	1,29	1,39	1,36	1,34	1,24	1,26	1,28	1,3	1,3	1,32

Source: data from the Federal State Statistics Service (Russia in figures). Section labor market, employment and wages. – URL: https://rosstat.gov.ru/labor_market_employment_salaries (accessed 25.11.2021).

The dollar exchange rates are given as of the last day of trading on the Moscow Stock Exchange (each year). – URL: https://cbr.ru/hd_base/micex_doc/?UniDbQuery.Posted=True&UniDbQuery.From=30.12.2010&UniDbQuery.To=02.12.2021 (accessed 02.12.2021).

An analysis of the Russian pension system's transformation shows that regulatory changes in its parameters began almost from the beginning of its formation. These transformations had both positive and negative consequences, not only in the economic sense but also in the perception of pension reform by citizens. The main directions of transformation of the Russian pension system, in terms of the possibility of generating "long money" in the economy, should include:

- 1) Parametric changes in the pension provision of citizens: age restrictions for citizens who have the opportunity to form a funded pension; a change in the retirement age; a constant increase in the age of "survival", which negatively affects the size of the funded pension;
- 2) Creation of a two-tier system guaranteeing pension savings, which makes it possible to secure the pension savings of Russian citizens that have a positive impact on the activities of the entire system;
- 3) Changes in the organizational and legal form of NPFs and in requirements for the size of own funds and the authorized capital of NPFs to increase their reliability as social financial institutions.

However, positive regulatory decisions do not have a positive effect either on the economy or on Russian citizens. A comparison of portfolios' effectiveness of the main groups of Russian collective investors with the key rate of the Bank of Russia (Table 2) shows the insufficiently high profitability of non-state pension funds in comparison with mutual funds. This provision is explained by the fact that Russian legislation places strict restrictions on the risks of assets (included in the portfolio), as well as a moratorium on the transfer of an insurance premium for the formation of a funded pension.

Profitability indicator, %	2015	2016	2017	2018	2019	2020
Key rate of the Bank of Russia (at the end of the year)	11,0	10,0	7,75	7,75	6,25	4,5
Open-type mutual investment fund	27,3	5,5	9,4	7,3	13,8	12,1
Pension savings in the state management company VEB.RF: – expanded portfolio	13,15	10,53	8,59	6,07	8,7	6,87
– portfolio of government securities	15,31	12,2	11,09	8,65	12,14	7,95

Pension savings in non-state pension funds	10,8	9,6	4,6	0,1	10,7	7,2
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Sources: Overview of the key indicators of the NPF, N 4, 2016–2020 (conducted by the Central Bank of the Russian Federation since 2016) – URL: https://www.cbr.ru/Collection/Collection/File/24007/review_npf_16Q4.pdf (accessed 18.11.2021).

The analysis of the efficiency of NPF activities in the Russian market also shows that when forming portfolios of pension savings, the age (and risks, respectively) of various citizens' groups are not taken into account and rather a single portfolio is formed for all. We believe that in Russian conditions, a model for the formation of financial assets' portfolios of NPFs will be more adequate by taking into account the risks inherent in various age groups of future pensioners, which includes the following stages:

- 1) Determination of the risk profile of the NPF client depending on the age group;
- 2) determining the number of clients, including potential ones, belonging to different age groups;
- 3) Formation of a possible set of financial instruments by taking into account legal restrictions;
- 4) Formation of portfolios according to the level of profitability–risk by taking into consideration the number of NPF clients of this age group, the timing of investment, and the number of funds.
- 5) Revision of the portfolio composition by taking into account changes in the composition of a variety of financial instruments and the number of clients of different age groups.

The long-term process of consolidation of the pension industry, which began in 2014, continues in Russia. Since that time, the number of NPFs has decreased from 120 to 41 funds by the end of 2021. According to experts' estimates, consolidation will continue, which may lead to a reduction in the number of NPFs in the coming years to 20–25 funds. In general, consolidation increases the operational and investment performance of funds, but inevitably reduces the level of competition. At the end of 2020, the shares of the first five funds in terms of liabilities under the mandatory pension insurance system and non-state pension provision amounted to 78% and 77%, respectively. The concentration in the NPF market is generally higher than in other segments of the financial market. High concentration creates certain risks, for example, the possibility of concluding informal agreements between large funds on not luring each other's clients, on setting uniform tariffs for working with partner banks and for agents, on lending to each other's projects due to the fact that it is prohibited to invest pension money in their own projects. Also, agreements on investment income may arise between NPFs. In addition, at present, NPF shares are used only for the purpose of strategic redistribution of the capital of the NPF's founders, but are not used as an investment tool in the stock market which negatively affects the activities of the NPF as a joint-stock company.

CONCLUSIONS

Summarizing the results of the study, the following conclusions should be drawn:

1. The main problems of the Russian pension system are a low level of pensions and a decrease in the dynamics of the share of savings in citizens' income; a low replacement rate; a high level of subsidies from the federal budget; a single-product strategy for pension savings.
2. The transformations of the Russian pension system carried out by the regulator are not aimed at solving these problems.
3. Insufficiently effective activities of non-state pension funds are associated with strict regulatory restrictions both on the permitted assets for pension savings portfolios and on unreasonably long established "survival periods" that reduce the size of the pension.

4. To improve the efficiency of the NPF, it is necessary to change the model of forming a pension savings portfolio and use NPF shares as a tool to attract financing for the funds themselves, as well as a financial instrument for investors.

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