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Realizing Russia’s Potential

WHAT PENSION SHOULD TODAY’S 30-YEAR-OLDS RECEIVE?

Panel Discussion

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Moderator:

Igor Vittel, Anchor, RBC-TV

Panelists:

Anton Drozdov, Chairman of the Board, Pension Fund of the Russian Federation

Olga Golodets, Deputy Prime Minister of the Russian Federation

Oleg Kiselyov, Chairman of the Board, Renaissance Life and Pensions

Almas Kurmanov, President, National Social Security Fund, Republic of Kazakhstan

Tatiana Maleva, Director, Institute of Human Development of Metropolis

Michal Rutkowski, Country Director for the Russian Federation, The World Bank

Helmut Schwarze, Senior Social Security Specialist for the Americas, International Labour Organization (ILO)

Ole Settergren, Director of Research and Development, Swedish Pensions Agency

Igor Yurgens, Chairman of the Management Board, Institute of Contemporary Development; Chairman of the Committee for pension system development and social insurance, Russian Union of Industrialists and Entrepreneurs

I. Vittel:

Once again, good afternoon, ladies and gentlemen. I am pleased to open our session, called ‘What pension should today's 30-year-olds receive?’ Today we will talk about the challenges facing the pension systems of various countries, the risks faced by the pension system now, and ways to address these issues.

I ask you to give a warm welcome of applause for the participants of this session. Our guests today include Olga Golodets, Deputy Prime Minister; Helmut Schwarzer, Senior Expert on Social Affairs of the Americas at the International Labour Organization; Tatiana Maleva, head of the expert working group on reform of the pension system in preparation for ‘Strategy-2020’ and Director of the Institute of Megalopolis Human Development; Michal Rutkowski, World Bank Country Director for Russia; Ole Settergren, Head of the Pensions Development Department of the Swedish Pensions Agency; Almas Kurmanov, President of the National Social Security Fund of the Republic of Kazakhstan; Oleg Kiselyov, Chairman of the Board of Renaissance Life and Pensions; Igor Yurgens, Vice President and Chairman of the Committee for Pension System Development and Social Insurance; and Anton Drozdov, Chairman of the Board of the Pension Fund of Russia.

For those who do not know: my name is Igor Vittel, I am an anchor at RBC-TV and moderator of this section today. I ask once again to welcome Olga Golodets, Deputy Prime Minister of the Russian Federation. Olga, you have the floor.

O. Golodets

Good afternoon, ladies and gentlemen. I want to thank everyone who has gathered today to discuss an important topic for the country – pension reform. Nobody can be indifferent to this topic. I would like to share with you some thoughts that cannot, it seems to me, be left out of any discussion of our pension system.

Firstly, pensions today in the Russian Federation have well-known parameters. They are not very high, but not very low. Currently, we have crossed the threshold of an average pension of RUB 9,300 per month. This is above the subsistence level. For the poorer regions, this is a significant sum, and today the replacement rate is above 60% in 17 regions. Pensions mostly play the role of insurance against poverty. Today, it is a powerful tool to protect citizens, and we are now able to carry out differentiation by age: today, people 85 and older have a higher pension. For example, veterans of various categories have a pension of RUB 23,000 per month. Unfortunately, the pension is not tied in any significant and tangible way to a person's work contribution. And, unfortunately, the actual pension depends very little on savings, labour, and so on. The gap between the social pension and the labour pension, broadly speaking, is not tangible.

However, the pension system is supported by another very important parameter – taxes, which are at a relatively low level. That is to say that when compared to any other system, we have a relatively low level of taxes. The issue is that there is something of a habit, including in society, to not pay much and to not ensure a high replacement rate through the tax system.

At the same time, there is still a need – there are some categories of people who have a more inflexible attitude to the pension system and have remained out of the picture. A discussion of pensions in respect to them requires an entirely different conversation. This primarily concerns young people, as well as people who work well, even close to retirement age, and whose pension, I think, should be built through a system of funded pensions, through corporate pensions, and through the development of new financial tools. My question is mainly to the experts: I propose that they talk specifically about this topic, one that goes beyond the usual, customary government system, which is quite stable and whose basic principles are more or less clear. What about outside the government system? How are corporate systems, administrative systems, and private systems developing? What is their potential? Can they create the increase in the replacement rate of up to 70% that we expect? That is my main question for the experts. I would be pleased to hear the opinion of all who will participate in the discussion. Thank you very much.

I. Vittel:

Thank you, Olga. I think that after all the experts here make their speeches, we will ask these questions.
Helmut Schwarzer, a leading expert on social issues at the International Labour Organization, has the floor. Please, Helmut.

H. Schwarzer:
Thank you very much, ladies and gentlemen. I would like to first express gratitude to the Ministry of Economic Development and Pension Funds of the Russian Federation for the very kind invitation to the ILO to take part in this high-level economic forum, and to discuss such a crucial question as the future of our social security systems. It is also an honour to share the panel with such qualified colleagues. Even if the questions posed are very far-reaching and obviously deserve in-depth discussion, I will try to stay within five minutes for the initial statement.
A few years ago a press advisor told me that one should be capable of conveying a message in 10 seconds because that is the time you usually have on the eight pm TV news, but fortunately here we have a few seconds more.
So, to summarize, I think that from the point of view of the ILO, when discussing the future of pensions there are three key dimensions and they are first, coverage; second, sufficiency or adequacy of benefits; and, third, the sustainability of the schemes.
I think the issue of coverage is extremely important for the ILO, because only an estimated 20% of the world's population has access to complete sets of social security guarantees. And on the one hand, we have here a problem of non-compliance which requires strong action by the state to enforce affiliation and contribution to the existing schemes.
On the other hand, there is part of the population which will not be capable of fulfilling the conditions for contributory pensions, and here we need some basic social assistance pension or other forms of supplementation to contributory schemes to prevent poverty in old age. Regarding adequacy, pensions should allow

for a decent life. That is what the ILO says. It means that minimum replacement rates and other basic standards as those foreseen in Convention 102, which deals with social security minimum standards, should be complied with. Convention 102, for example, sets a minimum target replacement rate of 40% of the average earnings of the workers, and I understand that the Russian Federation has been considering the ratification of this important ILO Convention; we welcome this interest.

Referring to sustainability we think that, first of all, a good and strong actuarial monitoring of the schemes and timely action is needed to keep them in balance, because early reactions usually allow for the negotiation of smooth and socially acceptable adaptations as the population changes and ages.

Demographic change affects all countries in the world and we think it is a strong challenge but it can be mastered. Here the key may be in the recognition that we can counteract this aging process by a basket of measures which includes a stepwise extension of working life, stimulation of larger labour force participation. For example, in some countries it is possible to increase the participation of women on the labour market and achieve a stronger prevention of sickness, work injury, and disability.

Retirement age increases need to be supported by policies which allow the elderly continued participation in labour markets as well. This issue also includes the subject of financing and here I would say that a mix of contributions and taxes seem to be the most appropriate choice which has been made by most countries.

So, the ILO is pleased to have been a partner of the Russian Federation over the last few years and we would like to continue learning from the comparative experiences and supporting policy developments whenever you think this could be helpful. We will have a second round afterwards, and in that second round I may say some words on Latin American and European experiences. But, for the time being thank you very much.

I. Vittel:

Thank you, Mr. Schwarzer.

I shall now give the floor to Tatiana Maleva, the leader of the expert working group on reform of the pension system in preparation for ‘Strategy-2020’. Please.

T. Maleva:

Thank you. Colleagues, the fact that all countries today are faced with new pension challenges is clearly associated with well-known, long-term trends. Above all, these are the demographic challenges of an ageing population and the economic crisis. Let us just say that these factors hurt all pension systems worldwide. However, Russia's pension system – like many other national systems formed at different times in different conditions and under the influence of different circumstances – has several parameters in regard to which we also need to understand what is unique about us.

What makes us unique? The Russian case, firstly, bears the hallmark of the pension system of the Soviet period. This is primarily evident in the relatively low retirement age, which we inherited from Soviet times. The same applies to a widespread system of early retirement, which ultimately leads to the same result: a low actual retirement age.

Then we had the transformation of the 1990s, which added to the unique nature of our Russian system. These factors are as follows. First of all, the rule of double payments came into effect: payments of both pensions and wages are a result of what happened in the 1990s. In addition, at the very time when the pension reform was launched, two of its functions that are inherent in any pension system were in opposition. This is the fight against poverty, which Olga described, and it is clear that the pension system must perform this function. And the second function that was included in the pension legislation is the function of insurance. Throughout the last decade, the function of poverty reduction, in one form or another, explicitly or implicitly, has always prevailed over all other functions of the pension system.

It would seem that we should enjoy the fact that the Russian pension overcame the poverty threshold, and say, yes, this function has been fulfilled. But nonetheless, we face the question: what next? This question has come up at this particular time because the country spent 20 years on restoring pensions which had fallen from the pre-crisis level, by which I mean the level of 1991. Now we have restored the real pension amount, and we face the same question as before: what should the Russian national pension system orient itself towards? Should it be towards overcoming poverty, towards insurance against poverty, or to remember that the insurance function consists of something somewhat different – of insuring earnings? This is a strategic issue we have to solve.

The expert group still believes that in the current economic climate, when such a massive group emerges to the forefront of economic life as the Russian middle class, who can no longer be satisfied with pensions equal to one, one and a half, or two times the subsistence minimum, and who need to be given real economic incentives – the expert group believes that in these circumstances, we must have reservations to the idea that the pension system should insure everyone against poverty. Otherwise, we cannot create a single economic entity that will link the labour market, pensions, and social protection, and which will give our Russian pension system a character in which incentives play somewhat of a role. The issue is that today, the Russian middle class already makes up 20% of the population. About 30% can already be considered potential members of the middle class. We then go to answer the question that was posed in today's agenda: What pension should today's 30-year-olds receive when they retire? If in 2050 we say that you are guaranteed the subsistence minimum, this will just result in collapse of the pension system.

That is why we believe that within a compulsory pay-as-you-go pension system, it is possible to do a lot in order to expand these boundaries and bring the middle class into a full-fledged pension system. Again, even if a compulsory pay-as-you-go pension system provides the subsistence minimum, everything else must come from voluntary pension savings. That same middle class that I am speaking about should save for its pension voluntarily. This would be all good and well – except that the Russian middle class are not very rich people, and will not be able to save for their pension voluntarily. In our country today, only 40% of housewives have savings, and the amount of these savings is enough for about six or seven months of living. This is insurance to cover for a temporary lack of income, but it is not insurance for retirement.

Therefore, if the government cannot give money, it must build the institutions. In respect to this, we still believe that the system that has already formed and now exists is a system of compulsory savings, and it is necessary to strengthen and develop it, and that it is necessary to offer this system to the middle class to join. Only in this case can we both balance the current pension system and pay pensions at the level of one, two, or three times the subsistence minimum, and make our future pension system play the role of insurance that we so need. Thank you.

I. Vittel:

Thank you very much, Ms. Maleva.

Michal Rutkowski, Country Director for the Russian Federation, the World Bank, the floor is yours.

M. Rutkowski:

Good afternoon. It is a pleasure to be here. I am very grateful to the Pension Fund and the Ministry of Economic Development for the invitation.

I will speak in English, because for now it is a lot easier for me to speak and explain in English. So, again thank you very much for the invitation. It is rather sentimental for me to talk about pensions in Russia, as I used to work in the area of social questions and pensions several years ago. Now, I am here and responsible for the whole World Bank programme. I tend to be invited for discussion on pensions more often than on other topics and I take that as a sign of trust. So, I really appreciate that.

Let me just say a few things as a result of the analyses done by the World Bank. We keep doing analyses of the Russian pension systems and we keep updating them, although the one I am going to share has results from 2008–2009 so the changes in

2010 are not yet fully incorporated in the analysis. They will be very soon. And let me also say that when it comes to the structure of the pensions system in Russia, I would say that it is basically quite a normal, healthy structure, with the basic pension with what is called insurance, which is heavily linked to incomes, and then the private part. I will have comments on them but I will save them for later.

Instead I will focus on what seem to be the major problems and my colleagues already referred to some of them. The discussion is very much about replacement rates and the current replacement rates in Russia are at the level that is normal for countries with Russian incomes. I would not see 40% as too high; I would not see it as too low. Of course, there is the problem that wages are seen as low, therefore the same replacement rate produces lower outcomes, but that is a separate problem.

The problem is that with no changes to the Russian pension system, those replacement rates will be going down to even 24% in some of our analyses. They will be going down while at the same time the deficit of the pension system will be growing and this is all because of the demographic dependency ratio, because of the number of pensioners per worker. So, this quite a peculiar situation, quite a dramatic picture when you move ahead, and very hard to find in other countries. Please note it does not matter that average pensions in real terms will be going down, because even with those replacement rates going down the wage growth expected would still make pensioners richer 20 years from now compared to now; but wages will be much higher and the field of relative deprivation compared to wage earners will be much more pronounced. So this is very much a problem of financial stability of the pension system even with falling replacement rates. So, from what I have observed the government has been acting first and foremost on the contribution rate, it went from 20% to 26% but then it fell to 22%, so it is not a consistent action. But, there are attempts to increase contribution rates to close the gap.

Our analysis shows that a whole set of measures is needed in order to improve the finances of the system even with falling replacement rates and even more with maintaining them and the key question is of course a question of retirement age. In our analysis there would be no way there would be a package that brings health to the pension system without touching the retirement age. So, all other options may be appropriate or needed but only as counterparts of raising the retirement age. Those other options I will just mention given the time constraint. One is the need to increase the contribution rate to which reference is made in my discussion. The other is related to migration policy: what is the number of workers that come from other countries and are economically and socially accepted in Russia? And this is a highly relevant element of the pension system discussion.

The next element is the issue of incentives to work longer embedded in the insurance pillar in Russia, what we call 'notionally different contributions'. This is a problem because at the age of retirement the pension accumulated is not divided by actual life expectancy, but one number which is arbitrarily divided that essentially throws out all the incentives of that pillar to work longer. So, this is a very important element, this is changed to I think a factor of 19 now, it really is extremely important as an incentive and was one of the reasons for introducing that particular structure in the first place. I might say more about it later because I feel quite passionately about it.

Finally the retirement age, there is no way to avoid it. I would, however, like to point to one thing. We are talking about the retirement age of future retirees, so there are parts of introducing the change which are really not harmful to those who are the most vocal against it. So, in a sense if we look and we have an analysis of the experience of other countries, there were introductions that were quite socially acceptable.

It seems to me that it is better to move away from a discussion that sounds quite ideological. Are you for or against the increase? I think the right discussion is what form of increase would be socially acceptable in bringing more health to the finances of the pension funds. So, this is the sphere in which we operate as I said. We can structure different packages, but not touching the retirement age is not an option in our analysis and having a good discussion on it, on being able to go beyond it. There is no need or it is absolutely indispensable. It would be a big success to have an intelligent social dialogue around those issues and we in the World Bank would of course be pleased to assist in any way we can. Spasibo.

I. Vittel:

Thank you, Mr. Rutkowski. I shall now hand over to Ole Settergren, Head of the Pensions Development Department of the Swedish Pensions Agency. Please.

O. Settergren:

Thank you for inviting me here to St. Petersburg, an especially fascinating city for a Swede. As you know, this is old Swedish territory that St. Petersburg is built upon, and I am happy to say that I do not think the Swedes would ever have the imagination or vision to build such a beautiful city as Russia did. So, luckily it was conquered for the world to have this city here at the Neva. I have no recommendations, because I will only try to give some insights into what Sweden has done and what is going on in Sweden when it comes to pensions.

I think it is important to notice that nowadays a very large share of the population, at least in Western Europe and a lot of the rest of the world, is above the classical age of retirement of 65. One in five or more of the population is above 65 and that share is growing. And to supply such a large share of the population with income is of course both a financial and political challenge and it contains big financial and political risks. Pre-retirement income is supplied in a much more diversified way than pensions are by means of millions of employment contracts and even if you have a very diversified supply of pensions in a country, you are normally at much less than a fraction of what you have when it comes to employment income.

And finally, as a point of departure, it is important to realize that pensions can only be financed by production of goods and services that more or less will be produced at the time of retirement during the consumption. So, in one sense I think savings are impossible, savings are a means to have claims on future production.

So, given this big political and financial challenge, how has Sweden attempted to deal with these issues? Well, firstly there is quite a diversification of the pension provision in Sweden. It is quite heavily dependent on government pensions, but still, occupational pensions run by social partners provide 20% of pensions today and this share is growing; the government public pensions provide 75% of all pensions; and then there are some relatively little pensions that come from private provisions.

Secondly, there is an attempt to diversify the financing principle. There is a pay-as-you-go financing principle for the major part of the government pensions. There is a significant buffer fund in the pay-as-you-go scheme which gives the Swedish situation some peculiar characteristics and then the occupational pensions and also private pensions of course are also pre-funded almost entirely.

Thirdly, and this is a new principle that came in during the 1990s in Sweden, there is a transfer and I would say of formal economic and demographic risks from the insurer to the insured. That is from government to the retirees and pension savers. These risks are, of course, the positive risks that we will live longer and that will cost the pensions schemes more or the government more. Essentially it is a very good thing that we live longer, but it will cost the pension scheme more. And also the economic development, whether it will be contribution based, might grow slowly due to the slow growth of labour force participation or the labour force may be shrinking if the demographics are negative. That is also a risk. And also if you have invested in pre-funded pensions, the return may be low or even negative as we have all experienced here during the last few years and even before that, of course. So, all these risks have actually been more or less transferred completely from governments and from the insurers to the insured in Sweden.

And this is, of course, quite a dramatic change in principle. And when you talk about it in pension terminology, it is also a change from defined benefit schemes to defined contribution schemes.

It need not be fully funded pension schemes to have this transfer of risk.

How has this design worked during the recession? Well, the recession has had significant negative impact on the pay-as-you-go finance benefits. Perhaps this is a bit surprising but, as the pay-as-you-go finance benefit in Sweden has been transferred to a defined contribution scheme, the balance mechanism in that scheme made pensions be reduced by 3% in 2010 due to the very deep recession in Sweden. A short but deep recession where GDP fell by 5%. This is the biggest loss of GDP since the 1930s and further reduction of public pension benefits by 4.5% in 2011. This year they have been developing positively, both nominally and in real terms.

The solvency in pre-funded pensions, in fully funded pensions, has been strained but the benefits generally have not been reduced during the recession.

The political response to these reduced benefits – this was the first time ever in Swedish pension's history that benefits had been reduced nominally – has been to reduce taxes that softened the reduction and the loss of income of retirees, and secondly to start an investigation into whether and how it would be possible to reduce volatility in pay-as-you-go financed pensions without leaving this principle of a fully financially sustainable pension scheme.

So the conclusion so far, very briefly, is that there is a positive effect of this design in Sweden. No deficits can accumulate. So in contrast to many other public pension schemes across the world, the deficits that have accumulated during the recession have now been eliminated within the scheme, but at the cost of reduced benefits, of course. And the negative effect of this design is benefit volatility.

And I will just have a last word on this issue about what the pensions of those who are 30 today should be.

In Sweden this design means that increased life expectancy will increase the retirement age that is needed to receive the same benefit. You can still retire at 65 but you will have a less significant benefit. So, if you look at those born in 1980, they are about 30 today, 32. They are expected to have to work until 68 years and five months to receive the same size benefit as those who were born in 1930. Thank you.

I. Vittel:

Thank you very much, Mr. Settergren.

Almas Kurmanov, President of the National Social Security Fund of the Republic of Kazakhstan. Please welcome Almas.

A. Kurmanov:

The strategic objective of the development of society, I think, is the realization of fundamental rights, the reduction of social inequality, and the creation of equitable social protection. In this regard, much has been said by the previous speakers, and I would like to briefly focus on some points.

For example, look at indicators such as the ratio of the minimum wage to average wage. If we look at European countries, this is approximately one to two or two and a half. If you look at the United States, it is around one to three. And if you look at the Customs Union countries – Kazakhstan, Russia, Belarus – it is on average around one to five. That is, the average salary is almost five times higher than the minimum.

If we are going to talk about international standards that define the basic parameters for social security, as has been said today, this should be the replacement rate of income. When we talk about pensions, I would like to say that a pension should provide a decent standard of living, and not only protect pensioners from poverty. In this situation, I would also like to note the ratio of the average monthly pension to the average monthly wage. We see that in developed countries, the average monthly pension is 50–60% of the average monthly salary. In the countries of the Customs Union, the highest rate is in Belarus – 38.5%. But on average, Kazakhstan, Russia, and Belarus are close to this figure.

If we look further, we would like to draw attention to the forecasted replacement rate of income. We say that the pension is 42%, but we see that a very large component of such a pension is a compulsory pay-as-you-go pension. However, because Kazakhstan is striving towards a two-tier system, where there is a funded pension system and there is a base level, the compulsory pay-as-you-go system will be gradually terminated. When we get to where the base funded level remains, we see that the replacement ratio tends to be approximately 35%. So, the question arises: what next? It is clear that the funded pension solves a lot of questions, but not all.

What happens with the funded system? In particular, we will look at the assets that are generated. We see that the assets grow much faster than the investment income that is generated by pension funds. In this case, we have very strict limitations on where to invest those assets. A situation arises in which it is impossible to invest in other tools, but we impose these restrictions because we want to preserve these assets. At the same time, the yield on existing assets is not high, and the growth in assets turns out to be low.

I would like to say that the average return on assets turns out to be lower than inflation. If we look at inflation and compare it with the growth in average wages, we see that the average wage growth is almost two times faster than inflation. I think that this is happening not only in Kazakhstan but also in all countries of the Customs Union. That is, we see that people who are now 30 years old who had low starting salaries, and will work for another 30 years – what kind of pension will they have in the end, what will they manage to save during this time? At the same time, when they are reaching retirement age, they will have very different needs, as the standard of living of people increases: they want to go to the theatre, not just eat their daily bread.

These are all serious questions, and I would like for us to pay particular attention to them when building our pension and social insurance systems. Thank you.

I. Vittel:

Thank you very much.

Oleg Kiselyov, Chairman of the Board of Renaissance Life and Pensions. Oleg, please.

O. Kiselyov

Good afternoon, ladies and gentlemen.

With your permission, I would first like to thank the Russian Federation Pension Fund for the invitation to this Forum and this discussion. I will try to be brief and keep to the salient points, so that we can then engage in a dialogue on these serious issues.

In solving the problem of increasing the efficiency of pension systems, it is necessary to take into account two important theses. Firstly, there is no one universal approach. Unfortunately, we cannot solve this problem in one step: a series of measures is needed. Secondly, pensions cannot be generated from a single source. From this, it follows that the most efficient model is when pensions are formed by three components. The first is at the expense of the government, that is, with the help of an insurance or distributive component. The second is at the expense of the employer's contributions through the payment of taxes – the funded component. The third is at the expense of the public, when the citizen himself must actively participate in the creation of pension assets – the so-called voluntary component.

To maintain a decent standard of living, the individual's income in retirement should be about 60% of his final salary. This figure is called the replacement rate, and my colleagues have already talked about it. Accordingly, all three components must participate equally in the formation of pension assets. Then the pension system will be balanced.

Per actuarial calculations, the part of the pension assets generated through government funds currently fulfils its given task and provides replacement rates equal to 20% of the final salary of a 30-year-old citizen. However, the funded part can no longer fully ensure the required replacement rate of 20%. The funded system itself works. There is no need for drastic change. But in order to increase the rate of efficiency, it is necessary to modernize the investment process. Then the replacement rate will reach 20%.

I would also like to identify measures which, in my opinion, can really increase the effectiveness of the investment process of the funded component.

Firstly, it is necessary to make pension savings a long-term asset – we should change the requirements for non-state pension funds, each year establishing and distributing investment income. Not long ago, the Ministry of Justice was sent a draft order that partially removes this limitation. Under this plan, the investment horizon should increase from one year to five years. This is good, but actually the term of investment is much longer. The main goal of the pension manager should be to maximize return on invested capital as at the moment of retirement.

Secondly, non-state pension funds should be allowed to use various investment strategies. These strategies should depend on the different age groups: for example, conservative, balanced, or aggressive. The investment strategy should depend on the person's age: the younger the person, the more aggressive the policy should be, and the older the person, the more cautious it should be in managing pension savings.

Thirdly, the list of investment instruments should be expanded. In my opinion, it is necessary to step down the long-term credit rating by one or two notches for bond issuers, as well as to expand their range. The list of banks in which pension savings may be deposited should be expanded, perhaps by modernizing the mechanism for bank access to the management of pension savings. And, of course, as the President said today, we need the opportunity to invest in state infrastructure projects. This is where the potential of long-term money is fully realized.

It is still possible to apply such a measure as increasing the base value for the calculation of insurance premiums. Currently, the funded portion of the pension does not work effectively for people who earn over RUB 42,000 a month. That is, there is something of a ceiling for the funded part.

And the third component, and probably the most complex one, is the participation of citizens in forming their own pensions. Today, the contribution of citizens to their pensions is an insignificant percentage. Unfortunately, we need to recognize the extremely low culture of saving in this country. Only about 5% of people actually think about their future pension. Tax benefits can be one measure to encourage citizens to create pension savings. But this measure is not as effective as in other countries – for example, for our colleagues who are present here – because we have such low taxes, which makes this measure an insufficient incentive for citizens. Even the co-financing of pensions is not a very popular programme today. Although, in essence, it is one of the most attractive funding systems. This measure, aimed at encouraging citizens to independently form their pension savings, is not effective enough.

It follows from this that consideration should be given (and I am gathering the courage to say it) to the possibility of introducing compulsory pension contributions, in addition to contributions that the employer makes, and in equal proportions with the latter: for example, by increasing the income tax by 6%. This part goes to the personal account of the citizen, where his pension assets are being saved. This part shall be the property of the citizen and must be inheritable.

And, of course, it is necessary to provide a mechanism for the safety of accumulated funds: for instance, by creating an agency for insuring pension savings, on the basis of the Deposit Insurance Agency, as already implemented in the banking sector.

Thus, if the current situation remains the same, today's 30-year-olds will have an income of about 37% of his final salary upon retirement. We hope that if we implement a number of measures, you can expect an increase in the amount of pension to 60% of salary.

Thank you for your attention.

I. Vittel:

Thank you, Mr. Kiselyov, for the informative report.

I do have to say, I saw the eyes of some people in the room when you mentioned an increase in income tax.

O. Kiselyov:

Well, I had to add some intrigue to our discussion somehow.

I. Vittel:

I am afraid you may have been skating on thin ice, so to speak. I think that we will give the opportunity to speak to those in the hall who look puzzled. Igor Yurgens, Vice-President of the Russian Union of Industrialists and Entrepreneurs (RUIE).

Igor, I ask you to proceed without such provocative statements. I know you are an expert at them. Please.

I. Yurgens:

Then I shall begin right away with a provocative remark so I can then speak calmly for the remaining three minutes.

We do not really understand the position of the government on all of our pension reform. First, we do not really understand why the framework has still not been introduced to the State Duma and why it has not been presented for public discussion. And, secondly, very important people in the government say very different things. Sometimes, the same person talks about these things inconsistently. For example, the day before yesterday, the Finance Minister said that we will solve the pension shortfall in 10 years and that we also will not increase the retirement age. The same Finance Minister – not a different one – said in May that we should at least make the retirement age for women and men the same, that is, to raise it five years for women. Well, how then is it possible to understand what position the government is taking on various pension issues, and from its key members, no less?

That is my provocative remark out of the way, and I have great regard for the Minister, whom I consider the ideal successor of the previous Minister, for whom I had even greater regard.

As to the position of the RUIE, let me just say a few uncontroversial things, I will not go into our position: it has been sent to the Government and to the Deputy Prime Minister. So, we are ready to discuss it.

Our number-one thesis is that keeping the current pension system alive is possible only with an increase in transfers from the budget. This has its limitations, absolutely objective ones. Today, the Prime Minister said that we cannot increase budget expenditures and we should carefully preserve them in a stable condition, lest we fall into the same situation as the European Union, the United States, and other countries.

Thus, there is an objective limitation of the current system and, therefore, reform is necessary. The need for such reform is recognized by all. The reform has three clear components: the government pension (I will not talk about all the components, because it is so difficult that you need two university degrees to understand), and also the base, social, labour, early pensions, and so forth. The government pension is what the government pays the person who is retiring. Secondly, the corporate system is what is created by corporations together with trade unions and workers, under pressure and motivation from the government. And thirdly, a person should voluntarily save in the voluntary pension system, in which he should be offered the same services as banks – life insurance with savings and so on. That is, at least three components of our financial system should offer the person voluntary pension support.

If the government agrees that the future of pension reform will be a three-tier reform – mandatory government, corporate, and voluntary – then we, as an organized business community, are ready to discuss it. I know the position of trade unions: they are more than ready to discuss this from a different angle, and they are very eager to discuss. The expert community is ready – Ms. Maleva is certainly at the head of this cohort already. Experts have been ready for this for a long time and are very qualified.

This is my proposal: if, as we know from the agency data, the government introduces its framework for pension reform in the State Duma sometime in October, if it announces that it will give all three parties – the experts, trade unions and business owners, and itself – one year to discuss all aspects of the system, and after undergoing this completely open, transparent national debate on pension reform – if it adopts something, with a full understanding of what we do, with workers, business owners, and the government – I think that is the only way, and I do not see any other way to thread the needle and begin moving in the right direction. Thank you very much.

I. Vittel:

Thank you very much, Mr. Yurgens.

Anton Drozdov, Chairman of the Board of the Pension Fund of the Russian Federation, will have the final word in the first part of our discussion. Please give him a warm welcome. Anton.

A. Drozdov:

Thank you, distinguished colleagues.

First, I would like to thank the Ministry of Economic Development for entrusting the Pension Fund to put this panel together. Our task was to invite experts representing different points of view, who look at the problem from different angles. You have probably noticed that there are international experts here, as well as those closer to the ‘funded’ part – members of both the business community and financial markets are here, which makes this panel so valuable.

First of all, I would like to say that the main risks worldwide, in demographics, at the macroeconomic level, and on the labour market, and which, as was announced, present the worst threat to the pension system – all have their own unique characteristics in the Russian Federation. If we take the demographic risks, it would seem that the population burden – expressed as the number of retirees per worker, among other ways – is also increasing on our economy. However, at the same time, we also have a low life expectancy, especially among men. If we look at the average, we have a life expectancy 10 years lower than in developed countries and 5.8 years lower than in Eastern European countries. If you look at the macroeconomic risks, our unique feature – aside from general crises and the associated impact on pension performance – is that we still have high inflation, high dependence on external factors, low liquidity of the domestic market, underdeveloped financial institutions, and a high level of stratification of the population by income. If you take salaried employees, two thirds of them receive wages below the mean. And if you take all the employees, it is 75%.

If we talk about the labour market, here we have a large shadow economy, informal employment is growing, and there are many people who are entitled to benefits. I would like to immediately say that, with such a group, we should of course take a general approach, but one taking into account the unique features of Russia.

If we talk about three levels, then yes, we definitely agree that only a comprehensive three-tier system will solve the problem of the replacement rate, including for 30-year-olds who already have over 10 years of experience and who have to work another 20–30 years.

The first level must still provide the base replacement ratio of 45–50%, and, of course, there are the problems I mentioned and which are reflected in the fact that we need to introduce a truly balanced and reasonable rate. We need to take into account work experience. We need to address the issues of preferential and early pensions. We need to encourage the development of the funded part, but the question remains: should this be a fully government system of mandatory savings, where everyone pays the same 6%, regardless of income? After all, with pension co-financing, it turns out that whether my salary is one million roubles or five kopecks, if I deposit 12,000 roubles, the government gives me 12,000 to match. But in fact, all incentive programmes primarily facilitate the involvement of people in the funded part. We do not have a personalized system in terms of income.

We have a completely undeveloped second level – corporate systems. We have two types of quasi-corporate pensions: coal miners and pilots. We do not stimulate or provide incentives to employers to create corporate systems. They are being created, but on a voluntary basis, independently, and spontaneously.

Of course, in regard to these two levels, we have problems associated with the improvement and regulation of non-state pension systems, as mentioned by Mr. Kiselyov. We, of course, have problems in providing sufficient incentive for employees to participate in the formation of their pensions. We are almost the only country in the world where only the employer pays. We also have problems due to the fact that it is not only necessary for non-state pension funds (NPFs), but also for other institutions to participate in forming the pension savings market.

So, we want to say, according to our policy, we believe that the solution should be balanced. The solution should be adopted in a public manner. It will be discussed, and I would like to say that employers, workers' representatives, and other organizations should not worry. Of course, we will discuss everything with everyone, because it will all depend on fine-tuning. Everyone knows approximately how many elements are necessary, but the key to solving the issue, I think, is in their proportion and balance.

If we do not do anything, then, in our opinion, the replacement ratio for 30-year-olds will actually be about 27%. If we nonetheless work out every level of the pension system and eliminate all of our risks and put things in order, it may be 70% or more.

Thank you.

I. Vittel:

Thank you, Anton.

Now we shall proceed to hear questions from the audience. I see that we have questions: a forest of hands. Let us first go from the left side.

D. Vasiliev:

Dmitry Vasiliev, Institute of Corporate Law and Corporate Governance.

I read in the newspaper *Vedomosti* some statements by the Minister of Labour and Social Security, Maxim Topilin, and now Mr. Drozdov has confirmed fears that a partial liquidation of the funded system is under discussion.

I understand that these are good intentions aimed at closing the 'holes' in the budget of the Pension Fund. However, as you know, the road to hell is paved with good intentions. I would like to relate this problem not only with the pension system, but maybe, as Mr. Drozdov or Ms. Golodets will clarify, also with some other general economic problems which are being resolved by the government and the President of the Russian Federation.

In his agenda, Vladimir Putin said that he wants to increase the share of savings to GDP, and established it as a task, saying that everyone will fulfil it. As you know, reducing the share of the funded system inevitably reduces the share of savings to GDP. This was the first feeling of discomfort I experienced after reading *Vedomosti* and hearing the report of Mr. Drozdov.

The second problem, as Dmitry Medvedev and Vladimir Putin confirmed half an hour ago, is that we really want to develop an international financial centre. We are doing something informally, and we plan to adopt very good laws. We only know that without national investors, the biggest of which are private pension funds, there can be no international financial centre. Accordingly, the discussion concerns the fact that we will reduce the base of the NPFs and, accordingly, reduce the possibility of the development of an international financial centre. How does this square with the policy, the President's statement, and what the government is doing? Does it want to do this? I am confident that the government and Dmitry Medvedev want to do it. I cannot believe that he…

I. Vittel:

Are those all the questions?

D. Vasiliev:

I have a third question: the infrastructure bonds that Vladimir Putin spoke about. If you reduce the base, then you reduce the ability of Mr. Yakunin to finance his long-term projects.

We end up with three contradictory general policies of the government, with what seems like very innocent and good wishes. This is not to mention the long-term prospects. It is also detrimental to pensioners. We are not talking about pensioners now, but about today's political…

I. Vittel:

Thank you, Dmitry. Who will answer? Anton Drozdov?

A. Drozdov:

First, there are no contradictions. It appears that you are somehow not perceiving everything quite right.

First of all, let me start from the end, about the infrastructure bonds. Currently, only RUB 60 billion have been placed in infrastructure bonds. Pension savings are on the order of RUB 1.8 trillion. It would seem the issue is not about money, but namely about supply and development of the market. Therefore, we are talking about the fact that the level of pension savings, perhaps, should be in proportion to our capacities, but for now, unfortunately, that is how it is. We have made a proposal in the first place to the Pension Fund, to expand opportunities for the purchase of infrastructure bonds. That is because the market can purchase about only 30–40% of them, and the rest should go to institutions. This is what we are here for, so that long-term pension funds are working and are ready, but this is a financial issue, not a pension issue.

In regards to the funded part, nobody is proposing to eliminate it – it needs to be developed. However, in the government form in which it currently exists, one-size-fits-all with a yield of 6–7% (which is lower than inflation and is not a great incentive), it is already a closed chapter. If we look at other systems, the funded part is developed at the expense of corporate systems, at the expense of employers. They and the employees make deposits into this system, and then there is an opportunity for expansion. We cannot go beyond 6%, and it will remain at 6%. This can be developed only through corporate resources. So we say that it is specifically the middle, the second level – the development of corporate and voluntary systems – where due to regulation, it could allow pension funds to become real players in the market and to build up money. And the government will manage it through insurance regulation. Thank you.

I. Vittel:

Thank you very much. Olga, do you have anything to add? No? Please go ahead.

E. Yakushev:

Evgeny Yakushev, European Pension Fund.

I just wanted to make a comment. I think that if we are talking about what the pension will be for today's 30-year-olds, we are likely talking about the sources from which that person would receive it. Therefore, if we define the capacity of the government, it becomes clear what the level of corporate pensions or individual savings there will be. We just model this mathematically.

From this point of view, speaking about the sources, you need to ask 30-year olds the question: who is responsible for your pension – the government, your employer, or you yourself? The largest resource here is professional pension systems for early preferential pensions. Thirty percent of the population retires 5–10 years earlier, and this area needs to be urgently transferred to non-state pension funds, because only non-state pension funds can provide a later pension, and thus provide a higher amount. Michal said that currently, the funded part of labour pension is divided by a constant. If a person does not wish to receive a pension and does not get it at 55–60 years (and we know that during the first five years, 80% of people are still working), then he must have realistic opportunities to receive a larger pension.

And yet, in my opinion, there is also another sort of provocation – raising the retirement age. Over the past 10 years, male life expectancy rose from 55.9 to 64 years. That is a substantial increase in the course of a decade. It is a trend. So to say that the average age is now X or Y is not the full story. For those that were born then, it is one thing, and for those who are born now and will retire after 30 years – they will have a different life expectancy. Therefore, we should talk about increasing the length of time people work and about the retirement period, as a sort of intergenerational social contract. This topic of social contract and public debate should be strongly promoted and institutionalized. Thank you.

I. Vittel:

Thank you very much.

O. Golodets

May I make a comment?

I. Vittel:

Yes, of course.

O Golodets:

I simply think there is an important response to be made here. The issue is that we have a tool called the Russian Trilateral Commission, where all three parties discuss issues, including those related to occupational pensions. At the last meeting of the commission, there was a decision to establish a working group: this applies to everyone, both employers and employees. Surprisingly, this topic is actively supported by employees. Amongst these, even the coal industry is interested and involved in the calculations. So, I invite you to a completely open dialogue, because the work on occupational pensions has begun on both List No. 1 and List No. 2 for hazardous professions. It is very important to have consent, understanding, and a good and simple calculation here so that it is a system that really satisfies all facets of society.

I. Vittel:

Thank you very much.

A. Drozdov:

And can I also respond?

I. Vittel:

Yes, of course.

A. Drozdov:

There are representatives of the Swedish agency here. And despite the high retirement age in Sweden, they can receive a pension starting at age 61, and in Germany too. All countries that have raised the retirement age still retained the possibility of receiving a pension at a later age.

From the audience:
With a reduction in the amount of the pension.

O. Golodets:
Yes, maybe.

From the audience:
But this is not a question of age, it is a question of more or less.

I. Vittel:
Thank you very much. Please, go ahead.

S. Kalashnikov:
The first question I have is for Mr. Kurmanov. Do I understand from your statement that in Kazakhstan, there are serious doubts about the effectiveness of the funded part, and you realize that the foundation should be a compulsory pay-as-you-go system?
The second question is for Mr. Rutkowski. Mr. Rutkowski, you personally made a huge contribution so that a funded system could exist in Poland, Kazakhstan, and Russia. Right now, after the crisis of the funded system and the recognition of the crisis of the funded system in Latin America, do you continue to insist that the funded system is an indispensable element of the pension system? Or have you reconsidered your views?
In terms of the second question – I do not know if it would be better to direct it at Mr. Drozdov or Olga.

I. Vittel:

This is already the third question, Sergei.

S. Kalashnikov:

About the preferential pensions. What do you think, is it easier to go slowly, that is, to work out the issues with preferential pensions first, or to resolve it all at once? That is, if one gets started on real, necessary pension reform, where should the preferential pensions immediately go? Or do we start with preferential pensions, and then everything else?

And the last question is for Mr. Yurgens. He really does like to provoke. Mr. Yurgens, if we are going to discuss the pension system for a year, it is quite clear that it may come to nothing. But with this, we would rile up the public so much that nobody would be in the mood to discuss pensions anymore. Do you agree with this or not?

Thank you.

I. Yurgens:

I have a counter-question: What faction are you from, Sergei? Can you answer?

S. Kalashnikov:

Sure, from the Liberal Democratic Party.

I. Yurgens:

Thank you.

I. Vittel:

And what is that about?

S. Kalashnikov:

And what is it to you?

I. Vittel:

Is this now some kind of stigma? Mr. Kurmanov.

A. Kurmanov:

Thank you for your question. I would say that in Kazakhstan, nobody is disappointed in the funded pension system: it worked, is working, and as a whole continues to bring results and benefits. In those charts that I was able to show, it is clear that in general it solves a set of problems. It affects the income replacement rate. But! I was trying to say in my speech that today, for example, young people who are 30 years old – and this is the topic of our discussion – start with a small salary. When they reach retirement age, over this period of time, for example, in Kazakhstan, contributions in the funded system plus inflation are guaranteed. That is, even if your contributions are preserved at the level of inflation, the quality of life grows in any case. For example, today (and it depends on the period of time), the growth of average wages is twice the inflation rate, that is, people have very different needs in life. So it is clear why we have already set other goals. Well, tomorrow it will probably be necessary to not only guarantee those assets plus inflation, but it will probably be necessary to offer people something more, if we, as they say, want to control the future of our country.

I. Vittel:

Thank you very much. Mr. Rutkowski. By the way, Mr. Kalashnikov, Mr. Yurgens was just interested in which faction to join, that's all.

M. Rutkowski:

Good to see you again, Mr. Kalashnikov. I do not consider the crisis in Latin America a crisis of funded pensions. I think it was an overall crisis and funded pillars became victims because of the poor intergenerational accounting, and because of the ease of dealing with the financial crisis through liquidation or reduction of the funded part. The pay-as-you-go part was equally affected but was politically protected while the funded pillar was not. I think even today, as I thought before, that in pension systems, I would not say in every pension system, but in many pension systems, there is a legitimate place for funded pillars as a part of the overall system. I think we've learnt a lot about how to build funded pillars better, how to have a better regulatory system, how to have better competition between pension funds, how to have better investment regimes that encourage high returns. I think the experience of Latin America, Central and Eastern Europe, and Kazakhstan needs to be taken on board. I think if we all do this all over again still I would encourage doing it, perhaps the characteristics of the system would be slightly different than it was then because we've learnt a lot for the last ten years. Thank you.

I. Vittel:

Thank you. Who was the third question for, Sergei? Remind me. Olga Golodets, the question is for you.

O. Golodets:

The question is about whether the changes are made as part of a package or piecemeal.

The fact is that there are some changes for which society is ready and is prepared to discuss. An example of this is preferential pensions. I think it would be wrong if society is ready for this discussion and comes to some kind of decision, and we delay it. There are solutions that deserve very serious discussion. There are rules and benefits remaining from the Soviet era, for which today there is no initiative to change them, or the initiative is not shared, or for now we see no prospects for a solution, and it will require a longer period of time. I believe that it is not very rational to wait for one change in order to wait for consent for something else. As soon as we find consensus on issues of development of financial tools for funded pensions, we will develop them. As soon as we find a solution for early pensions, we will advance that. I think it would be justified in order to really kick-start the development of the whole system.

I understand everything, I understand the risks, but at the same time, perhaps, it is reasonable. I think that if society would come to some agreement at least on certain points, it is well worth it and it is necessary to support it.

I. Vittel:

Thank you. Who will answer the fourth question?

I. Yurgens:

First of all, if we can accomplish this in less than a year, I will be happy. By the way, Olga has now described so many problems that I think we will not manage. The fact is that a year is not so long, and – let Mr. Rutkowski correct me – plans for pension reform were explained to the people in Poland for ten years, and only after this a social contract was achieved. And the system works. If you are eager to do it, there are various recipes for this.

M. Rutkowski:

Well, more time was required to reach a social consensus. In Poland it was more than ten years.

O. Settergren:

We are really slow in Sweden to get things.

I. Vittel:

Well, no, not in everything. Sweden, Russia, and Poland quickly departed from the European Championship – in this, we move at maximum speed.

J. Ma:

Thank you very much. My name is Jun from Deutsche Bank. I cover the Chinese economy. I think it might be interesting to switch the focus a little bit.

I have been involved in Chinese pension reform discussions.

Two questions here for those who look at international experience. Number one, one option for China to reform its pension system is to transfer a large part of its state-owned assets to the pension funds. For example, the Chinese government owns a lot of listed company shares; they can essentially move the stock to the pension fund. It may help resolve part of the problem. Is there any relevant international experience of doing this successfully, for example? Maybe in Sweden did you actually consider transferring part of the oil reserves to the pension system?

And my second question is, I think that Michal mentioned a few times that there are ways for improving investment returns on pension assets. Are there consistent international experiences to suggest that by doing some financial reforms you can lift the pension investment return to a nominal GDP level on a sort of a 10-year, 20-year basis or is it on very sporadic?

M. Rutkowski:

I referred to the fact that the investment regimes for pension funds that were created in Latin America as well as in Hungary and Poland were very restrictive. There were classes of assets on which there were maximum investment limits, and I think that system proved to be less efficient than it could. In terms of liberalization of those classes of assets, allowing for freedom of choice is the first step.

The second step is what is happening now. What has happened in Chile in the process of improving the system is that the risk taking is age specific. There are five different investment regimes which differ as far as the risk is concerned, measured by the share that is invested in variable income instruments. And the older you are, the more conservative the investment limit is.

The third element is about investing abroad. Many of the countries put severe restrictions on investing abroad, all the countries I mentioned, and I still think it was a mistake that reduced the return of pension funds.

I. Vittel:

Thank you. We have two more questions: one on the right, and one on the left.

D. Lyzlov:

Good afternoon. My name is Dmitry Lyzlov, from the International Charitable Economic Social Non-Budgetary Fund. My question is for Anton Drozdov.

Do you have numerical data on the losses sustained by the system of non-state pension funds in Russia, for example, over the past year? That is, as a result of fluctuations in stocks, as a result of inability to pay depositors. How much and what proportion of the total pension savings of citizens does this represent?

A. Drozdov:

The fact is that we are starting to pay the funded part from 1 July, and those pensioners who will receive their payment from the pension assets are the ones who will really experience losses. For now, I cannot say. We felt that if we take the net asset value and face value of those funds that were directed into pension funds over several years, the average yield for several years was 5.9%. Compare this with inflation. I think that it is average. Therefore, we can only conclude that if we talk about the experience of Kazakhstan, there is protection against inflation by the government, and if we take the same model, then we will have to pay extra to our pensioners from the budget to protect their savings from inflation.

I. Vittel:

Thank you. One final question.

C. Robertson:

I am Charlie Robertson, Chief Economist at Renaissance Capital. This has been the best panel of the day, so informative, thank you. We did some work on pensions and we found that Russia is spending 10% of GDP on pensions, which is similar to

Portugal, Greece, and Italy. As a percentage of government tax revenues that go on pensions it is around 30% which is again similar to Portugal, Greece, and Italy and in the long run this is not sustainable for Russia.

The problem of moving the tax burden onto the corporations is that in the ease of doing business reports by the World Bank, Russia's high non-labour costs on labour is one reason Russia has a poor rating here, suggesting that it should be the private pension and it should be contributions to the private pensions that would make a difference. And Russia's pensions are 3–4% of GDP I think. In South Africa, 60%, in Sweden I think more like 90% or 100%, similar in America and the UK, and those countries are much better protected when the world has problems because they have huge pension funds. What percentage a year of GDP do you think Russians should be putting into private pension systems? One and a half like Poland? One, two?

A. Drozdov:

The first thing I wanted to speak about is the numbers. The numbers you have, apparently, are as a share of GDP: Ten percent – well, not 10, but 9.2% – this is all expenditures, but it is not just pensions. The Pension Fund administers the expenditures not only for pensions, but also other benefits that are not related to pensions. Therefore, if we take only pensions, the figure is 7%.

Now the second: the contribution. Thirty percent: this is not only a contribution to the Pension Fund. Twenty-two percent goes into the Pension Fund, and there are a number of benefits. Rate breaks – here I am referring to the self-employed, small businesses, and so on. Therefore, if we take the mean effective rate, it will be, I think, about 20%.

Now, regarding the share – as you know, a unique feature of Russia is the fact that from two thirds to three quarters of our population has low wages. Most pension funds are formed by the employer and employee. Here, the employee does not have to bear this rate. The employer has to bear this rate: only the employer pays

here. Therefore, we can place this burden on him, but not much, and the employee is still not participating.
Therefore, we believe that it is corporate systems, the initiative of the employer and the employee on the basis of a collective agreement, that will enable a substantial contribution into private funds, subject to growth in wages. But it will be done gradually, to the extent there is growth in wages and to the extent that the employer will have the ability to allocate the money. And again: competition for labour and the struggle to obtain workers on the labour market is so important. It also gives an opportunity to increase such payments. Thank you.

I. Vittel:
Thank you. Actually, I reserve the right to pose the last question if you do not mind. Anton, a question to you and to Olga. What Oleg Kiselyov proposed perplexed and even angered some people in the hall. On the other hand, we talked about the fact that there some methods that employ a carrot, which are also unknown. So, how can we force Russian citizens to more actively invest in their own pensions? By stick, carrot, or a combination of these methods? What, in your opinion, is the most effective method?

A. Drozdov:
Our people are distrustful, they are even reluctant to put money in banks.

I. Vittel:
And one can understand why.

A. Drozdov:
Therefore, probably the first thing is an educational campaign to play a very big role in the policy of the pension fund, and ensure the openness of the process of investment and transparency of annual reports. That is, education and simple open rules that allow you each year to monitor how your pension savings are growing.

I. Vittel:

Thank you.

O. Golodets:

I think our problem is deeper. We not only need to encourage people to save for their own pension, we need to change the psychology of Russians in terms of responsibility for their lives, for their fate. We see today how this question was raised, justly, first by trade unions, who said, “Well, show us who are the donors and who are the recipients of the Pension Fund”. It turned out that amongst the recipients were some people who were not poor at all, and industries that are not poor at all, and citizens that are not poor at all, as we understand it. It is just a cat and mouse game with the government. We hide, we believe that it is not shameful to hide our income, to receive wages under the table. This is all of a piece: crooked school graduation exams, dishonest wages, dubious financial schemes. Until society has created a policy of absolute transparency and accuracy: yes, we get paid, we pay our taxes, and we have a pension – as long as we do not come to a civil consensus on this subject, it will not move forward. And in respect to people who work normally and honestly, non-state pension funds today are quite effective. That is because, whatever may be said, eight million people volunteered to participate in the non-state pension system. Though this is not much in terms of their share in the total population, it is very noticeable in our market. We need approaches and tools of persuasion to convince people, who will find funds and insurance companies. It is necessary to gradually change our legal and civil edifice. This will take a long time, I think.

I. Vittel:

Thank you. Is a year long enough?

O. Golodets:

No.

I. Vittel:

Not long enough. We will probably talk about the tax regime in another discussion. I definitely subscribe to the view that today was one of the most interesting discussions. I would like for us to once again thank the participants of the discussion and give them a round of applause. I hope that today’s 30-year-olds will still get at least some kind of pension. What kind of pension – well, we will probably see a year from now.