
Pension Fund of The Russian Federation: Challenges and Prospects of the Development under Modern Conditions

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Abstract:

The article states that it is necessary to develop new, flexible basis to introduce digital technologies into the Russian Pension Fund activity.

Openness, subordination and results of the social services implementation provided by the Pension Fund of The Russian Federation must ensure transparency, accessibility for the Russian citizens to get services of the Pension Fund of The Russian Federation electronically as well as transparent activity of the bodies of the Pension Fund of The Russian Federation.

The goal of the article is to research the Pension Fund of The Russian Federation activity in terms of the effective management of its financial resources through introduction of the new automated information system.

To meet this objective the following tasks are set: to reveal historic aspects of the Pension Fund of The Russian Federation creation and development; single out current challenges and propose the directions to improve activity of the bodies of the Pension Fund of The Russian Federation.

The conclusions about the necessity of the Pension Fund of The Russian Federation active work in the frame of interdepartmental electronic interaction with key federal agencies and executive authorities of all subjects of the Russian Federation to improve the management quality and control over the Russian Pension Fund's financial resources.

Keywords: Pension Fund of Russia, income, expenses, pension reforms.

JEL Classification Codes: G23, H10, H55.

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1. Introduction

Transition to the market economy demanded the drastic revision of all foundations of the existence of the available pension security. The formation of the modern Pension Fund of The Russian Federation has a long history. The trust funds were first founded in the Russian Federation according to the law of the Russian Soviet Federative Social Republic "On the basis of the budget device and the budget process in the RSFSR".

The state extra-budgetary fund was founded according to this law, which got the name the Pension Fund of The Russian Federation (PFR). The Pension Fund of The Russian Federation was created on 22nd December 1990 by Resolution of the Supreme Soviet of the RSFSR No. 442-1. The Regulation on the Pension Fund of the Russian Federation was approved by Resolution of the Supreme Soviet of the Russian Federation of December 27, 1991 No. 2122-1. Since the foundation of the Pension Fund of The Russian Federation (PFR) some stages of its organization are distinguished.

The first stage relates to the years 1990-1994, when the PFR was established to collect and accumulate insurance premiums for pension benefits, as well as for the first steps in organizing the process of assignment and payment of pensions. The Resolution of the Supreme Council, which approved the Regulations on the Pension Fund of Russia, set a task to organize till the end of 1992 the state data bank on the Pension Fund insurance fee payers, which became the prototype of the modern personalized accounting system. Information Centre of the personalized accounting to provide quick interaction with all the Pension Fund of The Russian Federation territorial branches and to introduce data base of the personalized accounting at the central level was established. The law on personalized accounting started the new stage (1995-1999) in the Russian Pension Fund development.

The next stage is 2000-2001 when the process of the Russian Pension Fund financial resources management was improving and the taxation bodies obtained the insurance fees collection functions. The insurance fees were replaced by the unified social tax due to the adoption Chapter 24 in the Tax Code of the Russian Federation in 2001.

Before 2001 the Russian Pension Fund budget formation sources were insurance fees and the Russian Pension Fund itself ensured the target insurance fee collection, administrated them as well as financed expenditures connected with pensions payments. Due to amendments in the Tax Code of the Russian Federation in 2000 the tax, namely, a part of the unified social tax directed to finance pension payments replaced the insurance fees to the system of state pension insurance. It totaled 28% of the payroll fund.

The Decree of the President of the Russian Federation of September 27, 2000 No. 1709 “On Measures for Improving the Management of State Pension Funds in the Russian Federation” adopted the procedure of transferring the powers to assign and pay pensions from social protection authorities to the regional bodies of the Russian Pension Fund. It allowed unifying the principles and forms of the pension authorities on the whole territory of the Russian Federation through establishing the United Pension Service of the Russian Federation.

It is possible to conclude that in the second half of the 1990-s a number of the most significant laws which mainly defined the normative base of the following pension reform were adopted. And these laws which have been amended and supplemented for the last 10-15 years are still the legal basis the pension system operating in Russia and based on mandatory state pension insurance.

The third stage started the practical implementation of the new pension reform (2002-2009). The main objective of the 2002 pension reform was to develop the new pension system based on the accumulating but not distributing approach.

Maternity (family) capital is an absolutely new direction of the Pension Fund of The Russian Federation’s activity. Since 1st January 2007 the Pension Fund has made a federal register of the families eligible to the additional state support due to the birth (adoption) of a second, third child or more. In 2018 the maternity (family) capital amounts to 453,026 rubles. The “Maternity capital” Program was designed for 10 years, but its positive results allowed the RF Government to prolong it up to 2024.

On 1st October 2008 the Program of state co-funding of pensions was launched. Approximately 16 million people participate in the Program of state co-funding of pensions. This program is supposed to support to form pension savings from the federal budget. The sum equals the paid additional insurance fees last calendar year, taking into account the fixed minimum limit of the invested sum for citizens (not less than two thousand rubles last calendar year) and the fixed upper limit of the possible state support (12 thousand rubles).

The fourth stage (2010-2014) is characterized by the following changes:

- On 1st January 2010 unified social tax (UST) is replaced by insurance fees to the Russian Pension Fund, to Social Insurance Fund of the Russian Federation and to the federal and territorial compulsory medical insurance funds.
- The PFR tax bodies transferred the fee administration function to the Pension Fund of The Russia and Federal Compulsory Medical Insurance Fund. In the shortest time software necessary to interact with insurers was developed and introduced, the reporting regulations were developed.

The fifth stage (2015 – now) – drastic changes of the pension system:

- Pension calculation methodology applied in the pension systems of many nations when using which the main unit of calculation is a pension point, since 2015 started to be applied in Russia.
- Legal regulation for the new calculation method and pension assignment is implemented Federal Laws of the Russian Federation N 424 of December 28, 2013 “On the funded pension” and N 400 of December 28, 2013, as amended on December 29, 2015, On Insurance Pensions.
- Since 1st January 2017 the insurance fee administration function is transferred to the Federal Tax Service with other additional functions such as: control over the right calculation, full and timely payment of insurance fees, receiving calculations on the insurance fees, recovery of arrears, including those that appeared before 1st January 2017; offset (refund) of overpaid (recovered) amounts, granting a deferment (installment plan) for insurance fees.

Thus, the Pension Fund of the Russian Federation has gone through a complex way of establishing and reforms, and nowadays is a state extra-budgetary fund designed in the form of the federal state institution and it operates to implement the state functions to provide with pensions the insured people, to provide sustainable finance system of the mandatory pension.

2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research

Under modern conditions the Russian Pension Fund is one of the most significant social institutions of the country, the biggest system to render state services not only in the sphere of the pension, but social security of our citizens, the key information provider in the framework of interagency cooperation. According to the volume of the information processed in internal and external circuits The Pension Fund is among the top-five leading information-intensive and service-intensive federal agencies.

The state is a founder as well as an owner of all property of the Pension Fund of the Russian Federation. The Russian Federation Government, on behalf of the state, implements the functions and powers of the Pension Fund founder. The organizational system of The Pension Fund of the Russian Federation is three-tiered and includes structural units, which comprehensively provide full work of the system of the mandatory pension insurance in the Russian Federation. The Pension Fund operates directly through regional agencies. The Pension Fund and its regional agencies and the Fund's subordinates form one centralized system with vertical management structure. Currently the Russian Pension Fund in accordance with international agreements pays pensions in 109 countries worldwide. The Russian Federation has not had yet such agreements with Germany, Israel, the United States, Canada and Finland, but at the same time these are countries where the biggest number of the Russian pensioners lives.

To implement certain functions the Russian Pension Fund forms its own budget which in accordance with the Russian Federation Budget Code is approved in the form of the Federal law.

The PFR budget is adopted by State Duma of the Federal Assembly of the Russian Federation as a separate law together with adoption of the Federal budget of the Russian Federation. The PFR budget share in the Russian GDP totals to 10.8% - revenues, and 10.2 % — expenditures. The Russian Pension Fund revenues in 2017 totaled to 8260 billion rubles that is by 8.3% more than in 2016. Gradual growth of the Pension Fund budget revenues is connected with the pension system reforms and it allows finding new resources to solve serious problems in this sphere.

The Pension Fund expenditures grew in 2017 by 489.8 billion rubles (6.3%) and totaled to 8.32 trillion rubles. Pension and supplement payments increased by 563.3 billion rubles (8.5%) and totaled to 7167 billion rubles a year or 86.2% of all budget expenditures. The main growth of the pension payments was provide such factors as pension indexation and growing number of pensioners, these payments increased approximately by 345.8 billion rubles. 6378 billion rubles were spent on insurance pensions, 432.6 billion rubles on state pension payments. The Pension Fund of Russia budget spent 17.7 billion rubles on the funded pension payments. The Fund's social benefit payments grew in 2017 by 15.75 billion rubles (3.3%) and amounted to a total of 488 billion rubles, or 5.9% of the total budget expenditures.

The main characteristics of the 2018 RPF budget and for the period until 2020 are oriented on further increase of the pensioners' well-being, increase of pensions. The draft budget is balanced according to revenues and expenditures taking into account the financing of its deficit at the expenses of the federal budget. The balance of the budget of the Pension Fund directly influences upon stability of pensions in the country, and consequently, on the level and quality of the social security. In this connection the existence of the fund deficit and constantly growing dependence of the Pension Fund budget on the federal budget becomes especially topical.

Organizational independence of the Pension Fund of Russia has a substantial impact on the structure of its assets and liabilities. Taking into account the role of the Pension Fund of Russia as a specific organization managing the extra-budget pension fund, the RPF has different financial resources, besides its own funds represented by insurance payments, reserves and other revenues it is possible to single out the other funds transferred as refunds, raised resources obtained from the Pension Fund of Russia securities issue as well as grants, subsidies from the federal budget, bank loans and loans of local budgets. It is worth mentioning that the situation in the pension financing is slowly, but steadily worsening: because the ratio of the number of employees to the number of pensioners falls, and within nearest decades it will be impossible to change this trend, massive aging of the population is inevitable.

3. Results

In market economy the labor market, which directly depends on the country's demographic situation, namely, on the ratio of the number of payers of insurance premiums (i.e., insured persons for whom the employer or they pay insurance fees independently) and pension recipients, the so-called load factors, has a great impact on the level of development and functioning of the mandatory pension insurance system. The mandatory pension insurance system influence can influence on this external factor to a limited extended, and if it has norms stimulating longer work experience and work after the pension was assign.

In terms of resources formation both national economy and pension system are oriented on able-bodied people. Demographic crises and population aging bring about the necessity to support the growing number of the dependent (in the first place old people). By 2017 the average age of the population grew by 4.5 years in comparison with 1992 and is 39.1 years, while the coefficient of aging (this is the ratio of the average annual population of 60 years and older, to the average annual number of the total population of the country) - by 3.8%. As a result nowadays this indicator raises much the "frontier" of the internationally recognized classification of population aging: "a very high level of demographic old age".

Together with the population growth number of older than able-bodied ages the number of other category of the unable-bodied ages such as children (due to stimulating birth rate growth through extending the term of the maternity (family) capital program) who are also a burden for the economy is also increasing.

Both mentioned trends are conditioned by changes in the natural population movement and are directed to the increasing "the load on the working population". At present the issue of the retirement age raise in Russia is very acute. Starting since 1932 up to 2018 the pension age did not change and was 55 for women and 60 for men. These norms were set in accordance with the average life expectancy of that time, which used to be 40. According to the data of the Federal Statistics Service from 2000 to 2017 men' life expectancy grew by 8.5 years to 67.5 and women's by 5.4 to 77.64. According to the forecasts by the end of the transition period of the pension reform by 2018 men' life expectancy will be 75.1 and by 2014 women's by 5.4 to 85.28.

The important reason to raise the retirement age is the reduction of the "demographic load" indicator of the pension system. Nowadays people born in the late 1950's and early 1960's are becoming pensioners. After the Second World War Russia saw significant birth rate growth, respectively, the number of pensioners for the last 30 years has doubles to 46.5 million people. At the same time the number of the working people grew only 5%. The generation, born the 1990's in the period of the demographic recession, started to appear at the labor market. Respectively the trend of growing number of pensioners and decreasing number of the working population

is preserved. The opportunity to raise the size of the pension is limited due to sharp drop of the number of the working Russians who pay pension fees to the Russian Pension Fund. If 50 years ago per pensioner accounted for 3.7 people of working age, then in 2019 there will be only 1.8 able-bodied people, and in some regions of the country this figure is close to 1. The load on the working people is growing: annually the number of working citizens reduces by 400 thousand people, and the number of pensioners annually is 1.5 million people. There is already shortage of insurance fees to the Russian Pension Fund to pay pensions. In 2018 the volume of the inter-budgetary transfers to the Pension Fund budget is planned at 3.2. trillion rubles, i.e. almost 40% of the Pension Fund of Russia budget revenues consist of the federal budget funds. The increase of the pension fees could have become the alternative to retirement age raise. But it would definitely result in negative consequences for the whole economy.

Currently the next stage of raising the retirement age occurs in many countries. For example, in the countries of the Eurasian space and Eastern Europe where the living conditions are similar to ours the retirement age has already been raised. For example, in Moldova and Azerbaijan the retirement age for men is set at 65 years, and the retirement age for women at 63 years is set in Armenia and it is already rising in Kazakhstan. In the Baltic countries, by 2025–2027, the retirement age will increase to 65 years and in Europe (Germany, Spain, Italy) in the 2020s - to 67 years for men and women.

The RF government grounding the reasons to raise the retirement age mentions the following positive aspects:

- according to the Pension Fund of Russia forecasts reduction of load on the federal budget by 2030 will total to 640 billion rubles (from 2.5% GDP to 1.4%), due to the growing ratio of the working people to pensioners, it is important under quickly aging country's population;
- the transition period (10 years for men and 16 years for women) will allow the population to adjust to the changes;
- changes do not touch upon present pensioners who continue to get the assigned payments in accordance with their pension rights and benefits;
- the retirement age raise will allow providing pension increase for the non-working pensioners. Owing to the reform the pension is expected to be raised by 35%;
- the retirement age raise will not affect some categories of citizens working in hazardous industries and hot shops (1.8 million people), their right on early retirement will be preserved. Also women who gave birth to 5 and more children and raising a disabled child younger than 8 years old, etc can count on an early retirement.

The Government of the Russian Federation proposes to ratify the International Labor Organization Convention on Minimum Social Security Standards No. 102, where it is determined that the average pension cannot be less than 40% of lost earnings.

In other words there are positive and negative points of the proposed retirement age raise. It is necessary to raise the retirement age, because the life expectancy has increased, but one should remember that standard of living of our citizens do not coincide with the western ones.

The situation, which will be harmful for two age groups: young people and a big group of the pre-retirement age, is among the negative aspects of the reform. Nowadays it is very difficult for people older than 50 to find a job. In our opinion it is necessary to adopt the law to guarantee the preservation of a job for an employee of the pre-retirement age. It will affect the younger generation at less extend, though the employers prefer to employ people with working experience. The second important aspect is the state of health of the working population. Under raising the retirement age the state will have to put a lot of effort into improving the healthcare quality, creating comfortable conditions for citizens' living. These tasks are set in the Decree of the President of the Russian Federation of May 7, 2018 No. 204 "On the national goals and strategic objectives of the development of the Russian Federation for the period up to 2024".

Under modern social and economic conditions and negative demographic trends, in our opinion, there is no any other way to solve the problem of the Pension Fund chronic deficit, and to increase pensions. However it is impossible to solve the problem only by retirement age raise. This is not enough for the process to be painless for all participants of the mandatory pension insurance. This problem is to be solved together with other acute issues, affecting a big number of citizens.

4. Conclusions

Expenditure inefficiency: the expenditures share on pensions in the GDP totals 9% of the GDP (to compare – 8.4% in the OECD countries), a substantial share of these expenditures (3% GDP) is a transfer from the federal budget, will remain the main problem of the pension system in the mid-term prospect. Meanwhile the Russian Pension Fund deficit is formed due to different benefits set by the state, and the forecasted aging of the population has not started to influence upon the deficit yet.

At the same time, the nominal rate of the pension rate (the rate of insurance fees to the pension system, reflecting the degree of burden on the business, is higher than the average for the developed countries (in Russia, insurance fees to the Pension Fund amount to 22% of the salary when the statutory maximum wage is reached 22% + 10%, in the OECD countries on average 19.6%), while the replacement coefficient in Russia remains low (34.4% in 2015) relative to developed countries. The pension system reforms are to be aimed at pension spending efficiency increase,

which are currently at a comparable level with developed countries tariffs and costs do not provide a comparable level of pension payments.

According to the Federal Statics Service data by 2030 the number of the Russian population at the working age will reduce by 11 million people, and those older the working age will grow by 9 million people, i.e. the main problem will remain the pension system dependency on the federal budget. To obtain human, intellectual, technological advantages it is necessary to form a brand new flexible basis to introduce digital technologies in all spheres of life. It is necessary to create a supporting infrastructure for the digital economy, including secure communication lines and data centers.

One of the RPF priority tasks at the present stage is to provide as many as possible the RPF services via Internet. In accordance with the Decree of the President of the Russian Federation, of January 1, 2018, over 70% of the services of the Pension Fund of Russia were converted into the electronic form. During 2017 more than 46.7 requests to receive public services – over 70.3% from overall number of requests were applies electronically.

It is notable that one of the most required directions is connected with the basic functions of the Russian Pension Fund – pension assignment, pension recalculation, transfer from one type of the pension to the others. In 2017 these services 7.5 million people obtained electronically that is 4.2 times more than last year. The number of people applied via Internet to choose or change the way of pension delivery (3.8 million people in 2017) increased 2.1 times. 788 thousand people, that is 1.5 times more, applied in such a way to obtain the maternity (family) capital certificate.

In 2017 the work on the Automated Information System of the Pension Fund-2 – a new modern information system, which allowed the Pension Fund to apply new and modern mechanisms, whose aim is to increase the efficiency of the territorial RPF agencies as well as to improve the quality and terms of the provision of the state services was finished. The introduction of the Automated Information System of the Pension Fund-2 allowed automating all key business processes and to reduce the volume of the manual work, speeding up the access to the information resources of the RPF, increasing the reliability and protection of the system. Due to the introduction the Automated Information System of the Pension Fund-2 the level of the accessibility to get state services electronically grew substantially. Today 32 services, most of them are public services provision, are presented on the Pension Fund of Russia site in the personal account.

Only since the beginning of this year, 7 million citizens have received extracts from their retirement accounts through their Personal Account on the RPF website and the Unified portal of public services; 3.5 million citizens have sent applications to the RPF. Being the largest high tech social system in the country the RPF contributes to

digital economy formation. Cloud technologies, work with big data, robotization is already a reality for the information system AIS PFR - 2.

However it is necessary to insure further development through the application of the Automated Information System of the Pension Fund-3, artificial intelligence and remote authentication, creating virtual client services and a common center for cybersecurity. The basis for this work was launched in 2017. The development of the RPF IT complex has an applied nature aimed at better accessibility and higher quality of public services in the sphere of pension and social security. The introduction of new information technologies allowed launching two largest information federal projects, whose designer and operator is the Russian Pension Fund: the Unified State Social Security Information System (USSSI) and the Federal Register of Disabled Persons (FRDP). Both systems' objective is to improve the quality of public services for social vulnerable citizens with growing efficiency of the budget spending. The launch of the Unified State Social Security Information System and the Federal Register of Disabled Persons is a result of the RPF active work in the framework of the interagency electronic cooperation with the key federal agencies and executive power of all the RF subjects.

The Russian Pension Fund together with authorities established the federal information system the Federal Register of Disabled Persons because the Russian Federation ratified the Convention on the Rights of Persons with Disabilities. The Federal Register of Disabled Persons was set up to solve the following tasks:

- to increase the efficiency of the disabled persons' social security;
- to reduce labor costs for interagency cooperation;
- to optimize and to boost budget transparency in terms of social support of the population.

The uniqueness of this system is that it will contain the data about all disabled persons, and all bodies which collect information on the disabled and provide them with the services will be able to use this unified system. As a result the state will know how many disabled persons we have, what services they obtain, how much funds are spent, etc.

Together with development and improvement of the Federal Register of Disabled Persons in 2017 the Russian Pension Fund worked on the Russian Pension Fund, which is an even more ambitious project to account not only disabled persons' social security measures, but all social sphere of Russia. The Unified State Social Security Information System will become the national center of accounting and analysis of public expenditures. The Unified State Social Security Information System's objectives are:

- to unify social protection measures, provided by state and municipal authorities as well as different institutions and organizations;

- to give more precise forecasts of budget system social expenditures;
- to improve the quality of public and municipal services provided;
- to raise citizens' awareness about the social protection measures and their right to use them;
- to provide citizens' with target and necessary social protection measures.

The Unified State Social Security Information System allows any person to use the so-called social calculator and see all provided federal, regional and municipal social protection measures as well as those measures a person is eligible.

Since 2018 The Unified State Social Security Information System has been introduced on the whole territory of the country. The Russian social security system currently is experiencing rather hard times and is overloaded. It is multi-level, does not have unified system of accounting and control, the levels of social security in different RF subjects is highly differentiated, the social support measures are equalized regardless needs, low transparency and informational content for citizens. The Unified State Social Security Information System is to promote the solutions of these problems. The Unified State Social Security Information System is to facilitate to develop the unified classifier of measures of social support and types of social security of all citizens, to form a personalized account of information on social security of citizens, to keep records, to analyze and control over the costs of social security at all levels, to inform citizens about their rights, to cover the organization of extraterritorial and emergency provision of measures to support people. The Unified State Social Security System will allow solving the following tasks in the field of social protection:

For citizens: to raise citizens' awareness about the social protection measures via Personal Account; to provide the information on the organizations providing social protection measures.

For the authorities: to provide information on social protection measures provided for the Russian citizens at the expense of the budgets of all levels through the system of interdepartmental electronic document management; to provide analytical and statistical information to forecast and estimate the citizens' needs; to ensure the implementation of the social protection measures by the authorities of all levels, by organizations providing such measures based on the principle of targeting and on the need criterion; to unify the social protection measures provided at the expense of the budgets of the RF subjects and local budgets.

In our opinion the transition to the full-scale interagency electronic interaction will allow the national social security system to obtain a number of advantages in comparison to traditional activities in the sphere of management and control over this system functioning. The important advantage of the new information system is a significant economic effect while planning the social security expenditures in the Russian Federation consolidated budget and the financial sustainability in the long-

run. Due to further development and ubiquitous transition to the Federal Register of Disabled Persons and the Unified State Social Security Information System the Pension Fund of the Russian Federation becomes a national center of the individual accounting of rights and expenses of the whole state social sphere– from the municipal to the federal level.

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