The Pension System of Russia after the Reform of 2002: Challenges and Prospects

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This paper analyzes the main results of the pension reform started in Russia in 2002. Means of raising the level of provision of pensions are introduced. Special attention is given to the funded part of pension and to the reform of institutions of mandatory and voluntary pension insurance.

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1. The Pension Reform: elaboration, launching and the course of implementation

The reform of 2002 is the major development of Russian pension system of the last five years. And though evaluation of its outcomes in full will become possible only after 2022 when first regular payments of funded parts of pensions are begun making, analysis of impacts of the reform on the situation in the provision of retirement pensions is already feasible and necessary.

Institutional framework of the new pension system is formed by the following laws, four of which were adopted in 2001-2002:

- Federal Law No. 27-FZ "On Individual (Personalized) Record Keeping in the State Pension Insurance System" dated April 1, 1996,
- Federal Law No. 165-FZ “On the Basic Principles of Mandatory Social Insurance in the Russian Federation” dated July 16, 1999,
- Federal Law No. 167-FZ “On Mandatory Pension Insurance in the Russian Federation” dated December 15, 2001,
- Federal Law No. 173-FZ “On Retirement Pensions in the Russian Federation” dated December 17, 2001,
- Federal Law No. 111-FZ “On Investments for Financing the Funded Part of Retirement Pensions in the Russian Federation” dated July 24, 2002,
- Federal Law No. 166-FZ “On Provision of State Pensions in the Russian Federation” dated December 15, 2001.

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The first five laws set standards of mandatory retirement insurance in the Russian Federation, in other words, they determine rules for earning pension rights and for pension accounting for persons participating or participated in payment of mandatory deductions to the state pension system. The law on provision of state pensions defines conditions and procedure of provision of pensions financed from the federal budget.

It was originally supposed that the book of new pension laws would also include laws defining status of main participators of the pension system. The chief participator is the Pension Fund of the Russian Federation (see Federal Law "On Management of Funds of State Pension Provision (Insurance) in Russian Federation"). Among major laws are also ones regulating conditions of mandatory pension provision for some cohorts of the employed (Federal Law "On Occupational Pension Systems in the Russian Federation”). However, notwithstanding the fact that rules referring to these deeds were left in laws on mandatory pension insurance and on retirement pensions and drafts of the deeds were introduced to the State Duma as early as in 2001-2002, the respective laws were not adopted so far.

The laws in force secure formation of multipillar pension system in Russia.

The first pillar is the basic part of pension. Advantages of its introduction lie in the sphere of social support of the reform and involvement of population in the pension system. Universality of the first pillar of pension provision and low number of years of service required before entitlement to a pension (5 years) that were established in the laws of 2001 allow to cover people with restricted access to legal labor incomes - persistent nonworkers or informally employed - with pension provision. In addition, world experience attests that pension systems with universal pensions are more popular with population than systems with social pensions granted on basis of examination of needs (see Independent Institute for Social Policy (2007), p. 170) like those provided by the Program of 1998.

Organization of the second pillar of pension provision according to the reform of 2002 is based on combination of funded and pay-as-you-go principles of pension forming. Payments on the funded part of pension are determined by total value of contributions paid and length of expected payment period calculated using life tables. In the law on retirement pensions of 2001, life interval (after retirement) was fixed at 12 years at the start of the reform in 2002 and was supposed to increase to 19 years in 2013.

The introduction of the fixed expected period of payment of retirement pension certainly clarifies pension computing formula for population. At that, considerable redistribution of pension flows for benefit of women (whose life interval is noticeably higher than men's one) is secured. Besides, the system in its present condition turns out to be insensitive to increase of people's life interval and hence is highly exposed to risk of instability if such an increase takes place.

Switch to partial financing of pensions on basis of funded principles was undoubtedly the only reason for undertaking a pension reform. And whether such principles represent a more effective form of provision of pensions in aging societies is not the point. Population, in principle, painfully takes in any radical changes. That is why pension system reformations that only modified existed institutions should not be named the high-flown word "reform". Without introduction of the funded component, one could only talk of an improvement of the pension system of Russia.

At the preparatory stage of the reform, key issues of introduction of the funded part included determination of age cohorts that would participate in the system, and of contribution rate. At the first terminal was a solution realized in Chile and Kazakhstan, where accumulation accounts were established for all workers without exception and the distributive part was abolished. At the second terminal were examples of reforms in Hungary and Estonia, where accumulation accounts without fail were established only for workers entering labour market for the first time. For Russia, the first model was unacceptable mainly due to very high social costs arising from its implementation, and to insufficient development of financial markets. The second one protracted creation of the funded part for three or four decades, thus not solving the main problem of alleviating the impact of ageing on the pension system. Principal arguments against introduction of the funded part added up to indication of insufficiency of financial instruments, low markets capacity, and low reliability of Russian financial institutions. Counter-evidence of supporters of the funded reform was that it itself was a powerful stimulant for development of financial markets, and that gradual growth of load on the markets provided by the introduction of the funded part would favor general market stabilization with relation to volatility, returns and risks, and stimulate investors of various categories, including private investors and foreign funds.

As a result, in accordance with the legislative regulation of pension system effective at the start of the reform, men born in 1953 and later and women born in 1957 and later were entitled to the funded part of retirement pension in the future. Accordingly, potential participators of the funded system made up nearly 82% of the able-bodied population of the country. Actually, in 2002, 70% of workers started accumulating funds. For restriction of financial losses of the distributive component of the pension system induced by the introduction of the funded part, starting tariff of deductions for accumulation accounts was determined at 2% for men born in 1953-1966 and women born in 1957-1966, and at 3% for people born in 1967 or later. For the latter, the tariff was intended to grow to 4% in 2004, 5% in 2005, and, finally, 6% from 2006 on (in fact, the tariff was introduced only in 2008).

Totals of the first years of the pension reform clearly showed that development of the funded part of the pension system progressed more slowly and not quite as it had seemed in 2001-2002. It seems to us, that the main cause is that the state still does not fancy where to direct accumulated pension funds, how to make them work for the economy. It is not clear enough, whether they can be of any benefit at all. That is why the government not only gave no support to forming of that part but, quite the contrary, offered it up to reduction of employers' tax burden or to other concerns deemed more important at that moment.

Ratio of mandatory pension funds to GDP still remains minuscule and remote from values anticipated before the start of the reform. Five years after the start, pension funds even did not reach 1.5% of GDP (see Independent Institute for Social Policy (2007), p. 199).

In 2005, pension funds growth rates almost halved, and kept dying out later on. The main cause of the tendency is that from 2005 on men born in 1953-1966 and women born in 1957-1966 were excluded from participation in the funded part. Among employed born in 1953 and later (men) and in 1957 and later (women), portion of that middle-aged cohort was about 46% in 2004 (the estimates are based on data on age distribution of employed. See "Labour and employment in Russia" (2005), p. 58).

This alteration had two fundamental shortcomings lying out of financial sphere. Firstly, people included in the pension system were dropped a hint at a possibility of almost arbitrary alteration of the "rules of play". Secondly, age groups with the highest levels of employment and decent livelihoods, reflecting on pension already, were excluded from the funded system. According to the polls, among citizens from the young cohort (born in 1967 and later), 42.4% of those questioned in 2003 and 31.9% of questioned in 2004 did not begin to think of how they would live on a pension, and among the middle-aged cohort, only 3.1% and 1.2% correspondingly (see Independent Institute for Social Policy (2007), p. 210). Approachment to retirement age makes people regard prospective pension with more deliberateness, including more active determination of where to hold pension funds. On the contrary, young people, probably more versed in financial transactions, have less incentives to spending time and strength on choosing of management company or private pension fund.

People were not prepared to implementation of the pension reform. Management companies had been selected shortly before people had to decide on the choice of trust manager. But more important was obscurity of selection criteria. That is why it is not surprising that, according to the Pension Fund of Russia, fraction of those selected private management companies in 2003 was scanty - about 2% (Institute of Contemporary Development (2008)).

As a result, the mandatory pension assets market is notable for high level of concentration. At the end of 2007, net asset value of mandatory pension assets under trust management of management companies was over Rb 450 billion, including over Rb 400 billion under management of the government-owned management company.

The law on investments determines the following investment patterns: government securities of the Russian Federation and subjects of the Russian Federation, and other Russian bonds; shares of Russian issuers established as public corporations; government securities of other states, and foreign bonds; foreign stocks; emissive mortgage bonds; monetary funds in rubles and foreign currency on accounts (including deposits) in lending agencies.

In 2002-2003, i.e. before the opportunity of choice of management company appeared, means being in the Pension Fund might be put only in government securities and mortgage bonds. Actually, all the funds were put in government securities.

Practically, pension accumulation means as before are invested predominantly in government securities. Diversification of pension accumulation means meet an insuperable hindrance of their high concentration in the government-owned management company. Since at its disposal is money of the most conservative part of population, such a management company's authorized investments were limited by state ruble debt instruments and sovereign eurobonds of the Russian Federation, mortgage bonds and means in rubles and foreign currency on accounts in lending agencies. Later on, the government of the Russian Federation extended the list of authorized investments of the government-owned management company. However, entry of Vnesheconombank into the corporate bonds market obviously poses a threat to stability of those markets, as there will be no management company able to compete with Vnesheconombank. And so, one more alternate solution is a subject of speculation: to allow private management companies to manage some part of means of those who have not decided on the choice of management company (the so-called "silent persons"). Yet, so far the vast majority of mandatory pension accumulation means is invested in government securities. For example, in 2007 Vnesheconombank invested Rb 300 billion in that market segment, whereas in 2007 federal loan bonds market capacity was Rb 1.3 trillion. Therefore, even too frugal a fraction of pension accumulations in GDP turns out to be excessively heavy for the financial system of Russia.

The limited set of instruments for investment of mandatory pension accumulation means was the cause of only middling or even unsatisfactory financial results of management companies in 2007 - early 2008. Return on managed mandatory pension accumulations calculated by any of two methods approved by the Federal Financial Markets Service did not exceed 9.2% in any management company (http://npf.investfunds.ru/ratings/1/) while inflation was 11.9% in 2007 (http://www.gks.ru/free_doc/new_site/prices/potr/tab1.htm). At that, government-owned management company Vnesheconombank with certainly most conservative portfolio found itself on the 11th place (out of 63) according to the results of 2007, and its financial result totaled to minus 0.46% in 2008 (3.71% per annum over period of three years) (see "Kommersant", February 6, 2009), which is good against the background of other investors.

It is obvious that widening investment patterns even within the framework of allowed types of assets could relieve loading of the pension system on the market of government securities: according to the Central Bank, capacity of the market of corporate and bank bonds exceeded Rb 600 billion for January 1, 2008, and capitalization of the market of shares was estimated at more than $ 500 billion at the end of 2007 (more than Rb 12 trillion). But these investment patterns, providing higher return, remain extremely risky, which can be verified, for example, by sheer fall of the stock market in the latter half of 2008. Moreover, achievement of the goal is impossible without solving the problem of "silent persons" – those who do not make a choice in the funded pension system. People's apathy toward the reform becomes more visible an obstacle in the way of its implementation.

2. Ways of improvement of the Russian pension system

2.1. The most burning cumulated issues

Replacement rate sinking. It is obvious that rapid fall of the replacement rate below 20% is socially unacceptable as it actually represents deep crisis of the pension system. At the same time, according to the polls, people think that it is the state that is obliged to solve problems of the pension system, and as a whole they are still not ready to actively join in accumulation of funds (the majority has also no means for that).

Indivisibility of social security and retirement insurance. At present, financing scheme of the pension system is tangled and wide of actuarial principles. Long-term stability requires anew to define sources of financing pensions, and limits of financing from the federal budget. Otherwise, the implemented reform of 2002, as well as proposals on further development of the funded system, loses significance.

Pensioner Poverty. As mentioned above, average retirement pensions as yet surpass pensioners' minimum of subsistence by a negligible margin. Though, according to Rosstat, poverty prevalence among nonworking pensioners only slightly exceeds that among the whole population, and it is considerably lower among working pensioners, the problem of aged population poverty remains severe enough. First of all, it involves the fact that though incomes of the majority of pensioners are larger than the official poverty line, nevertheless pensioners cannot afford charged medical service and care, new durable goods and improvement of housing conditions.

Need for compensating for elders' losses induced by the pension reform. In fact, this issue is closely connected with the first one since the losers of the reform are men born in 1963 or earlier and women born in 1972 or earlier, i.e. the main pension beneficiaries in 2010–2030, when the replacement rate reaches its minimum.

Utterly low pensions from the mandatory funded part that workers retiring in 2022 and later will be entitled to. It can be another strong reason for discrediting the government and non-governmental institutions permitted to work for the retirement insurance field.

Pendency of the problem of carrying over of mandatory funded means to the insured. It can result in young workers' retained disinterestedness in participation in management of means accumulated in their funded accounts and replenishment of the accounts owing to legalization of payroll.

Pendency of forming occupational pension systems. It complicates already intricate financial plight of the Pension Fund, saddling it with additional payments to early pensioners.

Taxation of private pension funds not stimulating employers' voluntary funds accumulation for benefit of workers and natural persons.

Thus, problems of the pension system may be grouped in three main subjects:

- intolerably low pensions of today's pensioners;
- threat of poverty prevalence among the aged and among workers retiring in 10-15 years;
- low efficiency of the mandatory funded part that poses a threat of low pension provision even for workers born after 1966.

2.2. Decisions of the Government, adopted on October 1, 2008[2]

In 2009 the basic part of retirement pension is increased twice - on March 1 (it has already been done) and December 1. Altogether, the increase will total 37.1%. The insured part will be indexed by 15.6% on April 1, 2009.

As a result, at the end of 2009 average social pension must be no less than a pensioner's cost of living. From January 1, 2010, pension rights earned before 2002 will be additionally indexed by 10%. Besides, 1% additional indexation for each year of record of service earned before 1991 is provided. As a result, average retirement pension in 2010 will increase almost two times as compared to the present level of 2008. By 2020, average retirement pension will have amounted to threefold pensioners' cost of living.

Thus, they will start solving the problem of increasing today's pensioners' standard of living.

As regards workers who will begin forming their pension accumulations after 2010, if their record of service is 30 years, their pension at the moment of entitlement must be no less than 40% of earnings from which insurance contributions were deducted. Such ratio of pensions to earnings corresponds to average European standards and standards of the International Labour Organization.

For achievement of these goals, they decided to switch from uniform social tax (UST) to insurance contributions to mandatory pension insurance, at a uniform rate of 26%. At that, insurance contributions will not be imposed upon annual earnings exceeding Rb 415,000. And this value (Rb 415,000) is projected to indexation as average earnings grow in this country.

It appears from this, that workers earning high earnings - on this occasion, Rb 415,000 per year - will not pay insurance contributions from above this value, and pension rights from incomes higher than Rb 415,000 per year will not be earned either.

Taking into account medical and social insurance contributions, the total tariff will not exceed 34% of payroll.

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[2] See "Russian Newspaper", October 2, 2008.

New principles of premium payment will be extended over all organizations on the industrywide basis. For organizations presently using special tax treatment, increase of insurance contribution tariffs will be compensated from the federal budget. It is a question of small-scale business concerns functioning in high-tech sectors of the economy and of agricultural producers. For them, as usual, special treatment will be enabled. And this norm will be effective during 5-year period of transition. During that period, those concerns will have to adapt to the new system.

2.2. Possible actions concerning workers for whom mandatory accumulation accounts are not established

Workers born before 1967 have no more than 13 years before retirement. It is evident that even by means of the recently introduced voluntary co-financing program, that cohort will have an extremely small funded part. According to calculations, the maximum sum added to a pension with joint efforts of the worker, state and employer will amount to only Rb 2,000 per month. This maximum is reached if participating in program for 10 years, which is practically impossible for many of the cohort because of proximity to retirement age. Thereby, it is obvious that ***practically for that cohort of workers the package proposed with respect to today's pensioners will have to be applied***.

It assuredly increases payer's - the Pension Fund's - expenditures in comparison with payments necessary for performing aforementioned social tasks concerning today's pensioners and arising from increase of fraction of senior citizens. So, according to Rosstat's population forecast, number of pensioners will have increased to 42.5 million by 2022 as compared with 36.2 million in 2008. According to the most optimistic forecasts, their portion in total population of Russia will amount to 32% in 2022 against 25% in 2008. One might expect that in 2022 about Rb 11 trillion will become necessary for payment of pensions from the federal budget, taking into account the increase of a pensioner's cost of living. Assuming the forecast of the Ministry for Economic Development of increasing GDP to Rb 213 trillion by 2022 as a basis, the indicated expenditures will come to only 5% of GDP, that complies with the present value. So, one can surmise that the federal budget expenditures on pension provision at the rate of Rb 11 trillion in 2022 will not present serious difficulties.

2.4. Possible actions concerning workers for whom mandatory accumulation accounts are established

First pensioners of that cohorts will appear in 2022 году (women born in 1967). Owing to the accumulation account, addition to retirement pension will make Rb 50.5 per month (0.002% of total value of forecasted average retirement pension), as calculated by the Ministry of Health Protection and Social Development. Such a situation cannot be named other than discredit of the main goals laid for the pension reform.

Two simultaneously conducted actions can be the way out of the situation:

- further increase, starting in 2010, of the rate of mandatory insurance contribution to the funded part - ***from the present 6% of earnings to 8, 10, probably even 12%.*** At that, mandatory deductions for provision of the insured part of future pensions must be decreased accordingly. It must provide for no less than 10-15% of future pension owing to the funded part for those who will retire from 2022 on, and for an increase of that fraction to 30-40% for the next age cohorts by as early as 2030-2035;

- an additional source of pension increase from own accumulations can be found in further development of the recently introduced voluntary program of co-financing of future pension. Already within the next 2-3 years it is necessary to substantially increase amounts of public co-financing from today's Rb 12,000 to no less than Rb 40,000-50,000 per year. Along with employer's contribution, it will help to make up a sum, sufficient for increasing the average retirement pension by not Rb 2,000 as it comes from the present rules, but by Rb 10,000-15,000 per month (virtually another pension).

It is necessary to rapidly form normative base of the Law on public co-financing of voluntary pension accumulations. For instance, the law does not solve the problem of tax rebate mechanism. For that, people have to annually turn to rating authorities, fill in applicable forms, etc. The problem yet may be solved by giving employers the functions of fiscal agents.

They should also define time period of transition from application-based participation in co-financing to a code that will allow private pension funds (PPF) simpliciter to connect to mechanisms introduced by the Law on public co-financing of voluntary pension accumulations.

Both the aforecited propositions load additional expenditures on the federal budget (compensation for permanently growing part of UST directed to accumulation accounts, as well as increase of amounts of public co-financing of voluntary supplementary pension programs). This period will last till 2030-2035, when benefits of the bulk of pensioners are formed predominantly from mandatory and voluntary pension accumulations. For support of the federal budget stability, means of the National Welfare Fund (NWF) may firstly be used, and secondly - proceeds from privatization of state property.

As regards the NWF, there is much uncertainty connected with drastic fall in oil prices happened in the last months and the federal budget deficit origin; possibility of using the means not on pension provision, but on economy maintenance and other goals is sharply increasing.

Proposed approach to use of the NWF includes the following:

- making the decision on the use of means of the NWF only for support of the pension system;

- direction of investment returns to additional financing of payments for pension provision.

Use of proceeds from privatization for payments to today's pensioners not long ago was relevant. But the crisis and its uncertain prospect postpone serious consideration of this source of replenishment of the pension system to the long-term outlook.

2.5. Possible actions concerning those who begin working within the next few years

In this case, the following approach is possible: ***for those who get registered at the Pension Fund for the first time and who are not older than 25, employer deducts 15% of earnings to a mandatory accumulation account and another 5% to the Pension Fund, as a contribution for benefit of present and future generations of pensioners.*** Thus, a pension of this cohort will be made of two mandatory parts: insured and funded. Furthermore, in most cases such a pension will be supplemented with voluntary retirement insurance compensation from co-financing (with the state and employers) program and/or from an independent program with a private pension fund (PPF).

2.6. Reform of retirement insurance institutions

The Regulation of the Supreme Soviet of the Russian Soviet Federative Socialist Republic of 1991 defined the status of the Pension Fund of the Russian Federation as a financial and credit institution. This definition contradicts one adopted later in the Civil Code. There is a proposition to impose a responsibility for payment of the basic and insured parts of pension (with corresponding sources of finance) on the federal budget. At that, one of the alternatives for changing the status of the Pension Fund of Russia could be its transformation - by analogy with PPF - into a "special organizational and legal form of a nonprofit organization of social provision". However, as distinct from PPF, the government and delegates from employers and workers - for instance, deputed by the Russian Trilateral Commission For The Regulation Of Social And Labor Relations - would become founders of the Pension Fund. This would allow to dispense the Pension Fund of Russia from many functions alien to it, like pension provision of present pensioners, support of the register of federal benefit recipients, and monthly money payments to them, fixation of entitlements to maternal capital, etc., and ***to concentrate the work of the structure on issues of mandatory and voluntary pension insurance.***

At present, the importance of private pension systems (PPS) is growing all over the world. So, in 19 out of 30 OECD countries, pension system is granted by the government, in 13 countries employers' contributions form the source of finance, in 2 countries - workers' contributions, in 4 countries there are mixed systems. At that, average replacement rate is 56% (see The Council of Federation of the Federal Assembly of the Russian Federation (2006), p. 53). As a rule, private funded pension systems are mostly developed in countries with relatively low replacement rates, compensating for insufficiency of mandatory public pensions. As a consequence, individual replacement rates are growing owing to accounting for own financial assets in disposable incomes.

The only way to increase of replacement rate is stable growth of capitalization of the funded part of the pension system. Note than in the USA and Great Britain invested pension reserves amount to more than 70%. Analogous indicator in Russia is 1.5% of GDP. Overcoming of such a gap in 15-20 years is possible only by forming a model of population's mass investment behavior, where PPS, in fact, are only one of fundamentally important elements.

Thereupon, a number of measures, concerning PPF as well, should be assumed in an effort to set up the most appealing conditions of private investors' work with such funds, and to increase their stability. Among such conditions are:

- exemption of employers' pension contributions to a PPF from UST;
- exemption of people's pension contributions to PPS from income tax;
- exemption of pension payments from PPF from natural persons' income tax;
- unification of taxation of PPF and other subjects of private pension provision;

- toughening of requirements on activity of PPF and private management companies, including requirements of own capital adequacy and standards of operating activities.

2.7. Securing of positive return on investment of pension funds

Unsuccessful results of investment of pension accumulations in 2007-2008 cannot cancel the fact of positive returns of private management companies and PPF in the previous 2002-2006. It seems to be an inevitable attribute of investment in stock market and the like for a long period of time ("several ample years fall on a bad one").

At the same time, institutions of funded pension system themselves must work in a system of defined restrictions. It is a state-guaranteed (concerning cumulative results of, for instance, no less than 5-7 years) minimum return on investment (2-4% over inflation rate for the same period), that predetermines a number of requirements to the structure of "investment portfolios".

For PPF, normals on mandatory investment in particular tradable assets must be set. First of all, they may concern new types of government securities comparable in terms with pension liabilities. By the year of 2011, formation of consolidated exchange infrastructure of the Russian stock market is projected. Later on, public offering of its securities will be made. In this connection, inclusion of PPF in the list of future shareholders of the vertically integrated exchange holding seems necessary.

With a view to protect rights of people investing their means directly in the market, adoption of a special law "On compensations to citizens in the stock market" is required; it would made possible establishment of insurance funds (for example, through mechanisms of self-regulation) of professional financial market participants. At that, obligatoriness of membership in a self-regulated organization must be provided for companies working with people's means. Besides, more rigid regulation of advertisement of retail financial services, and of manner of their offer is relevant.

For maintaining high intensity of transfer of people's returns from financial market transactions to PPS, legislative decisions on tax stimulation are necessary.

According to their economic meaning, PPS must become boosters of domestic investment demand. For that, it is expedient to specify procedure of tax base forming for natural persons and management companies of PPF, and to provide for opportunity of reduction of investment tax rate to zero rate.

Another alternative is also possible – increase of income tax deduction from incomes up to Rb 300,000 from investments in the financial market if the means were transferred to a PPF (FYI: in the USA, such a deduction totals to $ 30,000 per annum).

It would be also worth envisaging an opportunity of reduction of tax base of profits tax for management companies of PPF and natural persons' income tax by amount of losses from transactions with securities and other financial instruments.

The Ministry of Finance of the Russian Federation is planning abolishment of UST of means that an employer will transfer to a PPF. It seems that this measure could be supplemented with exemption from profits tax of means directed to payment of dividends to people.

Citizens should be granted a right of withdrawal of means from individual pension accounts for (independent) investment. Such operations, seemingly, must be the subject of a law "On procedure of payment of funded part of retirement pension". At that, it is important to provide for exemption from the value-added tax (VAT) of transfer of means from PPF to people (a social service).

For facilitation of work of management companies with financial instruments, it seems necessary to support the following propositions of the Federal Financial Markets Service:

– resolution of ambiguity in implementation of tax legislation with respect to profits taxation of operations connected with offering of Russian depository receipts;

– exemption from VAT of operations, performed by management companies with property of a unit investment trust (it concerns chiefly realty unit funds);

– specification of tax legislation in the part of taxation of derivatives (first of all, definition of procedure of VAT collection at the delivery of a base asset in the context of futures, hedging and derivatives);

– account in calculation of profits tax for peculiarities of formation of tax base for transactions with derivatives by analogy with procedures effective for professional participants of operations with securities;

– specification of profits taxation and VAT on transactions with mortgage issued on account of mortgage credit.

At present, as is well known, investment of pension accumulations is allowed in: government securities (without restrictions), bonds of the subjects of the Russian Federation (up to 40%), municipal bonds (up to 40%), corporate bonds (up to 80%), and shares of public corporations (up to

65%). Already now such structure is archaic. It seems that development of PPS must be connected with dynamics of financial instruments concentration, as an international financial centre is being formed in Russia for one of declared strategical development goals. Today, at least the following lines are evident:

– stimulation of establishment and active development of domestic IPO (shares and sequential derivatives) market;

– sharp growth of value of corporate bonds in circulation;

– opportunity of securitization and creation of structured products (for example, mortgage bonds; futures on supply of tangible base assets, etc.);

– development of the futures market;

– establishment of sector of foreign securities (including usage of Russian depositary receipts).

It is natural that the set of investment patterns authorized for investment of reserves of PPF is subject to alteration and depends on development of global financial markets and distribution of risks in them.

Increase of people's financial competence is an imperative task. It should especially be stressed that it may not be a question of individual actions. A medium-term informational-propagandistic campaign with guaranteed financing will be required. As a variant, legislatively set determination of fraction of UST for 2 three-year budget plans at the least may be suggested. At that, the magnitude of the fraction may be "moving" and reducing by the expiration date of the action.

Such a program must be composed of running columns in mass media, social advertisement on TV, creation of a specialized information resource in the Internet, creation and dissemination of a network of universal financial education (from the upper school to distance learning of adults).

Advocacy of such a hallmark of belonging to the middle-class as participation in the funded pension system could be very helpful for forming of motivated and responsible investment behavior of citizens.

In "Main trends of budget policy 2009-2011" the following is said: "Solution of the problem of pension system demands comprehensive approach, including arrangements for decreasing inflation, development of financial market, stimulation of private pension provision and strengthening the role of people's financial education". It is difficult to disagree with that. But existing situation already demands much more serious an assessment. At the political level it must be acknowledged that development of PPS has no alternative, as in the modern world government in principle cannot provide for adequate retirement without worker's own contribution.

2.8. Coordination of the pension system with social security system.

If actuarial principles of pension system are not yet fully developed, nonstandard approaches to provision of lowest-admissible living standards to people of retirement age may be used in case of need.

Among them, for instance, is governmental rewarding (in the form of tax concession) of intrafamily intergenerational pension schemes, when employed young family members set aside on special individual accumulation accounts part of their incomes to their parents' pension. This scheme has lots of advantages, and not only purely financial ones.

Firstly, parents get an incentive to engage in their own children's upbringing in the context of morality common to all mankind and built on respect for elders. Secondly, parents will have direct incentive to invest in their own children's education and health protection, as parents will practically set up a base of their children's successful job placement and high incomes, part of which will return to the elder generation as the foregoing intrafamily pension.

Further development of the social security system on the way of addressness and personalization cannot be disregarded either. It should become much more effective and compact in comparison with the present system, still directed toward relief action in accordance with a person's belonging to a class, irrespective of his or her specific welfare standards and opportunities of improvement of living conditions at the cost of own efforts.

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