

Closing the Coverage Gap: The Role of Social Pensions

Experiences in Russia

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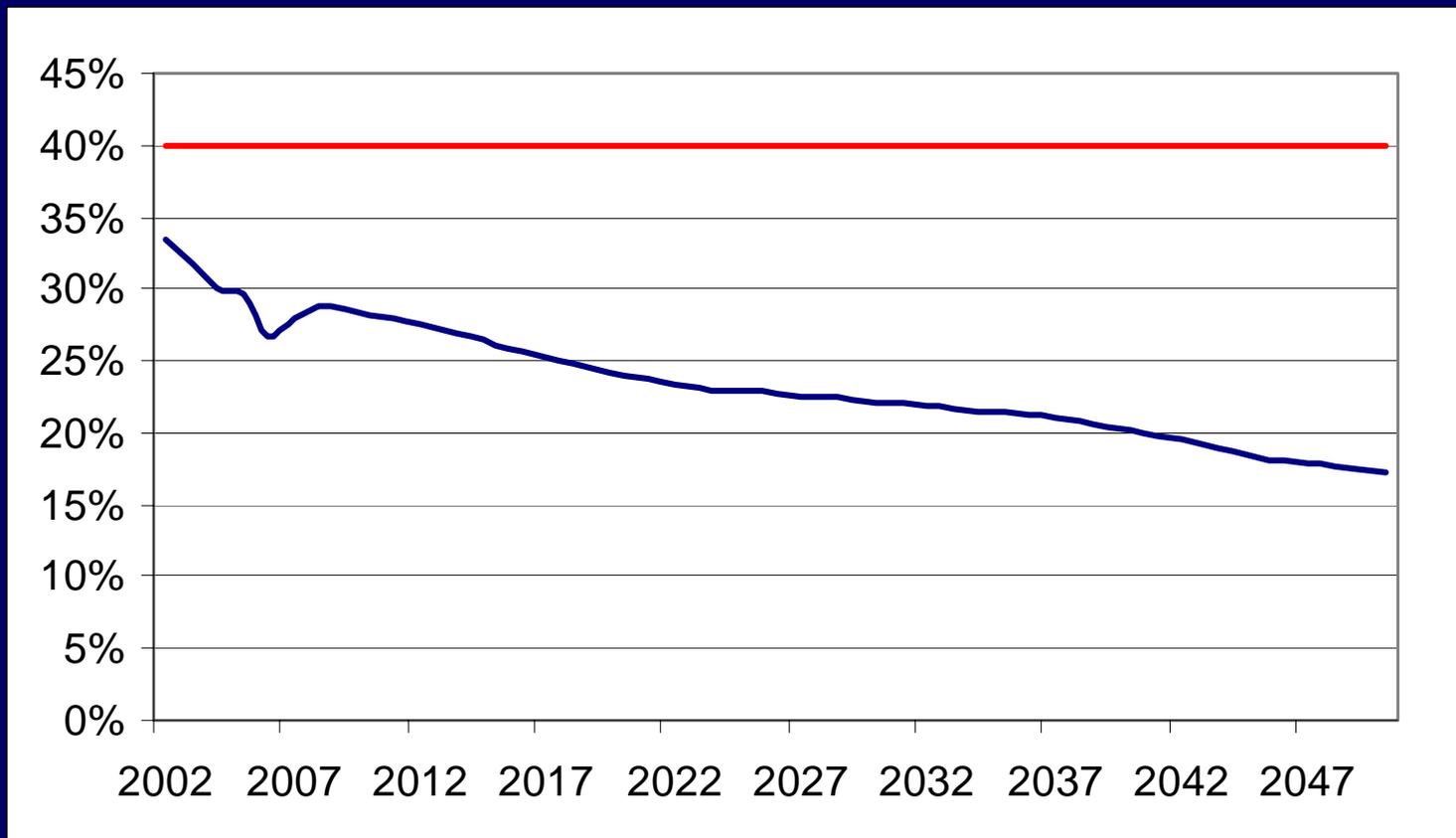


OUTLINE

- The real gap is not in the coverage but in the size of benefits
- Growth of social pensions jeopardizes pension reform
- Difficult choice: welfare of the elderly versus motivation of the young
- Privileged pensions – social or contributory
- Is there a solution?



Projected Replacement Ratio



LABOR PENSION TAXONOMY

**BASIC
PART**

**INSURED
PART
(NDC)**

**FUNDED
PART
(DC)**

PAYG DB

**6%
PAYROLL
TAX**

**8%
PAYROLL
Insurance
Contribution**

**6%
PAYROLL
Insurance
Contribution**

Tax Financed

Contributory Financed

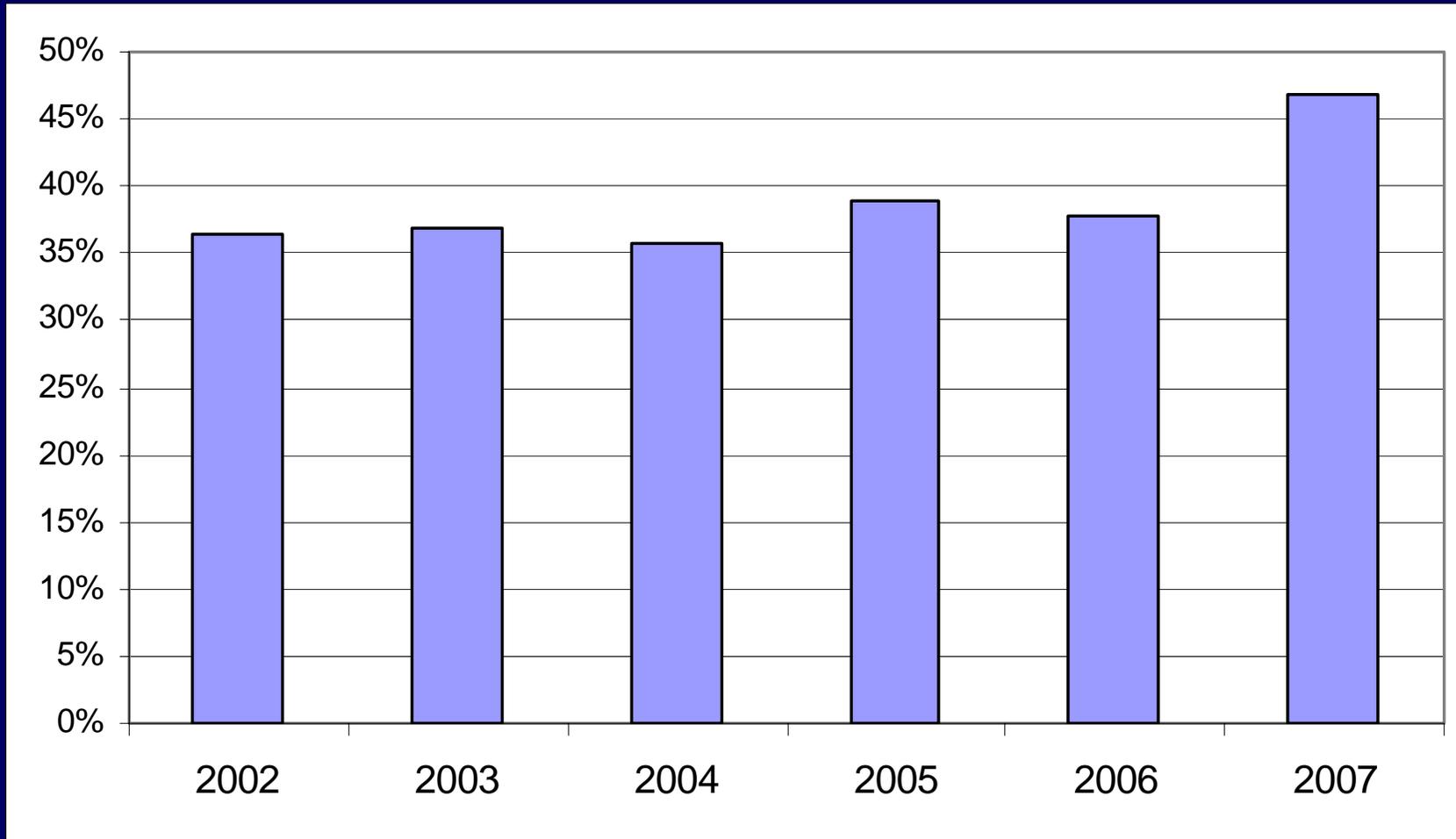


KEY PRINCIPLES

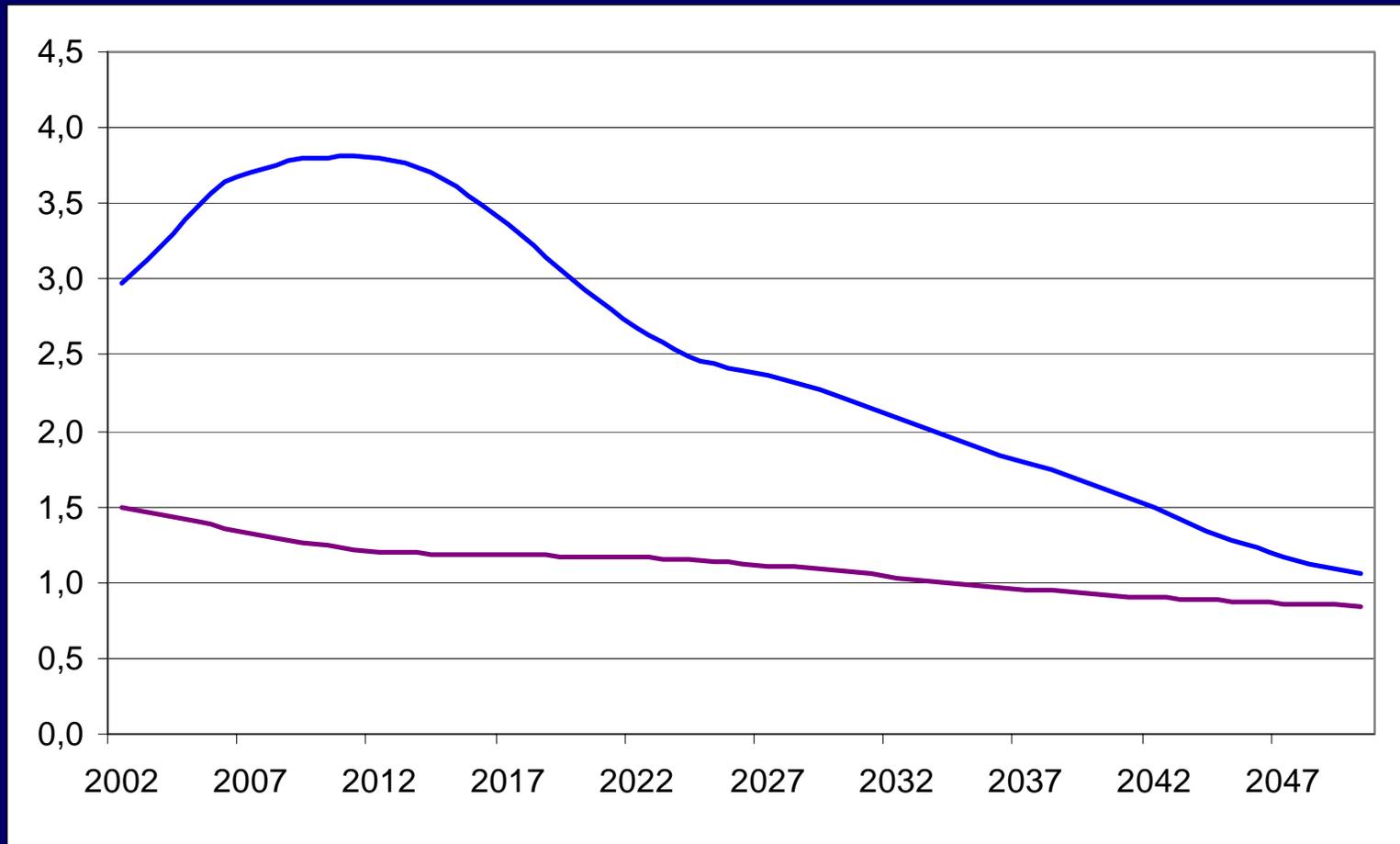
- Basic part is indexed by resolution of the Government
- Insured part (pension capital) is indexed (adjusted) to inflation
- Funded part depends on return on investment



Basic Part of Labor Pensions vs. Pensioner Subsistence Level



Projected Number of Pensioners Receiving Privileged (Early) Pensions and Social Pensions (mln.)

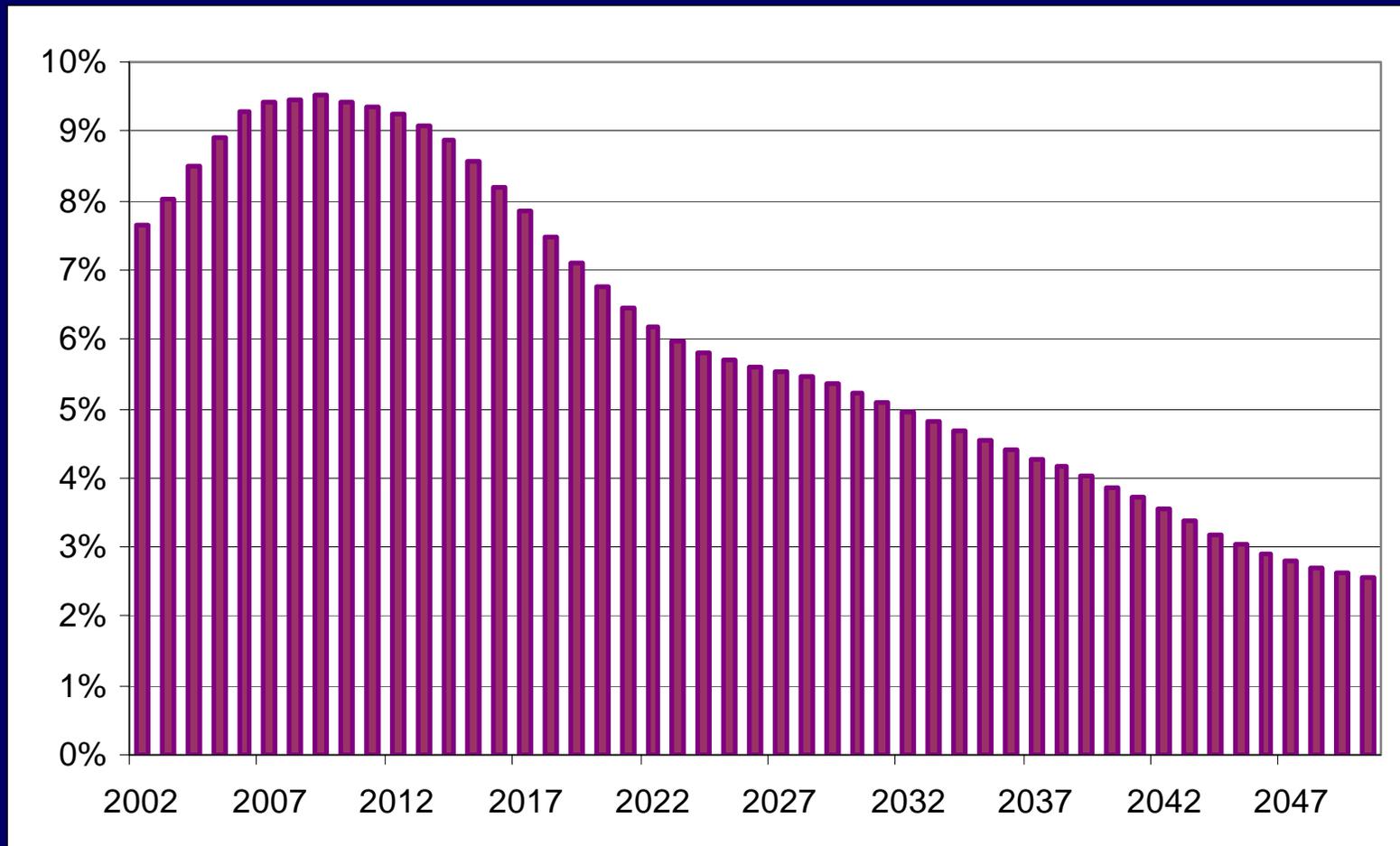


KEY ISSUES

- High growth rate of social pensions indexation
- Alleviating the burden of Unified Social Tax: from 28% to 20%
- Growing deficit of the insured part of pension (up to 3% of the payroll)
- Rapidly growing subsidizing of the system from general revenue (general taxes)
- Declining share of insured pensions in the overall benefit size (from 80% projected in 2002 to a maximum of 50% in the next 10 years)
- Unsettled issue of privileged pensions financing
- **IT IS IMPOSSIBLE TO ACHIEVE 40% REPLACEMENT RATIO WITH CURRENTLY AVAILABLE SOURCES**



Share of Pensioners Receiving Privileged (Early) Pensions



POSSIBLE SOLUTIONS

- To counterbalance the negative effects of outstripping rates of basic pensions indexation by creating a system of economic incentives for growth of contributory pensions?
- To strengthen the role of private sector?
- No indexation of social pensions?
- Leave it as it is?

