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INDEPENDENT NEWS FROM RUSSIA

Pension Reform Complicated by Demographics, Campaign Promises

By The Moscow Times

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The increasing number of recipients is keeping the size of pensions down. **Alexandra Astakhova**

At the bustling Levsha flea market just outside Moscow, hundreds of Russian pensioners flock each weekend to supplement their incomes by selling off family possessions.

While some bring silver-plated dinner sets and jewelry, most have simpler wares — secondhand clothes and toys, obsolete household appliances, vinyl records and dog-eared paperbacks.

Viktor Ivanovich, 70, a retired computer engineer, said he comes to the market because his monthly pension of 13,000 rubles ($400) isn't enough.

“It's very little, of course,” he said. “Now each time you go to the shop, it's 500 rubles to eat each day.”

Viktor, who introduces himself by first name and patronymic only, is at the sharp end of one of President Vladimir Putin's toughest challenges as he embarks on a new term: reforming the bloated but inadequate pension system.

Putin has ruled out raising the retirement age, but he will have to find other ways to make people work longer.

Russia now spends some 10 percent of gross domestic product on state pensions. That's above the OECD average of 7.5 percent, and it will keep rising if nothing is done, as more Russians retire from the workforce than enter it.

Yet despite this mounting fiscal burden, pensioners struggle to make ends meet. Although Putin has doubled the real value of the average pension (currently about $300 a month) in the last five years, it remains less than 40 percent of the average wage.

Spread out on a small rug, Viktor's own pitiful wares consist of an old gas mask, ratty Soviet science-fiction novels, a portrait of Puss-in-Boots and a Walt Disney Christmas Annual.

"Pensioners are all dissatisfied," he said. "I come here every weekend and earn around 500 rubles, but what's that? Enough to fatten yourself for one day."

The discontent of elderly Russians like Viktor is not something that Putin can easily dismiss.

Pensioners already account for close to 40 percent of the electorate, and they are much more likely to vote than younger Russians. They also provide a natural constituency for Putin, who has headed off growing youth discontent by playing on older generations' desire for stability.

To attract the gray vote in recent elections, Putin ruled out the most common reform recommendation: raising the retirement age from the current 55 for women and 60 for men.

But for those urging change, pensioners' dissatisfaction at their lot, notwithstanding the mounting cost of providing for them, merely illustrates why reform is so badly needed.

The root problem, said Yevsei Gurvich, head of the Finance Ministry's Economic Expert Group, is that too many people are able to claim pensions.

"If access is easy, even if we spend a lot of money relatively, the average pension benefit is low," he said.

And the problem will get worse in the future unless something is done about the growing number of pensioners.

The collapse in the birth rate after the breakup of the Soviet Union two decades ago will cause Russia's labor force to shrink 11 million by 2030, while the number of pensioners will grow by 9 million.

Investors hope stimulation of retirement savings and reform will also address the biggest defect in the financial system: a dearth of long-term capital.

"Nobody in Russia knows what will happen tomorrow, so we try to earn and spend as much as possible without thinking about tomorrow," said Alexei Maslov, 31, a smartly dressed entrepreneur strolling past exclusive shops in central Moscow.

Like most Russians, he has no long-term savings.

In 2002, Putin introduced a variant of the Chilean pension model, common in Latin America and Eastern Europe, where future pensions are partly financed from mandatory savings accounts invested in financial markets.

“Reforms in both Chile and Poland were fantastically successful, and they have both really helped develop the economy,” said Anton Rakhmanov, managing director of Troika Dialog Asset Management.

But in Russia’s case, the reform was halfhearted and disappointing. The total volume of these accumulated savings is still just a paltry 3 percent of GDP, while voluntary pension savings are even more minuscule.

“The government has done very little to educate or encourage people to invest,” Rakhmanov said.

The political elite is deeply divided over the way forward.

Strategy 2020, a reform blueprint drawn up by economists advising the government, proposes raising the mandatory savings contributions made by the middle class and increasing the retirement age to 63 between 2015 and 2030.

But such ideas got short shrift from the recently reorganized Health and Social Development Ministry, which oversees the pension system.

“I am a determined opponent of the mandatory saving system,” deputy minister Yury Voronin has said.

But even leading reform advocates are skeptical that the once-fashionable Chilean model can defuse the pension time bomb.

“Only increasing the retirement age in line with growing life expectancy is appropriate policy,” said Gurvich.

The question is how to do this in defiance of Putin’s pre-election pledge — in other words, by the back door.

One solution involves increasing the time Russians would have to work to receive a full pension. The Social Development Ministry proposes boosting this period to 40 to 45 years, up from just five years at present.

In one of his first decrees as the new president, Putin called for a mechanism that rewards pensioners who work beyond the official retirement age.

“It is a hidden hike in the pension age, but they don’t want to do this openly,” said Julia Tsepliayeva, chief economist at BNP Paribas in Moscow.

To save money, the plan would also have to penalize Russians who still retire at 55 or 60. It’s far from clear that Putin has the political stomach for such an unpopular step.

“Unfortunately, people don’t realize that they are paying for pensions themselves,” said Gurvich. “They have paternalistic thinking and think that the government pays. So they don’t like the idea of working longer.”

The State Duma on Friday passed the second and third readings of a bill assigning Vnesheconombank the function of state management company for pension money subject to immediate payment, Interfax reported.

The law also established four types of payments: lump sum, urgent pension payment, old-age payment of labor pension and payment of pension savings to the heirs of the deceased.