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What about Pensions?



Judging by his [statements](#), President Vladimir Putin does not plan to retire any time soon. Yet many of his potential voters are worried about their own retirement prospects. Will their pensions be sizeable and reliable? At what age can Russians count on receiving them? During a televised call-in show held in mid-June, the president left this issue hanging. 'This topic is being discussed indeed, at the expert level and government level,' Putin [said](#). These are, he added, 'the realities that we will face' and 'decisions must be made without fuss or haste.'

By not giving any direct answers, the president risks alarming his audience, particularly his main electoral resource: voters aged around 50 and above. They voted for Putin as a guarantor of stability, hoping for state support. An increase in the retirement age after the 2018 elections will directly affect the life plans of this voter group.

Currently, Russian women retire at the age of 55, and Russian men at 60. Alexei Kudrin's Centre for Strategic Research proposes to raise the retirement age gradually, starting from 2019: up to 63 years for women and 65 years for men. Sergei Glazyev, Member of the Academy of Sciences and a long-time opponent of Kudrin, [agrees](#) that a change is needed. One of the reasons is the growing deficit of the Pension Fund of Russia (PFR). In 2016, the PFR collected 4.1 trillion roubles from Russians and their employers, and received another 3.5

trillion roubles as a transfer from the federal budget. According to the 2016 [report](#) of the Pension Fund of Russia, the old-age pension in Russia averages about USD 200. According to a [forecast](#) by the Higher School of Economics, the real level of pensioners' income is falling: it will be lower in 2020 than it was in 2014.

Deputy Prime Minister Igor Shuvalov [stated](#) that the issue of raising the retirement age would not be considered until a consensus is reached across society. However, there are no mechanisms for discussion outside expert circles and lobby groups in modern Russia. In a normal situation, the condition of the pension system would be at the centre of the forthcoming presidential campaign, since it impacts the interests of both current and future pensioners.

How Russians were being deprived of their pensions

During Vladimir Putin's latest presidential term, a full-fledged pension reform was carried out. It can be called a hybrid reform: changes were implemented without public discussion. The only elements that were preserved included the retirement age and the amount of deductions - i.e. 22 percent of the salary/wages. It turns out that with an income of 50 thousand roubles, a Russian citizen pays 11 thousand a month to the Pension Fund. Previously, 16% went to insurance, or the common part, and another 6% were used for individual savings. In 2014, the authorities 'froze' the savings component, which means that all of the 22% go to the social insurance part of pensions. In other words, this money is used to cover government spending, including payments to current pensioners.

Until the end of 2015, Russians could decide whether to preserve the savings component of the pension, at least for some time, or give it up forever. Those who did not apply to the PFR or to a non-state fund lost the right to accumulate individual savings in the future. At the same time, the authorities do not advertise the fact that all Russians can still make use of the sums they accumulated from 2002 to 2013 (up to 100,000-200,000 roubles). These funds can still be transferred to a non-state pension fund or a fund management company.

The structure of pensions is not the only thing that was changed. In fact, the PFR has become more closed. Since 2013, the Pension Fund has stopped sending out the so-called 'lucky letters', i.e. notifications about the balance on individual pension accounts. At present, these data can be found on the State Services website, where a little more than a half of the working population have registered (50 out of 80 million people). Those who have not registered must personally visit a Pension Fund branch to receive this information. This is a serious hurdle: PFR branches are not available in all villages and towns, and in order to register on the State Services website one must contact Rostelecom in person.

Previously, the balance on the individual pension account was expressed in roubles, yet starting from 2015 the calculation has been carried out in 'pension points', based on an employer's contributions and service length. The pension calculator on the PFR website does not allow people to predict the amount of future pensions, as the Fund changes the rules for calculating the points every year. The size of the pension will depend on the various formulas applied in the year when the pension is finally calculated.

Current pensioners already feel the state is walking back on its guarantees. In 2016, the government increased pensions by 4% instead of the legally prescribed 12.9%. This is less than the previous year's inflation rate. At the same time, pensions of military pensioners were not indexed, even though Putin's ['May decrees'](#) of 2012 require that they should be raised by 2% over the inflation rate. Instead of indexation, pensioners received a one-off payment of 5,000 roubles in early 2017. At the same time, pensioners living abroad were left without this money on the grounds that Russia's inflation allegedly does not affect that group.

In 2016, the government stopped indexing pensions of working pensioners (9.6 million people in total), which saved it approx. 200 billion roubles annually. The LDPR faction in the State Duma [proposed](#) that emigrant pensioners (300,000 people) should be deprived of their pensions. Also, it has become more difficult for physicians and teachers to opt for early retirement: they often have to take the matter to court. One can clearly see that the rhetoric about adherence to obligations actually diverges from the reality, which is in fact aimed at solving one tactical task: Cutting costs.

Why are changes inevitable?

The authorities are, for political reasons, unwilling to discuss the unpopular topic of raising the retirement age

before the presidential elections: it is too risky to undermine the image of Putin as a guarantor of stability. However, 2018 will not bring any relief since it will be a turning point for the federal budget. Its deficit can no longer be covered from the Reserve Fund as it will simply run out of resources. By 2020, approximately 1.5 trillion roubles of current expenditures [will not](#) be covered. Hence, if employers reduce their contributions to the PFR in the event of a serious economic crisis, the federal budget will not be able to compensate for these losses.

There is yet another inevitable factor that will continue to exert pressure on the pension system: the demographic situation. A demographic slump, and a resulting sharp decrease in the number of taxpayers, is [expected](#) to happen in the 2030s. By the middle of the century, the number of working Russians is likely to fall to roughly [equal](#) the number of old-age pensioners. Footing the bill for so many pensioners will place a heavy burden on the workforce.

The authorities and the retirees: the baseline scenario

So despite the risks that come with broken promises, raising the retirement age seems inevitable in the 2018–2024 political cycle. Neither Russia’s demographics, nor its cash strapped federal budget, can allow the authorities to delay confronting this problem for much longer.

If the state decides to walk back on its obligations, protests might ensue. There is already a precedent: Putin’s second presidential term began with retirees’ protests against the replacement of direct benefits with monetary compensation. In the winter of 2005, the participants of protests throughout the country demanded that the government should step down and the law on monetisation should be repealed. At that time, the power structures did not yet have broad powers to disperse the protesters, and pensioners were supported by systemic parties, including the Communist Party. As a result, the authorities ‘flooded’ the protest with money: the president proposed early indexation of pensions, and the mayor of Moscow restored the benefits of pensioners living in the country’s capital.

While there is no room for financial manoeuvre in the current situation, propaganda may help to mitigate the negative effect: the increased retirement age can be presented as the least of all evils. The Kremlin-controlled media already prefer to talk about the demographic crisis by citing the example of Ukraine rather than Russia.

Another scenario [mentioned](#) by the officials is not to raise the retirement age but to create conditions where it would be financially disadvantageous to retire early. However, the government has forgotten to realise that the majority of Russians have [lived](#) in these realities anyway for a long time now.

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