

Senator Kudrin's pension plan thought a step back into the past

"The solution to this problem (Pension Fund deficit – editor's note) suggested by the head of the Finance Ministry is in fact a step back to the old defined benefit plan and, consequently, it will cause greater dependence of the Pension Fund on the budget," Andrey Vavilov commented on the government finance division's latest initiatives in his interview to Bigness.ru.

Andrey Kudrin, the first deputy chairman of the Russian government, advocates larger tax payments to the Pension Fund that has been facing a steadily growing deficit in the past years. Kudrin suggests that income tax for citizens under 40 and unified social tax should be increased. According to his plan, this social group will pay 3% of their own incomes to the Pension Fund (the taxable amount should not exceed 1.1 million rubles per year). Thus the income tax will actually grow from 13 to 16 percent. It means in practice that part of the unified social tax will be redistributed among pensioners. Besides, the Ministry of Finance is going to raise unified social tax for employers and increase the retirement age in future.

Mr. Vavilov believes that this approach is wrong. "Raising the unified social tax rates and shifting part of the burden on employees, the Ministry of Finance pursues employees' involvement in mandatory retirement contribution. This is wrong," he said in the interview to Bigness.ru. With the present ineffective management of pension funds, it is impossible to reach a required return on investments. We need a totally new approach to our investment policies that would be oriented towards a maximum return with adequate risk levels. The country does have both administrative and financial possibilities for settling the pension reform issue."