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Pensions after pension reforms: A comparative analysis of Belarus, Kazakhstan, and Russia

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Abstract

The pension systems of the post-Soviet space, which had in the background one of the best in the world USSR PAYG (pay-as-you-go) basis, currently continue to evolve and improve. Some of the countries have made major pension changes, while others start their first reforms. How implemented various pension reforms impact on the retirement benefits and wealth of pensioners: pensions, their indexation, pension ages, and life expectancy?

In this article we consider the results of pension reforms on the example of Belarus, Kazakhstan and Russia, which entered three different pension models: PAYG, fully-funded, and mixed, respectively. We found that PAYG pension system is more suitable and beneficial now for pensioners. However, the advantages of other pension models may appear in the future due to demographic and economic reasons.

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Keywords: pension system, pension reform, pensions, Belarus, Kazakhstan, Russia.

1. Introduction

The pension system has several goals, the most important of which is to ensure an adequate source of income for retirees. This and other objects are depend on the model, environment, and the results of each of the pension system.

The research interest in the evaluation of the level of pension security and wealth of pensioners as a result of pension reforms is connected with countries from former Soviet Union, which was providing one of the best social

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protection for elderly. For example, the basic old-age pensions was about 65% of pay in 1959, but can ranged up to almost 90% of pay for an individual, who had in dangerous employment and has the maximum creditable number of dependents (Myers, 1959). Despite on the not high replacement rate, which was approximately 40% for the average pensioner before reforms of 1990, with other additional pension benefits and contributions it was enough high within country (Fox, 1994). In this evaluation also included free medical service, absence of inflation and low retirement age: fifty-fife for women and sixty for men. Despite of low level of pensions in comparison with countries from Central Europe, we should take into consideration, that pension system in USSR had some real positive aspects before its reforming.

All post-Soviet countries have inherited a state monopoly PAYG schemes that used conventional defined benefit (DB) formulas for the calculation of pensions. The transition period with economic and social shocks gone them to the creation new pension systems. During the last couple of decades various countries have reformed their pension systems, that was reflected in the articles and surveys (Branco de Castello, 1998), (Grishchenko, 2007), (Lindeman et al., 2000), (Müller, 2001), (Pallares-Miralles et al., 2012). Currently the pension systems of the former Soviet Union countries are in different stages of their reforms ranging from the initial creation of the pension system up to minor perfections in their pension arrangements. Some countries have chosen a change in their pension models with the introduction of a new multi-level (multi-pillar) systems, while others prefer to use a fully-funded scheme or have not changed PAYG option.

The objective of research is to investigate which of the pension system is more suitable for pensioners in comparison with three countries: Belarus, Kazakhstan and Russia, which were the first with the implementation of their pension reforms in the end of 1990 and earlier 2000. We consider the hypothesis, that the PAYG pension system and the countries, which prefer to leave it, have the most effective pension protection for pensioners in connection with their transition periods and present issues in the financial, economic and social spheres. However, the growth of demographic and economic factors can change this situation.

In this paper, we (i) observe the features of pension systems' architecture of the former Soviet Union states and review three models of pension systems of Belarus, Kazakhstan, and Russia; (ii) examine the indicators of efficiency of pension systems; and (iii) summarize some conclusions with respect to the design of pension systems and their reforms.

2. Three models of pension systems: in Belarus, Kazakhstan, and Russia

Since the beginning of the 1990 most of the countries of the former Soviet Union had been viewed or conducted different pension reforms in scope and content. Some countries, such as Kazakhstan, Russia and the Baltic states are now in the next round of pension reforms, while the majority of other countries are in the process of their initial reforms or their pension systems have passed only through the first stage of serious and major changes (the Ukraine, Turkmenistan, Armenia, and Azerbaijan).

The reforms, which were implemented in twelve countries in the past twenty years, have included the introduction of the second pillar. Nevertheless, different countries have chosen to rely on different pension maintenance and insurance systems. Nowadays, the majority of countries have multi-pillar pension systems with three pillars (tiers). The three-level pension system with involving the state-funded, insurance and a savings-funded elements has been introduced in Russia, the Baltic states, Azerbaijan, and Kyrgyz Republic. Belarus, Moldova, Tajikistan and Turkmenistan have PAYG pension system with the gradual introduction of the new pension arrangements such as personalized retirement accounts and the development of non-state pension insurance. The savings-funded pension system was introduced and developed in Kazakhstan (1998) and Armenia (2014). Only Georgia has maintained the previously existing solidarity pension system (Table 1).

However, all their differences are not limited to one or two pension schemes and can include various combinations. In the framework of this article we consider the variation of pension elements in three main groups: 1) states with PAYG systems and steps for future pension reforms; 2) states with insurance pension systems and mandatory pension accounts; and 3) states with fully-funded pension individual accounts. We compare representatives from each group taking into account the duration of their experience after retirement reforms and evaluation of available pension indicators. And we also taking into consideration three key criteria, which describe the model of the pension system, according to the classification of the World Bank: (i) the basic form of the pension benefit promise; (ii) how the