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Good Practices in Social Security

Good practice in operation since 2013

Implementation of good actuarial practices in the Pension Fund of the Russian Federation

Pension Fund of the Russian Federation
Russian Federation

Summary

Current actuarial practices in the Pension Fund of the Russian Federation (PFRF) lack an adequate regulatory framework. The ever changing pension legislative environment require that actuarial valuations should be conducted based on the approved regulatory guidelines which detail each stage of the actuarial process.

The issue or challenge

What was the issue or challenge addressed by your good practice? Please provide a short description.

Without the use of actuarial methods in the management of the statutory pension insurance system in the Russian Federation, it would be impossible to achieve a balance between the adequacy of pension entitlements and government obligations as well as the long-term financial sustainability of the pension system.

Addressing the challenge

What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or strategy, focusing especially on their innovative feature(s) and expected or intended effects.

Provision of effective measures for strengthening the pension system involve the *development of a uniform approach or system to carrying out actuarial valuations* as far as that parameters of the pension system should be linked to the underlying macroeconomic and demographic factors. The following stages for development of such a uniform system of actuarial valuations have been already identified:

- creation of a proper methodological framework for actuarial practices of the PFRF;
- integration of databases to ensure that the relevant data meet data accuracy and sufficiency requirements;
- support of actuarial data analysis with appropriate instructions and guidelines;
- improvement of the actuarial model for long-term forecasting of the pension system development against a background of the reformed pensionable ages;
- development of actuarial reporting forms for various needs of actuarial valuations.

Targets to be achieved

What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.

Currently, the PFRF applies long-term projection methods to tackle its three key goals:

- long-term development effects of the statutory pension insurance system within the existing legislative framework, for the purposes of actuarial validation of the budget for the next financial year and planning period;
- long-term effects of implementing the strategic planning policies, for the purposes of performance analysis against the target indicators set in such policy documents; and
- long-term effects of implementing the pension system reform measures, for the purposes of further development of draft laws which have an effect on financial obligations of the PFRF.

To provide support for evaluation of the outcomes of the development of the pension system under current legislation, and create measures to improve it through the creation of a uniform system of actuarial valuations, development of a regulatory framework for actuarial practices has been launched for implementation in the PFRF.

Specific regulation of actuarial practices with regard to the statutory pension insurance system is necessary for the development of the following instruments:

- actuarial 50-year projection for the PFRF budget;
- actuarial report on long-term effects of the existing and newly assumed pension obligations, their actuarial appropriateness and to which extent they may be met assuming the long-term sustainability of the PFRF budget, against the predefined benchmark target indicators, and any additional federal funds needed to ensure that all of the government pension obligations are duly met;
- actuarial recommendations as to ensuring the long-term financial sustainability of the PFRF which include: the rationale for contribution rates' policy; rationale for indexation limits for pensions and pension savings; pension coefficient value; pension calculation formula adjustments; expected period of pension payments etc.

Evaluating the results

Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.

Based on the actuarial valuations of the PFRF, the following changes in the pension system have been recommended and implemented in new provisions of the pension law:

- suspending pension indexation for those beneficiaries who continue working;
- increasing the pensionable earnings base;
- implementing a new pension calculation formula;
- introducing a moratorium on the payment of insurance contributions to the funded pension component;
- setting additional contribution rates for funding of early old-age pensions based on working conditions;
- raising the pensionable age from 2019.

The indicated measures are based on the results achieved through the implementation of actuarial practices in the PFRF at all stages of the actuarial process:

- Completion of the database. The Russian pension system consists of several components, each with specific software and hardware provision. In the course of ongoing reforms the system has undergone multiple replacements of software which affected the quality of input data. These data appeared to be incomparable and inconsistent. The level of quality control was insufficient. For establishment of procedures to ensure the adequacy and accuracy of data used in actuarial practices, the following documents have been developed:
 - *The System for Quality Control of Data on Insured Persons used for Actuarial Practices in the PFRF;*
 - *Methodological Recommendations for Verification of Data on Pensioners and Other Beneficiaries Generated in the Actuarial Practices Module in the PFRF;*
 - *The Data Retrieval Quality Control System for the Data from the Pension Granting and Payment Hardware and Software System used for Actuarial Practices in the PFRF;*
 - *System of Indicators Used for Actuarial Practices in the PFRF.*
- The guidelines for actuarial analysis of the pension system development have been designed so as to cover all key factor groups which affect the pension system, as well as to help identify and assess the risks for development, prevention or neutralizing their negative impact on pension entitlements of citizens and pension obligations of the PFRF. In 2018, the following documents were developed in support of the data analysis:
 - *Methodological Recommendations for the Review of the Demographic Situation in the Russian Federation;*
 - *Methodological Recommendations for the Labour Market Analysis;*
 - *Methodological Recommendations for the Actuarial Analysis of Data on Pensioners Based on the Governmental and Departmental Statistical Reporting;*
 - *Methodological Recommendations for the Actuarial Analysis of Data on Insured Persons and Pensioners;*
 - *Methodological Recommendations for the Analysis of the Funded Pension System Component Development;*
 - *Methodological Recommendations for the Budget Analysis of the PFRF.*
- Procedural guidelines for long-term pension system development forecasting. The long-term forecasting is performed consistently with the Actuarial Projection Model used by the PFRF. The procedural approaches to long-term forecasting are set out in the following documents adopted in 2018:
 - *Methodological Recommendations for the Demographic Forecasting;*
 - *Macroforecasting Guidelines for the Actuarial Model applied by the PFRF;*
 - *Methodological Recommendations for the Provisional Long-Term Forecasting of the Key PFRF Budget Parameters;*
 - *Projection Guidelines for the Funded Component of the Actuarial Model applied by the PFRF.*
- Documentation of results of actuarial calculations is determined by the element of the tasks they are conducted for. The formats of such documentation depend on the instructions

pursuant to which the calculations are undertaken. This required special guidance and reference materials for development of actuarial reports based on the aims of actuarial valuations.

The implementation of these procedures proved to be successful through the following results:

- Application of the actuarial methodology provided a rationale for the methods to be used in the calculation of replacement rates for old-age retirement, disability and survivor pensions in accordance with the International Labour Office Social Security (Minimum Standards) Convention (No. 102), 1952, and selection of typical recipient of pension provision.

Lessons learned

Based on the organization's experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.

Preconditions for comprehensive implementation of this good practice include:

- Legislative support of compulsory actuarial valuations of the pension system as necessary for complete fulfillment of regular actuarial valuations of the statutory pension insurance system;
- This good practice may prove useful for transitional economies with emerging insurance pension systems considering that population ageing is a global issue whereas actuarial practices in many countries are underdeveloped.
- Development of a regulatory framework for actuarial valuations is essential for reaching high level of accuracy of actuarial valuations, and consequently the efficiency of steps taken to reform the pension systems.

Risk factors likely due to the application of this good practice:

- Actuarial valuations of a pension system involve considering certain additional factors and conditions which are unrelated to labour activity and wages and are not typical to pension systems with a long history of insurance principles. These factors create certain restraints for simple replication of any specific country's experience with regard to actuarial practices.