THEORETICAL ASPECTS OF RESERVATION IN THE PENSION SYSTEM OF THE RUSSIAN FEDERATION

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Abstract
The purpose of this article is to offer the ways of overcoming the contradictions existing in a definitions framework by means of which the reserves in the Russian pension system are described nowadays. At present some of its large financial flows are not designated as reserves at all in spite of the fact that they are reserves in fact. Besides, the purpose of the article is the need of introduction justification of such typological characteristic of reserves as an "effective" or "nominal" reserve. The main characteristic of an effective reserve is the obligation of its placement in profitable assets for the purpose of raising or preservation of its cost. Nominal reserves, as a rule, are not used in an investment turnover, i.e. are not placed. The article proves that all the types of Russian pension system reserves belong to effective reserves, moreover, after author’s adjustment of their names, their structure and composition in 2016 is depicted.
Keyword: Financial reserves of Russia, pension fund reserves, pension reserves.
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1. Introduction
It has not yet been possible to formulate either theoretical or practical approaches to the construction of a balanced system of current and future pension reserves in modern Russia. In the current paper the reserves that can be created and are created in the Pension Fund of Russia (PFR) are described. Taking this into account, the works of such scientists as Chybalski, Marcinkiewicz, Shestakova, Bule and Leitane were considered. Fig. 1 depicts the reserves that have been allocated in the Russian pension legislation.
Some accumulated financial resources, which have the majority of reserves characteristics, are not stated in the pension legislation as “reserves”. They are names as “Pension savings funds”, “Pension savings sources of insured persons who are guaranteed an urgent pension payment”, “Guaranteeing pension savings fund”. In addition, it can be noted that the regulatory system governing the functioning of the reserve system of PFR is not collected in a single document. It is a collection of laws, norms and rules, concentrated in numerous acts of pension legislation.
### 2. Pension Fund of Russia Reserves

Simultaneous description of qualitative (regulatory and legal) and quantitative characteristics of pension system reserves faces quite serious difficulties. Attention is drawn to the fact that in the public annual report of PFR, published on its website, there is no information connected with reserves. Nevertheless, the description of formation and different types of reserves of PFR usage specifics, even in the absence of a full-fledged statistics of their flow, does not lose its scientific relevance, especially as it reveals some inaccuracies, including terminology, that require their adjustment.

The list of reserves presented in Fig. 1 in PFR reports on budget execution are not included either in its revenues or in its expenditures, but are declared in Appendix 3 “Sources of Budget Deficiency Domestic Financing of the Russian Federation Pension Fund by Classification Codes for the Sources of Budget Deficits Financing”. In this section such a structural unit as the “financial reserve of the Russian Federation Pension Fund budget” can be depicted, which is not described in any of the laws regulating the work of the pension system, but which, according to the report, includes pension savings, and data on the payment reserve flow, and investments in favor of insured persons who are assigned an urgent pension payment, as well as a reserve for obligatory pension insurance.

The conducted analysis of the legislative norms and regulations governing the formation of various reserves in the pension system, as well as the Reports of the PFR connected with the execution of the budget in different years, including 2016; Conclusions of the Russian Federation Accounts Chamber on Reports about the budget of PFR in the relevant years execution; data of the RF Ministry of Finance on the value of assets in which pension savings were invested (“Survey of pension savings investment in 2016”), allowed to summarize their quantitative and qualitative assessment presented in Table 1.

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**Fig. 1. Pension Fund of Russia Reserves**

Source: compiled by the author.
<table>
<thead>
<tr>
<th>Reserve type</th>
<th>Law description</th>
<th>Amount in 2016 (mln, rub)</th>
<th>Additional characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pension savings</td>
<td>No description as a reserve #75 – FL #111 – FL #167 – FL #360 – FL</td>
<td>2 011 200,0</td>
<td>Can refer to the type of completed internal reserve, regulated by the pension legislation and the Russian Federation Central Bank</td>
</tr>
<tr>
<td>2. Payment reserve</td>
<td>#75 – FL #167 – FL #360 – FL #111 – FL</td>
<td>7 307,02</td>
<td>Perfect internal reserve regulated by the pension legislation, the Russian Federation Central Bank. Main functions – co-saving of funds for the funded pension payment, guarantee</td>
</tr>
<tr>
<td>3. Pension savings sources of insured persons who are guaranteed an urgent pension payment</td>
<td>No description as a reserve, mentioned in Federal Laws #167 – FL #360 – FL #111 – FL</td>
<td>1 888,61</td>
<td>Can refer to the type of perfect internal reserve, regulated by the pension legislation and the Russian Federation Central Bank. Main function – funds saving for urgent pension payments</td>
</tr>
<tr>
<td>4. Obligatory pension savings reserve</td>
<td>#410 – FL #218 – FL #421 – FL #422 – FL</td>
<td>41 340, 75</td>
<td>Perfect internal reserve, regulated by the pension legislation and the Russian Federation Central Bank. Main function – self-insurance, represents the first level of the guaranteeing the preservation of mandatory pension savings system</td>
</tr>
<tr>
<td>5. PFR budget reserve</td>
<td>#167 – FL #216 – FL</td>
<td>Was not created</td>
<td>Perfect internal reserve, regulated by the pension legislation and the Russian Federation Central Bank. Main function – the medium and long-term provision in the of financial sustainability of the mandatory pension insurance system</td>
</tr>
<tr>
<td>6. Guaranteeing pension savings fund</td>
<td>#422 – FL #360 – FL</td>
<td>239,47</td>
<td>External perfect insurance reserve. Main function – guaranteeing pension savings</td>
</tr>
</tbody>
</table>

Source: compiled by the author.
Besides, a scheme of internal financial flows, which are separated in the PFR, and with the help of which the basic reserve capacities are formed, has been drawn (Fig. 2).

**Fig. 2.** Inner financial flows, formed in the PFR system
(* reserve of PFR budget has not been formed from 2003 up to 2007; ** investment of the Guaranteeing Pension Accumulations Fund is carried out by the DIA)
Source: compiled by the author.

It follows from Table 1 that all reserves within the FIU budget, except for the Pension Accumulation Guarantee Fund, are perfect, internal reserves, the investment of which is regulated by the pension legislation, the Russian Federation Central Bank and some Russian Federation Government acts. The guarantee pension savings fund is a perfect external reserve managed by the Deposit Insurance Agency (DIA). It is believed that in the course of the next stage of the domestic pension system reforming, when the idea of introducing individual pension capital (IPC) and transferring the responsibility for their pension savings directly to citizens is discussed, some types of reserves may gradually disappear (pension funds, payment reserve, the reserve of urgent pension payments), but the reserve of compulsory pension insurance, the pension savings Guarantee Fund should be preserved. The reserve of the PFR budget will be gradually created and it will function as an effective internal reserve aimed at self-insurance.

2.1. Retirement Savings Funds

The means of pension savings (hereinafter – PSM) do not have the status of a reserve in the pension legislation. The PSM structure, which is described in the
law from July 11, 2002 “On investing funds to finance a funded pension in the Russian Federation”, is quite contradictory if its provisions are considered simultaneously with the data of the RF Ministry of Finance “Pension savings investment in 2016 survey” (hereinafter – Survey). The contradictions are as follows. First, in accordance with Art. 3 № 111 – FL in the structure of pension savings the funds of the payment reserve, as well as the means of pension sources of insured persons who are guaranteed an urgent pension payment, and which are transferred to management companies are also included. However, the funds of these reserves are managed by the means of a pay-as-you-go reserve of State Management Company (SMC MPR). In the Review of the RF Ministry of Finance, the flow of the funds of the payment reserve and its main characteristics are not included in the table of the market value of assets in which pension savings were invested in 2006 – 2016. This data is given in a separate section. Secondly, such items as the amount of insurance contributions to finance a funded pension, as well as the amount of additional insurance contributions to a funded pension, the amount of the employer’s contributions to the insured person under Law № 56 – FL from April 30, 2008, “On Additional Insurance Contributions on the accumulative pension and state support for the formation of pension savings”; the amount of contributions to co-finance the formation of pension savings; means (part of the funds) of the maternity (family) capital, aimed at the formation of a funded pension, are also included in the structure of the payment reserve. It means that in the structure of pension savings, the payment reserve is taken into account twice – first in the form of the basic elements that form it, and then in the form of an independent paragraph of Section 1, Art. 3 of the Law № 111 – FL. The data on investments from pension savings and to the PFR and to the APF convincingly show that, if these funds are called a reserve, they will rightly refer to effective reserves. Besides, this reserve can be attributed to internal reserves, which are under the control of the Russian Federation Central Bank.

2.2. Payment reserve

Between them, the means of pension savings and the funds of the payment reserve function in constant interrelation. The funds used to replenish the payment reserve are taken from the means of pension savings, and already from it the funded pensions and other payments are funded.

In the vast base of pension legislation, there is only one definition of the payment reserve – in Law № 75 – FL from May 7, 1998 “On Non-State Pension Funds”, in Art. 3, where payment reserve is considered as “a separate part of pension savings, formed <...> for the purpose of paying a funded pension”. In the law itself, there is no any specification of the payment reserve and its sources structural parameters. In accordance with another law – No. 111 – FL, Art. 3 funds of the payment reserve should be formed and invested on the basis of the law from November 30, 2011, № 360 – FL “On the procedure for pension savings financing payments”. In Act № 360 – FL, the description of the sources from which a funded pension is accumulated, for which there is a payment reserve, is absent. To find the answer to this question, a person should turn to another law – № 424 – FL
“On funded pension”. In item 1 of Art. 7 of Law № 424 – FL, a structured description of the funded pension is given. It follows that the accumulative pension includes: additional insurance contributions to the funded pension; contributions paid by the employer to the insured person; contributions to co-financing the formation of pension savings, as well as the result of their investment; means (part of the funds) of the maternity (family) capital, aimed at the formation of a funded pension, as well as the result of their investment. Note that in the composition of all the above-mentioned elements there is no basic element of the funded pension, the source of which is the employer's insurance contributions in compulsory pension insurance in accordance with the Law № 167 – FL from December 15, 2001. “On compulsory pension insurance in the Russian Federation”. Today, employers pay insurance premiums to the mandatory pension system at a tariff of 22% of the employee's wage fund. 6% of which can be used for the formation of pension savings (i.e., a funded pension), and 16% — to form an insurance pension, and can, at the choice of the citizen, at the amount of 22% go to the formation of an insurance pension. From 2014 to 2019, all insurance premiums for compulsory pension insurance paid by employers for their employees are sent (and will be sent) to the formation of an insurance pension only. Basing on the analysis of legislative norms, it can be assumed that the payment reserve, at the most of its life cycle, represents the funds that are in the investment turnover of the PFR. In Resolution of the Russian Federation Government № 550 from June 4, 2012, “On the approval of investment declarations of the state managing company by means of a payment reserve”, the goal of its investment is stated: the increase in the funds of the payment reserve. A characteristic feature of the payment reserve is that for its management a special means of a pay-as-you-go reserve state management company (MPR SMC) is selected, which invests its funds in a special way. As part of the payment reserve, the main structural unit is the pension savings funds recorded in a special part of the individual personal account of an insured person. Additional elements are the so-called adjustments.

2.3. Means of pension accumulation of insured persons who have an urgent pension payment

According to the same bases and principles that form the basis for the formation and investment of a pay-as-you-go reserve, the formation and investment of pension savings funds of insured persons that have an urgent pension payment is preserved. However, these funds do not have the word “reserve” in their official name, although we are convinced that they need to be described in the law using this very term.

An urgent pension payment is a pension that is paid within a certain period. Unlike an indefinite method, in the appointment of which the term is presumed and is established annually by the Russian Federation Government depending on the average length of life of pensioners, the period of urgent payment is determined by the applicant himself. However, it must be at least 120 months (10 years). When calculating and establishing an urgent pension payment, insurance
contributions to the funded pension that are payable under the compulsory pension insurance system are not taken into account. They can be taken into account when calculating a funded pension, i.e. a non-urgent payment. All contributions to the insured person’s account are not indexed, unlike insurance coverage. However, they are increasing due to the financial market investing. Obviously, urgent pensions are formed at the expense of the same funds that form a funded pension. The only difference between a funded and an urgent pension is the term of its payment to a future pensioner. The Opinion of the Accounting Chamber of the Russian Federation can also be considered as a confirmation of the correctness of conclusions— that the collection of funds for urgent payment is still a reserve – made that these funds are exactly called the “reserve for a term pension payment” (see, for example, “Conclusion of the Accounts Chamber of the Russian Federation on the report on the execution of the budget of the Russian Federation Pension Fund from 2014 of August 27, 2015). And this happens for a single reason – as, in fact, these funds work as a reserve.

2.4. The Pension Fund of the Russian Federation Reserve (the reserve for compulsory pension insurance – CIPR)

This type of reserve is created on the basis of the law “On investing funds for financing the funded part of labor pension in the Russian Federation”, Art. 31.1, which was introduced by the Federal Law from December 28, 2013 № 410 – FL, and entered into force on January 1, 2014. The legal norms for the formation of the CIPR are established not only by the Law № 410 – FL, but also by the Law № 218 – FL from July 21, 2014 “On Amending Certain Legislative Acts of the Russian Federation”, and as well as the Law № 421 – FL from December 31, 2015 “On Amending Certain Legislative Acts of the Russian Federation”. The multiplicity of additions to the original regulatory framework of the CIPR shows that it absorbed the changes that emerged in the process of practical application of previously approved legal provisions. In addition, it is noted that all the above norms appeared and were approved only after 11 years of operation of the basic law № 111 – FL, which may indicate an underestimation by the legislator of the nature of the reservation, and the creation of a reserve as a necessary element of an insurance pension fund at the early stages of reforming the domestic pension system.

CIPR funds are a separate part of pension accumulations and are subject of separate accounting by the Russian Federation Pension Fund. CIPR is formed due to a number of sources, such as deductions from investing pension savings funds income based on the results of the reporting year; deductions from the funds of pension savings (with insufficient or no income from investing the funds of pension savings by the end of the reporting year); means of pension savings not received by the successors of deceased insured persons; and so on. The Bank of Russia determines the rate and procedure for calculating the contributions to the CIPR from the investment income of pension savings funds deductions based on the results of the reporting year and from pension savings deductions. At the expense of RPS funds, a guarantee payment is made to the account of the insured
person in the following cases provided for by Federal Law № 422 – FL from December 28, 2013. “On guaranteeing the rights of insured persons in the mandatory pension insurance system of the Russian Federation in the process of formation and investment of pension savings, establishment and implementation of payments from pension savings”, and in particular: replenishment of the funds of the payment reserve and (or) funds pension accumulations of insured persons who have an urgent pension payment established to the level ensuring compliance with the adequacy standards established by the Bank of Russia; payment of pension savings to successors of the deceased insured person.

CPIR refers to effective reserves. In the PFR budget, it fulfills the function of self-insurance and represents the first level of the system of safety of mandatory pension savings guaranteeing. It is formed within the PFR. The second level is the accumulation of all non-state pension funds.

2.5. Reserve of the Pension Fund budget

The Art. 19 of the Federal Law № 167 – FL from December 15, 2001 “On Compulsory Pension Insurance in the Russian Federation” establishes that in order to ensure the financial stability of the mandatory pension insurance system, a reserve of the budget of the PFR is created. Its order of formation and expenditure should be determined by the Federal Law. Sources of formation of the reserve of the PFR budget in the law № 167 – FL are not defined. It should be emphasized that by 2017 the independent Federal Law on the procedure for the formation and expenditure of the reserve of the PFR budget has not been created, but the annual laws on the PFR budget necessarily include a norm describing the specifics of budget execution in an article.

The Art. 19 is included in the Law № 167 – FL in 2014 by the Federal Law № 216 – FL from July 21, 2014 “On Amending Certain Legislative Acts of the Russian Federation and Recognizing the Invalidation of Certain Legislative Acts (Provisions of Legislative Acts) of the Russian Federation in connection with the adoption of federal laws “On insurance pensions” and “On funded pension”. After finding its initial interpretation in the early drafts of the law, as well as in the comments to it, it can be found out that the Payment Reserve of the PFR was created to ensure the financial stability of the mandatory pension insurance system in the medium and long term. However, as the analysis of the dynamics of the PFR budget for a number of years shows, the last time the surplus of the PFR budget was noted only in 2003. There are different points of view on calculating the deficit (pro-fitsite) of the PFR budget methods (Andreeva and Sukhoveeva 2007; Bazanova 2015; Protkin and Protkina 2016). In the course of the recent analyses it can be agreed that since 2007, the PFR has always had a budget deficit. Therefore, the reserve of the Fund’s budget in this part was not created.

It is considered that the existence of Art. 19 in the Law № 167 – FL on the possibility of forming a reserve of the budget of the FPFR with the aim of regulating a budget deficit creates legal prerequisites in the future to apply this tool to ensure the balance of expenditures and budget revenues and ensure its
financial stability. However, without an intelligible methodology for determining the budget deficit of the PFR, this article may not start functioning.

2.6. Reserve of the PFR in the Deposit Insurance Agency (DIA)

Pension Savings Guarantee Fund (PSGF) is separate from the capital of each individual fund and is managed by the Deposit Insurance Agency. The Russian system guarantees full co-preservation of insurance premiums for the formation of a funded pension. The PSGF, despite its name, is essentially a reserve fund, but in relation to the financial system of the PFR, it is an external reserve fund, which is managed and ruled by the DIA. The main task of the DIA is to guarantee the pension savings of individuals who form and receive a funded pension in the Pension Fund, or in one of the non-government pension funds. PSGF belongs to DIA on the right of ownership. It is detached from its other property; its funds are accounted for on a special account opened by the DIA in the Bank of Russia. The Bank of Russia does not pay interest on the balance of funds in this account. At the expense of the PSGF, recovery of the obligations of the RF, RF subjects, municipalities, PFRs, APFs or other third parties cannot be made. The only case when such a penalty can be imposed is a court decision that will establish that the DIA has not fulfilled its obligations to pay a guarantee compensation.

The sources of contributions to the PSGF may include: guarantee fees paid by insurers; penalties for untimely and (or) incomplete payment of guarantee fees; monetary funds and other property that are obtained from satisfaction of the rights of claim of the Agency acquired as a result of payment of a guarantee compensation; and so on.

The analysis of the PSGF features operation allows to draw the following conclusion. PSGF refers to the category of effective reserves, performing the insurance function.

3. Conclusion

All types of reserves that are formed and used in the Russian pension system are classified as effective reserves. Except the external reserves that are created in the Deposit Insurance Agency for the formation of the Pension savings Guarantee fund, all effective reserves are internal for the pension system. The following types of financial reserves are created within the PFR: pension savings, a payment reserve, pension savings sources of insured persons who are guaranteed an urgent pension payment, an obligatory pension insurance reserve, an PFR budget reserve, and a pension savings guarantee fund. It is necessary to legislate the status of reserves for them (excluding those that already have this status).

To classify the PFR reserves, it is sensible to allocate a reserve for compulsory pension insurance as an effective internal self-insurance reserve, PSGF – as an external insurance reserve, pension savings, a payment reserve and funds for
urgent pension payments – as reserves that are under the Russian Federation Central Bank control.
Up to 2017, the regulation of the formation and usage of all types of reserves in the pension system was carried out by numerous federal laws, regulatory acts of the Russian Federation Government and the Russian Federation Central Bank. It is advisable to combine the legal regulation of the pension system in a single law.

References