

Attitude of Russians Toward the Pension System and Pension Funds: Some Leading Trends

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Abstract In the Russian Federation, the pension system is undergoing some serious changes: freeze the pension in 2013, raising the retirement age in 2018, guarantee an annual indexing of pensions in the draft amendments to the Constitution in 2020 – all these changes influence on the pension system, pension funds and their perception by citizens. Since the state pension still does not provide a replacement rate of 40%, and for Russians who receive twice the average income, in 2018 the replacement rate was 22%, and by 2050 it will reach only 31% - it would be logical to assume an increase in the popularity of non-state pension products, which has not yet occurred. To analyse the reasons for this situation, a number of hypotheses were analysed and a conclusion was made to confirm the theses about the dependence of the level of readiness of citizens to pension savings on such factors as income level, future orientation, financial literacy, a weak level of confidence in the pension system, dissatisfaction of some potential clients of non-government pension funds (hereinafter – NPF) with their current portfolio of products and conditions for them, as well as the availability of alternative sources of pension income.

Keywords: *pension systems, pension funds, leadership, state support*

1 Introduction

Currently Russia is undergoing an active stage of restructuring the pension system. In 2018, the retirement age was raised, it will increase for women and men by 5 years by 2028. At the same time, according to the International Labour Organization's Convention on minimum standards of social security, ratified by the Russian Federation, Russia will strive to achieve a pension replacement rate of 40% which will not allow pensioners to fully maintain their standard of living they have before their retirement.

Therefore, according to a study by the RANEP (2019), for Russians who receive 2 times more than the average salary, the replacement rate in 2018 was 22%, and by 2050 it will reach only 31%. Since, according to a telephone survey of Sberbank's private pension fund (Sberbank NPF 2019) the income of 72% of respondents has decreased by more than 1.5 times, which is why 64% do not make planned large purchases, and 82% optimize their expenses.

At the same time, there is a significant difference in the total income of average pensioners and people who use non-state pension provision and do not receive a non-state pension. The former has an average monthly income of 25,000 rubles per month (including pensions, additional income, and family assistance), while users of non-state pension Fund products have an average income of 38.5 thousand rubles (Sberbank NPF 2019).

Thus, alternative pension products, such as non-state pension provision and co-financing of pension savings together with the employer, should become more popular among Russians. At the same time, the share of Russians, being part of non-government pension plans, is significantly low.

2 Hypotheses of low penetration of non-state pension products

Nowadays, the penetration of non-state pension products in Russia is still low. Thus, according to research by the National Association of Pension Funds (NAFI 2019), the penetration of non-state pension programs varies depending on different age categories: the lowest penetration is observed in the segment of citizens under 30 years old, where NGO programs cover about 3% of the potential audience, the highest penetration is in the categories from 45 to 55 (for women) or 60 years (for men), where the maximum penetration is 7%. In the 30-to 45-year-old category, the penetration rate is about 5%.

This situation requires the analysis of several hypotheses to find out the reasons for this situation. In this study, the author plans to analyse the following hypotheses:

- The propensity of Russians to save for retirement correlates with the socio-demographic characteristics of citizens: age, income level, city of residence;
- Russian citizens are not able to provide savings in non-state pension funds due to the low level of free disposable income and, as a result, the low savings rate;
- Russian citizens do not know about the possibilities of the pension market due to the low level of financial literacy (and, in particular, pension literacy);
- Russians are not sufficiently focused on the future, which is why they prefer short-term consumption to investments in long-term pension programs;
- Russians are not ready to make long-term investments in pension plans, because they have a weak level of confidence in both the pension system as a whole and pension savings institutions (Pension Fund of Russia, private pension funds, asset management companies) in particular;
- Russians are not satisfied with the current pension products offered on the market;

Among those Russians who make savings to ensure income after reaching retirement age, a significant part uses methods that are alternative to pension plans (investments in deposits, securities, etc.).

To test all the above hypotheses, we used data from sociological surveys by Levada Centre (Lab), Sberbank NPF, NAFI, our own survey among the audience with a high level of financial literacy (64 participants of the “Leaders of Russia” contest and 48 members of youth communities from 28 Russian cities), as well as articles by leading researchers on the Russian pension system.

3. Analysis of hypotheses according to the results of various surveys

As for the hypothesis about the dependence of age and readiness to deduct an additional share of income to non-state pension funds, it is confirmed by the research of Levada Laboratory (Levada Lab 2019).

“According to the results of the study, more than two-thirds of respondents would not like to make additional contributions to a non-state pension Fund in addition to the mandatory contributions that the employer already makes. Approximately the same percentage of respondents would like to deduct 1-2% of income (9%), 3-5% of income (10%). About 10% of respondents would like to deduct 6% of income or more. Only 29% of respondents would like to make some additional pension contributions. Most of all, young Russians aged 18 to 24 would like to make additional payments – only 40%. Respondents over 45 years of age are least willing to make additional deductions – only 23%” (Levada Lab 2019). See Table 1 for more details.

Table 1. Would you like to contribute an additional amount to a non-state pension Fund, in addition to the mandatory contributions that your employer makes? (N=1128)

No additional contributions	63%
Ready to contribute 1-2%	9%
Ready to contribute 3-5%	10%
Ready to contribute 6%-10%	7%
Ready to contribute more than 10%	3%
I have already retired	2%
Difficult to answer	6%

Source: Levada Lab (2019)

Additionally, in a Levada Laboratory poll, the question was raised about possible livelihoods after reaching the retirement age. The leader among all age groups of respondents was state pension (66%), and Russians also rely on income from labour activity (24%), products grown on their site (15%) and assistance received from other family members (11%).

According to the Table 2, the dependence of expected livelihoods on age groups is clearly traced. Hence, if you compare age groups before and after 35 years, the former are less likely to rely on state pension and products grown on their site, but rely more on income from labour activity, financial savings and additional pension from a non-state pension fund or employer. However, only 7% of citizens consider an additional pension from a non-state pension fund or employer as a source of income after reaching retirement age – and they see financial savings (18%) or income from renting property (6%) as an alternative way of income. Thus, one of the tasks of non-state pension funds will be to inform and convince citizens that pension products are more profitable than accumulating through bank deposits, investing in securities or buying real estate.

The hypothesis on the dependence of readiness for retirement savings on age is also confirmed by the survey conducted by the author. Thus, the highest rate of NPF clients is observed among respondents aged 35 to 39 years

(65.4%), and the highest rate is in the age group “from 45 years” (43.5%). The figures are much lower among respondents under 24 years of age (19%) and between 25 and 34 years of age (33.3%). See Table 2 for more details.

Table 2. How do you think what will be the source of the means of your existence after you achieve pension age? (% of respondents, multiple answers)

Sources of income	Total	18-24	25-34	35-44	45-54 (59)
State pension	66	57	59	67	78
salary / income from labour activity	24	28	28	21	22
financial savings	18	21	24	16	14
products grown on the respondent's site	15	11	13	18	17
support from other family members	11	9	12	12	9
additional pension from a non-state pension fund or employer	7	10	9	6	4
income from renting out property	6	5	6	8	5
other	3	2	4	4	2
difficult to answer	7	13	9	6	4

Source: Levada Lab (2019)

The reason for this difference is both the lower propensity of young citizens to think about accumulating pensions, and the freezing of the funded part of pensions, which made it pointless to connect new employees to the mandatory pension insurance programs of NPFs. See Table 3 for more details.

Table 3. Dependence of answers to the question “are you a client of a non-state pension Fund?” from age

NPF clients by age group	Before 24	25 – 34	35-39	After 45	Total
Sum of responses «Yes»	19,0%	33,3%	65,4%	43,5%	40,0%

Source: Own results based on the author's survey

Another important reason for the high percentage of citizens who are not ready to save for retirement is the low level of disposable income of a significant part of the Russian population. According to the Vice-rector of the Academy of labour and social relations Safonov (RBC 2019), the median income of Russian families is within 25 thousand rubles (24.4 thousand rubles, according to Rosstat for 2018), and the family budget does not allow you to allocate funds for pension savings: they all go for current consumption or the purchase of goods/durable items (car, apartment, etc.). See Table 4 for more details.

Table 4. Availability of savings among Russian families with different income levels (%)

Distribution of citizens by income level	Overall, for the sample	1 quintile (0-20 thous. rubles)	2 nd quintile (20 – 30 thous. rubles)	3 rd quintile (30-40 thous. rubles)	4 th quintile (40-55 thous. rubles)	5 th quintile (above 55 thous. rubles)
Percentage of citizens with savings, %	35%	23%	31%	33%	31%	53%
Average amount of citizens' savings, thousand rubles	140 – 219	37 – 55	43 – 71,5	67,8 – 113,8	66 – 101,8	311 – 483,7

Source: Levada Centre (2019)

Indeed, according to the Levada Centre survey (n=1300), only 35% of the population have savings, and the share of those without savings (65%) is close to the share of citizens (63%) who are not ready for additional pension contributions (Levada Centre 2019). At the same time, the share of citizens who have savings has a high correlation with the level of income of citizens (higher income – more savings). Also, most of the families that save money live in large cities – for example, in Moscow, more than half of them — 54%. In rural areas, on the contrary, there are significantly fewer resources for saving: only 29% of respondents reported that they can save money. Moreover, the average amount of savings of the 5th quintile is almost 10 times higher than for the 1st quintile, which exceeds the difference in wages of these categories of citizens.

As for the share of clients of non-state pension funds depending on the level of income, the hypothesis is also confirmed in a sample of the survey conducted by the author among respondents with average income. Indeed, the higher the income level, the more respondents are clients of non-state pension funds (47.1% for citizens with an income of more than 150 thousand rubles against 31.6% for citizens with an income of less than 99 thousand rubles per month). See Table 5 for more details.

Table 5. Percentage of clients of non-state pension funds, depending on income level

Distribution of citizens by income level	All respondents, n-112	From 150 thous. rubles / month, n=51	100 - 149 thous. rubles / month, n=23	Less than 99 thous. rubles / month, n=38
Share of clients of non-state pension funds	41,1%	47,1%	43,5%	31,6%

Source: Own results based on the author's survey

It is also necessary to consider the hypothesis of dependence of readiness to make pension savings on on their readiness to make plans for the future. Thus, those citizens who make plans for both the near and distant future are more likely to be clients of NPFs (45.6%) than citizens who make plans for the near future (34.1%) or do not have plans for their future at all (33%). See Table 6 for more details.

Table 6. Percentage of clients of non-state pension funds depending on their readiness to make future plans

Readiness of respondents to make future plans	All respondents, n-112	Do not make future plans, n=3	Make plans only for the near future, n=41	Make plans for both the near and distant future, n=68
Share of clients of non-state pension funds	41,1%	33,3%	34,1%	45,6%

Source: Own results based the author's survey

According to Shvetsov, Deputy Chairman of the Central Bank of the Russian Federation, pension savings are a distant need for a large category of Russian citizens. According to him, “against the background of current needs, short-and medium-term, it is psychologically very difficult to abandon current consumption in favour of long-term accumulation in the absence of such a culture” (RBC 2019).

Another factor that may affect the share of citizens who have pension savings is the level of financial literacy. So, according to the article by Klapper and Panos (2011), a survey of 1,366 respondents was conducted. they were asked 3 questions that measured their level of financial literacy and found out whether they plan their retirement savings – and if so, whether they use the services of the state pension system only or have savings in non-state pension funds.

Based on the results of the study, the authors conclude that the level of financial literacy has a high positive correlation with the construction of pension savings through non-state pension funds. For example, the percentage of people who have a private pension plan is twice as high among those respondents who correctly answered all three questions of the financial literacy survey.

The residence factor also showed a high correlation (rural residents are more likely to rely on state pension provision and are 50% less willing to invest their savings in a non-state pension plan than urban residents).

According to the survey of the author of this article (112 respondents), 8% of respondents with a high level of financial literacy are ready to contribute more than 6% to a non-state pension Fund, compared with 5% of respondents with an average level of financial literacy. At the same time, 68% of citizens with a high level of financial literacy and 53% with an average level of financial literacy would not want to make additional pension contributions.

What is the reason for this behaviour of respondents? On the one hand, it may be related to a citizen's propensity to save, and, on the other hand, to the level of confidence in the pension system. Let us test both of these hypotheses.

If we consider the share of income that a citizen saves depending on their declared level of financial literacy, then among Russians with a high level of financial literacy, only 10.7% do not save compared to 24.3% of respondents with an average level of financial literacy, while more than 50% save almost 2 times more respondents with a high level of financial literacy than the medium level. See Table 7 for more details.

Table 7. Dependence of the savings rate on the level of financial literacy

Savings rate depending on the level of financial literacy	High level of financial literacy, n=75	Medium level of financial literacy, n=37	All respondents, n=112
No savings	10,7%	24,3%	15%
Save from 0 to 10%	17,3%	24,3%	19,6%
Save from 10 to 20%	26,7%	21,6%	25,0%
Save from 30 to 50%	40,0%	29,7%	36,6%
Save more than 50%	5,3%	0,0%	3,6%

Source: Own results

The survey data can be compared with the all-Russian NAFI survey conducted in October 2017, according to which "a third of Russians (33%) save money for the future every month (NAFI 2018). The amount of no more than 10% of income is saved by 15%, and another 10% - from 10 to 20% of income. Only 5% indicated that they manage to save more than 20% of their earnings. 54% of respondents do not save, arguing that their income is not high enough. At the same time, "when choosing the form of savings, Russians pay attention primarily to the ability to take money when needed (39%), and to the safety of funds in the future (37%)". Thus, the relationship between the level of savings and the level of financial literacy is confirmed.

According to the level of confidence in the pension system, only 3% of respondents with a high level of financial literacy have a high level of confidence in the pension system (0% - at the average level), the average level is 17% (high level of financial literacy) and 16% (average level) of citizens, and the low level is 80% and 84% of citizens, respectively. See Table 8 for more details.

Table 8. Dependence of the level of confidence in the pension system on the level of financial literacy

The level of confidence in the pension system depending on the level of financial literacy	High level of financial literacy, n=75	Medium level of financial literacy, n=37	All respondents, n=112
High level	2,7%	0,0%	1,8%
Medium level	17,3%	16,2%	17,0%
Low level	80,0%	83,8%	81,3%

Source: Own results

A similar picture is observed in the responses of respondents to the question about the dependence of the level of trust in non-state pension funds on the level of financial literacy. The only difference is that among respondents with a high level of financial literacy, confidence in the NPF is higher than in the pension system, which is most likely due to frequent changes in the rules of the game by the state: the freezing of pension savings in 2013, as well as an increase in the retirement age. See Table 9 for more details.

Table 9. Dependence of readiness to use the services of non-state pension funds on the level of financial literacy

Readiness to use the services of non-state pension funds depending on the level of financial literacy	High level of financial literacy, n=75	Medium level of financial literacy, n=37	All respondents, n=112
Ready to use one or more products	28,0%	8,1%	21,4%
I am ready to use pension products if their conditions improve	18,7%	27,0%	21,4%
Not ready to use the NPF services	45,3%	48,6%	46,4%
NPF does not have pension products that interest me	8,0%	16,2%	10,7%

Source: Own results

However, 76% of the surveyed citizens have a low level of trust in NPFs, which has a negative impact on the level of investment in NPFs. Thus, we can conclude that there is an equally low level of confidence in the NPF among citizens with both high and medium levels of financial literacy.

Indicative conclusions can be drawn based on the answers to the question about the readiness to use the services of non-state pension funds. Thus, 46% of citizens are not ready to use the services of NPFs (45% - with a high level of financial literacy, 49% - with an average). At the same time, 21% of citizens are ready to take advantage of one or more products NPF (28% with high level of financial literacy, 8% with secondary) and 21% of citizens expect improvement of products NPF, and for 10.7 per cent of respondents were not interested in their products (in both these categories are dominated by respondents with a medium level of financial literacy).

These results are primarily related to the level of awareness of citizens about the products of non-state pension funds. Respondents with a high level of financial literacy are more than 3 times more likely to use one or more products of non-state pension funds, and 3% less likely to refuse NPF services. At the same time, it should be noted that 21% of citizens expect better conditions for NPF products, and 11% do not see products of interest – and, above all, these are citizens with an average level of financial literacy.

4. Conclusions

Thus, based on the results of the above-mentioned surveys, we can conclude that the theses about the dependence of the level of readiness of citizens for pension savings on such factors as income level, future orientation, financial literacy, weak confidence in the pension system, dissatisfaction of some potential clients of NPF with their current portfolio of products and conditions for them, as well as the availability of alternative sources of pension income.

What can be done to correct this situation?

Of course, the main work should be done to restore confidence in the pension system, and in non-state pension funds. This can be facilitated by an amendment to the Constitution, according to which pensions are indexed in Russia “at least once a year” (Rossiyskaya Gazeta 2020), as well as a draft reform of the pension system, which will include the product "Guaranteed pension plan", which implies that after the end of the accumulative phase, a person will have a choice: take the accumulated immediately, paying income tax, or purchase a lifetime pension plan.

To improve financial literacy, the Pension Fund of the Russian Federation implements a number of programs. As part of its work in the regions, the Pension Fund prefers mass events with the participation of the main target audience of the PFRF, which are Russians in pre-retirement and retirement age, citizens with disabilities, married couples with children, as well as employer companies. The Pension Fund of the Russian Federation also pays attention to the secondary target audience – community leaders and non-profit organizations, mass media, and state and municipal authorities (Zaitseva 2011).

Using the example of the branch of the Pension Fund of the Russian Federation in the Krasnoyarsk territory, Chizhova and Oleshkevich analyze the key goals and objectives of participation of the Pension Fund of the Russian Federation in information and exhibition activities: improving the level of pension literacy and public awareness, explanatory work on legislative issues of the pension system, as well as work to increase the loyalty of citizens to the Pension Fund of the Russian Federation (Chizhova and Oleshkevich 2017).

Individual management of pension funds can become a possible pension product that is interesting for citizens with a high level of pension literacy. However, according to the conclusions Khmyz (2008), a small amount of savings for most future pensioners in Russia hinders the development of trust pension management, since such a product requires large savings to participate.

As for pension products of NPFs, the funds conduct programs to improve financial literacy and use new digital marketing tools to increase the awareness of citizens and make pension Fund products an alternative to other ways of saving. Thanks to this, there is evidence of increasing interest of Russians in pension products. Thus, according to Sberbank's NPF data on phone calls and requests on the website, from October 2018 to March 2019, the number of citizens' requests for individual pension programs increased almost 40 times. The key target audience for these requests is people between 25 and 45 years old (Sberbank NPF 2019).

The number of requests for individual pension plans has increased almost 40-fold since October 2018. At the same time, the greatest interest in the products of non-state pension provision is shown by people aged 25-45 years. Of all citizens who applied to Sberbank's NPF, 17% were interested in individual pension plans, 14% of the total number of interested clients were planning to sign a new PPI agreement, 12% were interested in the potential profitability of the NPF, and 5% were interested in the possibility of tax deduction. (Sberbank NPF 2019).

Thus, we can conclude that already now the work that is being carried out in the main areas of pension funds' development allows pension funds to get new clients – and citizens to get acquainted with new pension products and already today make a contribution to their financial well – being after reaching retirement age.

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