

# Russia is facing a pension dilemma as the country goes to the polls

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*Russia is due to hold parliamentary elections on 18 September. To coincide with the elections, we will be running a number of articles on Russian politics and society. In this contribution, **Aadne Aasland** and **Linda Cook** outline one of the key challenges facing Russian policymakers: the management of the country's pension system. While the Russian government is wary of inflaming public opinion over the issue, it is becoming increasingly difficult for Russia to fund pensions at their current rate and tough choices will have to be made in the coming years.*



Russia's pension eligibility age is among the lowest in the world – 55 years for women and 60 for men. In combination with a gradual aging of the population this puts a heavy burden on the pension system. For several years, the government has been able to cover large deficits in the State Pension Fund through transfers from the federal budget while pension payments kept growing. One of the effects of declining petroleum revenue is that there is now less room for such transfers.



This poses a challenge to the regime whose legitimacy in part is based on its ability to ensure social welfare to its citizens. Open and fierce struggles within the government about the direction of the pension reform have become commonplace – a tug of war between the social and economic-financial blocs that has probably not been seen in the public space since the times of coalition governments during the Yeltsin regime.

Russia underwent a comprehensive pension reform in 2002 with a partial privatisation of the pension system. At this point Russia transferred from a pension system where active workers finance the pensions of current pensioners (pay-as-you-go) to a mixed system in which those born after 1967 also save parts of their pension contributions in individual accounts in state or private pension funds, to be paid out when they become pensioners themselves.

While the financial-economic bloc saw the introduction of a fund-based pension component as a means to strengthen the Russian financial market, and at the same time to allegedly deal more effectively with Russia's demographic challenge, the social bloc has remained sceptical of the funded pension component. The social bloc's main arguments have been that exposing vulnerable citizens to market hazards has negative impacts and also that people lack sufficient knowledge to make well founded decisions about how their pension savings should be invested to secure their old age.



New comprehensive pension legislation that was introduced in 2013 partially reversed the pension privatisation. While the financial-economic bloc dominated during the major 2002 reform, the social bloc had by 2013 enhanced its influence. For example, while the funded component was a compulsory element of the 2002 reform, it is now voluntary and its future uncertain. Several contested issues and amendments to the current legislation have been introduced or are being discussed, and the reform is far from consolidated.

The many changes which have taken place have generated concern among experts over the impact on public trust in the system, which is already quite low. A freezing of individual pension savings and their transfer to cover payments to current pensioners three years in a row (2013-2016), restrictions on pension payments for working pensioners, and revoking of legislation stating that pensions should be indexed to compensate fully for rising inflation, have not helped to build trust.

Still, payments to current pension recipients have largely been maintained, partly at the expense of future pensioners (current workers) who, however, will not feel these losses for many years. Opinion polls show that a large majority know and care little about current pension policies. The reform avoids imposing immediate costs on society, and thus avoids both blame and societal push-back.

### **Pensions and the 2016 election**

Ahead of the forthcoming parliamentary elections there has been increasing speculation about the indexation issue. The government had for several weeks been debating the possibility of an indexation of pensions for the current year, which has not been projected in the budget. A key question has been whether the regime would contribute a popular compensation to the current pensioners before the elections with the aim of securing a higher turnout, but with the risk of increasing the budget deficit; or whether they would delay the decision until after the elections, which would make such compensation less problematic.

On 23 August Prime Minister Medvedev confirmed that there will be a one-off payout of five thousand rubles to all pensioners in January 2017, money that he ordered the finance ministry to find. This will probably create a short-term challenge, but if there is to be compensation, the long-term implications of a one-off payout are more favourable for balancing future budgets, since the basis for the next indexation will start at a lower level than a proper indexation of current pensions would have done. At the same time, this ad-hoc decision adds to the impression of a zig-zagging pension reform.

Election considerations have probably also postponed the introduction of a gradual increase of the pension age, which is supported by more and more experts and politicians, but is highly unpopular with the public. Putin himself, who has largely kept a low profile on the topic, has advocated against rushing the issue. Putin probably remembers very well what happened in 2005. That year the regime introduced monetisation of well-established social benefits to try to reduce the social burden on the state. Social protests erupted, demonstrating the strong mobilisation capacities of pensioners. The Russian government has since then seemed reluctant to introduce more radical steps to solve the pension fund deficit crisis, for fear of risking social stability.

That the pension issue still has the potential to stir public emotions was shown in an episode in Crimea in May, which was widely distributed via [social media](#). Medvedev, appearing on the street, responded to a local pensioner's complaint about her pension not being indexed to the rising costs of living by acknowledging that this was the case all over Russia since "there just isn't any money now. When we find money, we'll make the adjustment". The statement was followed by a hasty retreat with the words "You hang in there. Best wishes! Cheers! Take care!"

Thus, public opinion continues to count when designing pension policies. Pensioners account for close to 40 per cent of the electorate, and they are much more likely to vote in elections than younger generations. Furthermore, while Putin in his early years as president sought to accommodate the needs and aspirations of a growing Russian middle class, in his third term he has been much more inclined to give priority to the older generation's desire for stability. However, there are not now available petroleum revenues to be pumped into the budget, and delaying necessary but unpopular decisions is only likely to make things worse and threaten future stability. Currently there is no agreement among societal actors, nor within the Russian leadership, about where to strike the balance.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor*

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