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**ECONOMIC GUARANTEES OF THE PENSION SYSTEM**

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***Abstract***

The article deals with economic components providing pension system guarantees. The government is obliged to guarantee the viability of the pension system and improve it. It requires taking into account all influencing factors. The task to improve the pension system roots into the employment system and changes occurring in it. Presumably, if pensions are social guarantees rather than salary-based income, the probability of employment of pensioners will increase. The issue of expanded retirement age is crucial. The modern pension system of Russia is based on insurance principles. Insurance contributions paid by employers for the entire period of the employee's activity are only a part of pension capital. The task is to accumulate maximum insurance contributions on individual personal accounts of the Pension Fund of Russia. The amount of pension income will depend on these contributions. The state pension system is designed for those who have average or less average income. It insures the loss of working ability ensuring the minimum level of pension coverage. It is a personal matter which pension system to choose. There are different methods for increasing the amount of future pension income. One of them is a transfer of additional insurance premiums to the funded part of labor pension which is co-financed by the government. The government should provide social guarantees rather than desired or imaginary chances. The state which does not solve economic issues does not fulfill its functions. It is not sufficient to control pension contributions to the Pension Fund.

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**Keywords:** Salary, pension, government support, Pension system of the Russian Federation, public funds, employment.



## 1. Introduction

It is necessary to pay attention to required changes in the pension system. They should be associated with labor and salary issues. It should be emphasized that the government is not able to assess the current problems of labor activity. The government authorities ignore economically effective labor organization. People try to survive themselves. The government often makes decisions, but does not implement them, people try to solve their employment and labor problems on their own (Averin, 2010; Malinetsky, 2015; Gontmakher, 2002).

Young people work less and less, even graduating from universities. According to official statistics, 70-75% of 20-year-old young male and female people who will work up to 60 years and 55 years respectively are not able to earn their pension income. This category will be among "social pensioners" whose income is less than the poverty level (Ilyin & Morev, 2018a).

## 2. Problem Statement

These provisions allow us to focus on the following issues. The changes in the pension system of the Russian Federation which are currently being discussed will worsen the state of the pension security of most pensioners. There will be a lot of dissatisfied people. Changes in the retirement age proposed by the Government of the Russian Federation will complicate rather than improve the pension system. It could be improved by identifying economic opportunities for increasing salaries.

Saving pension funds due to increasing pension age can destroy the pension system, make it an even heavier burden for most people and the government.

A 20-year-old young man will have retired by 2063. What can he earn by this age. In Russia, salaries are rather low, all sorts of payments are growing at a high rate. In this context, it is impossible to predict future pension incomes.

Today, the average pension is 14,5 thousand rubles. In economically weaker countries, average pension incomes are higher: in Greece - 50 thousand rubles, in Denmark - 150 thousand rubles, in Finland, Israel and a number of other countries - 100 thousand rubles (). In this context, we can conclude that changes in the pension system of the Russian Federation are required, but they should be different from those proposed by the Government of the Russian Federation (Ilyin & Morev, 2018b; Dmitrieva, Petukhova & Ushakov, 2010).

## 3. Research Questions

It is important to mention that changes in the pension system require:

- restoring order in the current pension system (there are too many differentiations, contrived norms and rules for high-income pensions, it is necessary to specify who and for what receives pension income; why some people receive two or three pension incomes; if there are any "dead souls", etc.)

- accuracy of employment and payment procedures;

- 60-65% of the unemployed refuse to work due to low salaries which are a basis for future pension incomes;

- employment changes. People should work in accordance with their qualifications. Russian people should work. The government has to ensure their employment. The government should not use cheap

foreign labor. Cheap foreign labor is not a factor stimulating economic growth and development. Qualifications and work experience can become a value of the labor market, and the labor market is closely associated with the national economy. The Russian economy is in high need for developing competition in the labor market and this should be taken into account when making decisions about the pension system.

#### **4. Purpose of the Study**

The state has to guarantee the viability of the pension system. The pension system is one of the most complex economic objects for government management depending on a lot of factors: the situation on the labor market, the level of salaries, the period of labor activity and seniority structure, demographic factors: fertility, mortality, duration life, regulatory requirements (pension schemes and retirement plans), etc.

Pension insurance is traditionally based on the principle of "solidarity" of generations, i.e. voluntary responsibility of younger generations to older ones which is financially based on fixed deductions from salaries. Working citizens provide those who are already retired, and the government reallocate the funds (Tokayev, 2017; Basnukayev, 2016).

Pension system improvement requires system solutions based on all influencing factors.

Solutions of the pension system problems are based on liberal values and benchmarks. The need for new jobs in the real economic sector is emphasized. However, they have not been created in the "power economy". Why? On the one hand, people of excessive liberal views, with low state responsibility, are involved in the power structures. On the other hand, solutions proposed and put into practice are schematized (Fetisov, 2016; Voronova & Miroshnichenko, 2017a; Voronova & Miroshnichenko, 2017b). Schematism is typical of changes in retirement terms for women (plus 8 years) and men (5 years plus).

The schematic solutions are not appropriate for the real economy. Economic functions are uncontrollable, necessary welfare development level indicators have never been reached, but "schematic solutions" are implemented. President of the Russian Federation V.V. Putin in his Address to the Federal Assembly said: "We need to take difficult but extremely important decisions. We have to cut out all unnecessary things that hinder our movement, prevent people from development. We need creative power, dynamic development, so that no obstacles prevent us from progress."

The root of tasks aimed at improving pensions is employment and changes in this area. We need a systemic approach implying an increase in the economic potential for increasing income of the working population. Its main source is salary as a value of work, its productive performance. The departure from this logic into the "jungle" of age-related retirement changes is not very promising. There are dangers of new rules and norms regulating differentiated pension income with lost values of quantitative and qualitative assessment. Insignificant pension income indexations will hardly be acceptable for the government policy. We can talk about desire to work, earn and live better rather than well-being.

#### **5. Research Methods**

To confine retirees to poverty (physical and economic), to survival due to a significant increase in the retirement age is hard and unacceptable path for Russia. An increase rate of 1000 rubles per year applied to pensions of working pensioners (by 2030, the increase will have been 11 thousand rubles) is outrageous. This issue should not be assessed in terms of the average age. The age indicators in the all-Russian

demography measured with average indicators, a decrease in infant mortality rather than a real increase in the survival rate of the majority of the adult population has influenced for the last 5-7 years. In Russia, the age of "survival" is 14,5 years, but life expectancy varies under the strong influence of structural indicators of demography. The real pension income is reduced due to inflation. This is a significant social risk deteriorating the life of pensioners.

No one will deny that there is no alternative to people's physical health. But it is necessary to understand and take into account that at an increase in the retirement age has a negative effect: people are more tired, this is a law of nature. An extended range of the retirement age will inevitably exclude employment opportunities. In addition, a lot of working pensioners work because they lack economic freedom.

## 6. Findings

If pensions are social guarantees rather than salary-based income, the probability of employment for survival will increase. Then the issue of the extended retirement age will be crucial. The government will have to think about employment of non-pensioners, their salaries. Social guarantees should be real rather than imaginary.

Pensioners have a lot of problems which are burning, relevant, and extremely controversial. But the changes in the pension system proposed by the Government of the Russian Federation seem to be more aggravated by hundreds of problems of "special pre-pensioners". Planned decisions of pre-pensioners to retrain cause smiles, disappointment and even protests. It is planned to spend five billion rubles for retraining of future pensioners.

Retraining of pre-pensioners is an extremely difficult task. If it does happen, the same problems of employment and salaries will arise. It can cause retraining of aged people instead of positive changes in the salary system. New professions are being mastered over the years and this has to be taken into account as well. Easy decisions are often fictitious. They do not account for government expenses. We shouldn't think that "retraining before retirement" is the only chance to earn a pension income. Retraining for five thousand rubles per person is frivolous.

Social protection is a system of distribution relations; during income generation, public funds of material support are formed and used. Implementation of legislative and social guarantees ensures observance of social norms and living standards.

Social protection is based on the following principles:

- Social partnership: the government and interested organizations solve practical social problems.
- Economic justice: social and economic support for vulnerable segments of the population.
- Adaptability: the ability of the social protection system to develop and express itself
- Preventiveness of social protection measures: forecasting and prevention of social risks at the regional level to eliminate them more effectively, in particular through a flexible combination of paid and free services.

## 7. Conclusion

It should be emphasized that the main issue is pensioners' income and welfare. The government should provide guarantees. It is unacceptable to reduce pension expenses. Pensions are a special government support. Pensioners have the right to guaranteed government support, but the government has to solve these tasks systematically. A different approach can turn the pension system into a “social feeder”. This is dangerous, harmful and disastrous. The state controls pension funds and contributes to creation of conditions for their formation. A state that does not deal with economic issues of forming pension income does not fulfill its functions. It is not enough to regulate pension contributions to the Pension Fund.

In 2018, the expenditures of the PFR will amount to more than 7 trillion rubles. But the amount should be distributed in an effective way, including expenses for (buildings, high salaries of management, cars, spare parts, furniture, office equipment, security, etc.). This is about the new quality of public administration which is one of the key system-forming factors which influence the national competitiveness.

In order to increase its revenues, the Pension Fund of Russia must create incentives for full payment of pension contributions. Elimination of black salaries would increase revenues of the Pension Fund of Russia. The pension system is a basis for most important social guarantees for stable social development, since it directly affects interests of the disabled and employable population. For Russia, this issue is currently very relevant as there are currently about 40 million elderly, disabled and family members who lost their breadwinner.

It is necessary to reform the pension system to create an effective financially sustainable system which ensures a decent standard of living for its users. The above-mentioned factors should be taken into account when determining long-term targets for its development. In the context of actuarial calculations, a number of experts' proposals aimed at solving long-term problems of the pension system should be considered.

Thus, the opinion of the Russian society about the retirement age does not need additional comments. One could assume that the pension reform is a unpopular but necessary measure. According to the Prime Minister D. Medvedev, “it’s like a bitter pill. The person does not want to take it, but he understands that if he does not do it, everything can end much worse.

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