

# Raising the Retirement Age and Pension Insurance Economics

Y. A. Istomina

Ural State Law University,  
21 Komsomolskaya St.,  
Yekaterinburg, Russia  
eistomina2011@gmail.com

**Abstract—** The budget deficit of the Pension fund of Russian Federation is so large that it became obvious that the raising of the retirement age in Russia is inevitable. This is insisted on by both economists and government officials. The traditional approach is based on the fact that the raising the retirement age will result in savings in the social insurance system, as people will retire later. In addition, they will continue to work, and employers will pay contributions, which will lead to an improvement in the financial situation in social insurance. In a large context, it is considered that the employment of older people in conditions of a reduction of the economically active population will also contribute to the development of the economy. This approach is one-party. Older people often get sick, so the raising the retirement age will lead to increase health care costs and sickness benefits. It is also necessary to take into account the tradition of retirement in Russia and the desire of most of older people not to work too long, but to devote themselves to the family. The scientific novelty of the study is the conclusion that retirement is often associated with a subjective assessment of social risk - a person evaluates himself as old, and wants to quit his job. On the basis of this, it is proposed to maintain the retirement age and, at the same time, to increase the incentives for later retirement.

**Keywords—** Retirement age, social insurance, social risk

## I. INTRODUCTION

E. Giddens called the modern society a risk society not accidentally [1]. Today, the risk is not just a peculiar life of all people, it is an essential characteristic. However, attention should be paid not only to the risks that are inherent in a post-industrial society as they are produced by it, but also those, which threaten the person by virtue of his nature.

Aging is a social risk, which is impossible to resist. It inevitably leads to disruption of normal life and requires protection from the state. Biological aging, fraying of the human body, accompanied by the oppression of his vital functions is a threshold, below which a man should have a chance to leave his economic activity and start receiving a pension [2].

## II. MAIN PART

### A. Pension insurance today

Compulsory pension insurance is a primary mechanism for protection against that social risk. Federal law – On

compulsory pension insurance in the Russian Federation” is applied to a larger part of the economically active population. Workers, entrepreneurs, government officials and many others make their future retirement pension rights in this part of the pension system.

Currently, compulsory pension insurance is experiencing serious financial difficulties. The budget deficit of the Pension Fund of the Russian Federation has increased from 106.6 billion rubles to 256.8 billion rubles in 2018. Projected revenues will decline to 66.7 billion rubles and expenditure will increase by 83.5 billion rubles [3]. This problem solving is not a simple task. The State must retain the trust of citizens to its actions, as well as to ensure financial stability of compulsory pension insurance. Raising the retirement age is one of the solutions of the problem.

In Russia, the retirement age is reasonably low - 60 years old for men and 55 years old for women. In addition, there are many opportunities for early retirement – connected with harmful and dangerous working conditions. Demographic studies show that, if the loading of the elderly was 412 people per 1000 people of working age in 2015, it can grow up to 493-515 people per 1000 people by 2036. This confirms a paradoxical conclusion that if the situation with declining mortality rate improves further, the rate of aging, affecting the balance of the pension system, will be even higher than it is now [4].

### B. Raising the retirement age as a way to improve pension insurance

International human rights acts enshrine higher standards in this area. In 1933 the International Labor Organization adopted the Convention № 35 –Old-age insurance (Industry, etc.)” [5], as well as the Convention № 36 –Old-age insurance (Agriculture)” [6]. According to them the retirement age should not exceed 65 years old.

The ILO recommendation № 67 dated 1944 –The income insurance” [7] established the minimum retirement age at no more than 65 years old for men and 60 years old for women; however, for people who have worked for many years in heavy or hazardous working conditions, the possibility of earlier retirement was stipulated. It was emphasized that social risk compensation in the form of old-age pension should be sufficient for the existence, but could be made conditional on

retirement from any permanent remunerated work. In the ILO Convention № 102 –Social security (Minimum standards)” [8], it was determined that the pension age should not exceed 65 years old. However, the higher age retirement age was possible taking into account the working capacity of the elderly in the country concerned.

Therefore, raising the retirement age is considered to be justified in terms of respect for human rights and international social insurance standards. Such changes take place in many countries. For example, in the Republic of Kazakhstan from January 1, 2018 the retirement age for women increases by six months for each calendar year, until it will reach 63 years old by the year 2027 [9]. In Germany there is a gradual increase in the retirement age for people born after 1947 - from 65 years old to 67 years old. From 2012 until 2029 the retirement age will increase by one month for every year until the age 66, then by two months for one year [10].

By now, several options to increase the retirement age in Russia have been proposed. One of them is to increase this age to 63 years old for men and 60 years old for women with the step –plus three months to the retirement age” annually during the first four years of the reform, further — by six months every year [11].

### *C. Is it the best way?*

Economists call this step a unilateral approach to stabilizing the financial basis of the compulsory pension insurance and call for caution. They point out that low life expectancy, especially among men, will cause the situation when the part of the insured people will not achieve the retirement age. In addition, according to actuarial calculations, slight (up to 10-13% of the cost for insurance pensions) economic effect of the raising the retirement age can be only during the first 10-15 years. Then the cost of the retirement pension system will increase significantly once again [12].

Therefore, according to experts, the start of the raising the retirement age in our country is possible and even necessary, but it must be gradual to avoid negative economic, fiscal and financial implications. The process should be aimed at stimulating the development of pension rights of citizens in the long term, rather than the mythical savings budget [13].

It should be noted that the balance of compulsory pension insurance is violated not only by the low retirement age. The system of early insurance old-age pensions remains a serious problem. According to article 33.2 of the Federal law –On compulsory pension insurance” [14], from January 1th, 2013, employers should allocate additional premiums to finance early pensions for people working in special conditions of employment. However, the period of validity of this regulation is too short to remedy the lack of financial resources of the pension system.

The second problem is non-payment of premiums by employers for workers. Despite the transfer of authority for the management in this area to the Federal tax service, the problem is not solved. Currently, the Pension Fund of the Russian Federation denies the appointment of old-age

pensions for persons who have a short contribution period and a low pension factor.

The third problem is the traditions of the retirement pension system. Citizens accustomed to the fixed retirement age negatively treat such unpopular measures to save money. The results of opinion polls conducted over the past few years are unambiguous: the majority of the citizens perceive the initiative for its enhancement extremely negatively: number of opponents to the innovations still makes more than 80 % of the population. This position is unanimously shared by men and women, the members of all age groups (with minor differences from 84% to 90% among young people in the group of pensioners), inhabitants of all types of settlements [15].

The State is trying to solve these problems in a variety of ways. Since 2016, the indexation of pensions to working pensioners has been abolished. Since 2017 a gradual increase of the retirement age of officials has started. Improvement occurs gradually - in 2018, it is 56 years old for women and 61 years old for men. It will be carried out until the retirement age reaches 65 years old for men and 63 years old for women [16].

Moreover, it is possible to optimize the costs of compulsory pension insurance to some extent by promoting later retirement. Today the concept of active and dignified ageing is developed. According to article 23 of the European Social Charter [17] effective realization by elderly persons of the right to social protection involves first and foremost giving them the opportunity to remain full members of society for as long as possible. According to the Charter such citizens should be able to choose their lifestyles without restraint and lead an independent existence in their own environment, as long as they are willing and able to do so.

The reluctance of employers to hire elderly people cannot change the fact that often they are the people who have many years of production experience, possess unique knowledge and are ready to apply them in a job [18], that also should contribute to the economic development of the country. According to the legislation on employment, if a person does not receive a retirement pension, he can register as unemployed; receive job search and vocational retraining services.

### III. CONCLUSION

Thus, the problem of financial framework of compulsory pension insurance must be addressed in an integrated manner and include not only raising the retirement age, but also measures addressed to both employers - in order to strengthen accountability for the formation of the retirement pension rights of workers, and citizens themselves - to understand themselves as active members of society who are interested in the long and fruitful activities.

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