

Limitations of the Russian Pension System

No	Area	Limitations	Laws
1	Structure of the pension system	The pension system in Russia consists of mandatory and voluntary (additional) pension insurance. Voluntary pension insurance relies on a contract-based relationship between the insuring party, the insured person and non-state (private) pension funds. Contributions to voluntary pension schemes can be made by private individuals or legal entities. In the latter case, corporate pension schemes are set up.	Federal Law № 167 ¹ and № 111 ² and № 173
2	Source for mandatory pension insurance	Mandatory pension insurance is regulated by the law and is compulsory for the working population. Employers are liable to pay contributions for their employees to the pension fund at the rate of 22% of workers' taxable income. Out of 22%, 6% goes to the funded pension component while the other 16%, to the unfunded component	Federal Budget Law; Federal Law on the Budget of the Pension Fund of the Russian Federation
3	Investment of funded component pensions	The funded component consists of the funds accumulated on individual accounts of insured persons. This money is invested and the investments return is allocated among individual accounts. The unfunded component is based on the scoring system which turns insured persons' revenues into scoring points. The value of a pension point is determined by the state depending on the current economic situation.	Federal Law № 111 ³
4	Structure of investment portfolios	Management companies can have the following structure of their investment portfolios: government securities of the Russian Federation (no more than 40%) and its subjects (no more than 40%); deposits (no more than 80%); equities	Federal Law № 111

¹ Federal Law № 167 of 19.12.2016 'On Mandatory Pension Insurance in Russia'

² Russian Federal Law No 218 -FZ of 21.07.2014 '**On Investment of the Funded Component of Mandatory Pension Insurance**'

		(qualitative requirements to the quotation list, no more than 65%); bonds (qualitative requirements to the quotation list, no more than 80%); mortgage-backed securities (no more than 40%); and securities of international financial organizations publicly traded on Russian markets (exhaustive list of ten institutions, no more than 20%	
5	Retirement age	The retirement age in Russia is 60 for men and 55 for women. Some people can take early retirement due to hazardous or harmful work conditions, which reduce life expectancy, for example, people working in the Extreme North or beyond the Arctic circle are entitled to early retirement (45 for women and 50 for men). People of certain professions, such as pilots and flight attendants, are also entitled to early retirement scheme.	Federal Law № 167
6	Financing of the deficit of the mandatory pension insurance system	The amount of transfers to the budget of the Russian Pension Fund, an operator of compulsory pension insurance, in 2016 exceeded 1 trillion roubles or 15.9 billion dollars. Despite the substantial subsidies, in 2016 the budget of the Russian Pension Fund still ran a deficit of 175 billion roubles or 2.7 billion dollars.	Federal Budget Law; Federal Law on the Budget of the Pension Fund of the Russian Federation