Actuarial valuations
A case of the Pension Fund of the Russian Federation
Summary

The valuation of the balance between the acquired pension entitlements and liabilities of the mandatory pension insurance system is conducted on the basis of the Pension Fund’s (PFR) actuarial model, developed and verified by a specialized department of the PFR - the Department for Actuarial Valuations and Strategic Planning. This model is a unique product and enabler to accumulate every specific option of pension entitlement valuation under the national pension legislation. The actuarial valuations take into account detailed differentiation by pension insurance types, individual incomes, length of service, gender and age.

The actuarial valuations database, which is the source of information for the model, contains diversified internal resources as well as data from external sources, making it possible to assess any assumed changes in pension entitlements and the financing of liabilities in a rapid and highly professional manner, and to conduct a long-term evaluation of the decisions adopted.

Preparing to ratify the ILO C102 on Minimum Standards of Social Security, a method (principles) has been developed in order to calculate a replacement rate for old-age, disability and survivor pensions.

CRITERIA 1

What was the issue/problem/challenge addressed by your good practice?

The PFR actuarial valuation practice aims to increase the level of social security (adequacy) and the financial sustainability of the PFR in the environment of the current macroeconomic and demographic challenges.

CRITERIA 2

What were the main objectives and the expected outcomes?

The development objectives of the pension system are declared in the Long-Term Development Strategy of the Pension System approved by the Russian Government Resolution No 2524-r dated 25.12.2012. The primary objectives are to guarantee a socially acceptable level of social security and long-term sustainability of the pension system.

As a result, it is planned to achieve up to a 40% replacement rate of an old-age labour pension with a standard length of service and average wage, an acceptable level of pensions for the middle class by means of corporate and private pension schemes, an average old-age labour pension of 2.5-3 times the pensioner's subsistence minimum, and the maximum balance of the pension system.
CRITERIA 3

What is the innovative approach/strategy followed to achieve the objectives?

The objectives are achieved by means of multivariate assessments of the level of social security and financial sustainability of the PFR with a wide differentiation of indicators in the implementation of diversified measures towards optimization of the system given the environment of the macroeconomic and demographic challenges.

CRITERIA 4

Have the resources and inputs been used in an optimal way to achieve the set objectives and the expected outcomes? Please specify what internal or external evaluations of the practice have taken place and what impact/results have been identified/achieved so far.

The PFR actuarial valuation practice has been assessed by the federal executive and legislative authorities of the Russian Federation, the academic community, the International Labour Organization etc.

Actuarial valuations are conducted on a regular basis in order to improve the pension system. For instance, in 2008, a mechanism for the valorization of insured persons’ acquired pension entitlements at 01.01.2002 was worked out and it has been successfully used since 1 January 2010. In 2013, actuarial valuations were conducted in order to prove the outcomes and effect of the implementation of the Strategy. Valuation outcomes confirmed the achievement of the objectives in line with the long-term socio-economic development forecast of the Russian Federation as of 2013.

CRITERIA 5

What lessons have been learned? To what extent would your good practice be appropriate for replication by other social security institutions?

Actuarial valuation of the mandatory pension system of the Russian Federation assessed the impact of macroeconomic and demographic challenges on the pay-as-you-go and funded components of the system under the transformation of the pension formula and procedure for forming pension entitlements.

Social security institutions can apply PFR’s actuarial valuation practice in the field of building an actuarial model and in the operation of an actuarial valuations database.