PENSION MOBILITY
within the Eurasian Economic Union and the CIS

ANALYTICAL SUMMARY

Russian version of the report is available at:
http://eabr.org/r/research/centre/projectsCII/

EDB Centre for Integration Studies
Saint Petersburg
2014
Editor-in-Chief of the series of reports: Evgeny Vinokurov (EDB)
Managing Editor: Kirill Onishchenko (EDB)
Translated from Russian: EGO Translating Company

Research team:
Tatyana Karabchuk, Veronika Kostenko, Anna Almakaeva, Natalia Soboleva (The Laboratory for Comparative Social Research of the Higher School of Economics, a National Research University, Moscow, Russia); Alain Jousten (Université de Liège, Liège, Belgium).

Project coordinators:
Vladimir Pereboev (EDB)
Stepan Titov (World Bank)
Analytical summary

Over the past decades, migration rates have been growing year-on-year, and workers in particular become increasingly mobile within CIS and OECD countries. CIS boasts highest migration levels in Eurasia. According to official statistics of the Russian Federal Migration Service alone, as of February 2014, in Russia there were 2.3 million migrants from Uzbekistan, 1.5 million migrants from Ukraine, 1.0 million migrants from Tajikistan, 600 thousand migrants from Azerbaijan and Kazakhstan each, 500 thousand migrants from Kyrgyzstan, Moldavia and Armenia each, and 390 thousand migrants from Belarus. Unofficial assessments claim that in Russia the number of migrant workers alone is 5–6 million (about 7% of the total Russian employed workforce).

Number of foreign citizens in Russia as of February 2014 (thousand people, only for countries where at least 200 thousand people have come from)

![Bar chart showing number of foreign citizens in Russia as of February 2014](image)


In 2012, personal remittances received by Tajikistan and Kyrgyzstan comprised 48% and 31% of GDP accordingly. According to the World Bank, Tajikistan, Kyrgyzstan, Armenia and Moldova were among the top 10 remittance recipients in 2012.
Top 10 remittance recipients in 2012 (percentage of GDP)

Source: World Bank, Remittances and Development Brief, October 2, 2013

According to the Russian Federal Migration Service, nearly one third of all migrants coming to Russia are of pre-retirement or retirement age (see Appendix 1 in the full Russian version of the report). For this reason, pension issues seem to be of high importance.

Risk-free 100% portability of pension rights and assets of employees and the self-employed between donor countries and recipient countries is critical both to migrant workers and sustainable economic development of states involved in Eurasian economic integration. Pension mobility (or portability) shall be an integral part of labour mobility within the common labour market emerging in the Single Economic Space (SES), and of harmonised social policies.

Portability of pension rights can be required if:

a) A worker migrates to another country. Years of service in another country shall be taken into account when determining the amount of retirement payments.

b) A worker migrates to another country and later applies for pension there.

c) A pensioner moves to a different country.

This research comprehensively evaluates the potential for and restrictions of pension portability development for the purpose of labour migration and economic integration to best serve the interests of recipients (Russia, Kazakhstan and Belarus) and donors (Kyrgyzstan, Tajikistan and Armenia) within the Customs Union, SES and the emerging Eurasian Economic Union (EEU). Hereinafter EEU shall imply the six countries mentioned above. The research was done jointly by the EDB Centre for Integration Studies and the World Bank with assistance of leading specialists from the Higher School of Economics and international experts.¹

¹ Full version of the report “Pension Mobility within the Eurasian Economic Union and the CIS”, which is the basis of this analytical brief, as well as annexes and additional materials on the results of the study are available in Russian on the website of the Eurasian Development Bank http://eabr.org/r/research/centre/projectsCII/project21/
The basic points of the research are as follows:

1. Analysis of the national and international regulatory framework across workforce donor and recipient countries demonstrates the following:

   1) **Pension schemes have different structures.** Russia, Kazakhstan, Tajikistan, Kyrgyzstan and Armenia employ three-level models with a mandatory cumulative part. Belarus uses a one-level pay as you go pension plan.

   2) **Retirement age is different in SES countries.** It is at the lowest level in Russia and Belarus with 55 for women and 60 for men. In Tajikistan and Kyrgyzstan it comes three years later with 58 for women and 63 for men. All Armenian citizens, regardless of their sex, retire at 63. The Kazakhstan government has passed a new pension law providing for gradual elimination of gender-related differences in the pension age that since 2027 shall be 63 for both men and women.

   3) **There is a big difference in the amount and sources of pension contributions.** In Russia aggregate pension contributions comprise 22% of remuneration and are basically paid out of the remuneration fund. No pension contributions are deducted from workers' salaries. In Belarus the pension contribution rate is higher (29%). 28% are paid by the employer from the remuneration fund, and 1% is deducted from the employee's salary. In Kyrgyzstan the same rate is 15% to 10%, and in Tajikistan 25% to 1%. In Kazakhstan the biggest part of pension contributions is deducted from workers' salary (10%). The Kazakh law also provides for mandatory professional contributions for specific categories of employees making up 15% of the remuneration fund. However, this is not a common thing. Armenia is the only country where pension contributions are partially covered from the state budget.

Considering the above differences in the pension schemes, **they need to be coordinated, for removed registration hurdles and simplified licensing procedures for migrant workers in SES and EEU countries cannot be effective without social guarantees, which are also required for effective operation of the common labour market.**

2. According to the demographic structure analysis of CIS population (excluding Georgia), people of retirement age are most numerous in Russia and Belarus (13-14%) followed by Kazakhstan (7%). In Kyrgyzstan and Tajikistan this value is significantly smaller (3-4%). At the same time, the number of people under 14 in Russia is as low as 15%, while in Kazakhstan and Kyrgyzstan it is nearly twice as big (25% and 29% accordingly). In Tajikistan people under 14 comprise about one third of the population in general (36%).

This means that **in the years coming Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan will have less challenges related to ageing population and lack of workforce paying contributions and thus covering state's pension expenses.** In these countries people under 14 account for at least 25% of the population. At the same time, Ukraine, Russia, Belarus and Moldova will be likely exposed to a **severe lack of workforce and scarce pension fund replenishment.** Forecasts of the number and the structure of population and migration flows demonstrate that **Russia and Kazakhstan will be leaders among recipient countries, which can have a very positive effect on their economic development subject to effective social policies being in place.**

3. Russian labour market seems to have much better prospects than other CIS labour markets which can be proved by low unemployment rates, higher earnings and more favourable GDP growth estimates. Due to this **migrant workers from neighbouring CIS countries will still be coming to Russia.** It is worth mentioning that big flows of illegal migrants cannot be beneficial for recipient countries. **With its own workforce reducing and population ageing, Russia shall be interested in attracting qualified**
and legal migrant workers to be officially employed under labour contracts and make pension and medical insurance contributions. Thus, a SES and EEU common pension space can reduce illegal migration and ensure better labour relations.

4. According to research and foreign sources describing the experience of other countries in developing and operating pension portability schemes, one of the core rights in the European Union is unrestricted workforce mobility. The workforce mobility right is ensured through relevant regulations designed to coordinate national social security schemes. The regulations are now also effective in EEA countries (Norway, Liechtenstein and Iceland) and Switzerland. Currently these regulations also cover early retirement, along with traditional retirement benefits. Note that in the EU they are mostly focused on coordination, rather than harmonisation and unification, of national pension schemes. This means that each EU country is entitled to preserve its own national pension scheme. The regulations designed to coordinate national pension schemes are based on the following principles:

- **Exclusivity.** A person can only be covered by the laws of and make contributions in one country.
- **No discrimination** between nationals and foreigners.
- **Aggregation**, i.e. keeping record of employment in other EU countries.
- **No double allowance**, i.e. a person is not entitled to receive several similar allowances at the same time.
- **Allowance portability**, i.e. workers can get their allowances even if they live outside the paying country.

5. According to analysis of research, mass media and interviews with experts, the public and experts agree that pension portability is an urgent issue that shall be solved promptly through a common pension space. To implement this project in EEU countries, sufficient labour and timing budget is required since at present there is no coordination between countries or their pension funds. It shall be viable to start immediate distribution of information in EEU countries to help them get prepared for the transition to the common pension space. Experts have revealed several conditions that make this project essential.

6. Two options of introducing the common pension space have been considered:

The first one is based on a pension plan borrowed completely from the EU. Under this plan, pensions shall be accrued and paid by the country of applicant's residence, with account of work record in any other country where the applicant used to be employed. The pension amount is calculated according to the laws and regulations of the country where the pension is accrued and paid, at the same time workers receive well-deserved pensions based on their pension contributions and salary. This option does not require a sophisticated pension calculation mechanism because pensions are simply awarded and paid according to the current laws and regulations of the applicant's country of residence.

The basic disadvantage of this option is as follows. If most migrant workers currently employed in recipient countries decide to stay there after retirement, their pensions will have to be paid by such countries (Russia and Kazakhstan in the first place). For this reason, we regard the first option to be not suitable for EEU. To avoid excessive burden on Russian and Kazakh pension funds, we now suggest the second option.

The second option implies proportionate pension accrual. This option requires more complicated pension plan, work record scheme and contribution system. It also implies partial borrowing of the EU scheme to be tailored to the special nature of the emerging Eurasian Economic Union and CIS countries in general. The second option provides for a single labour migration record and monitoring system and account for years of
service in various countries, i.e. effective and prompt communication between pension funds is required. **Further, an offset system for pension funds in different countries shall be established**, which comprises the main difference from the first option considered above. This actually means that retirement payments and contributions shall be made in the applicant's country of residence with the local pension fund getting transfers (compensations) from the pension fund of the country where the applicant worked previously. The transfers/compensations to the pension fund can be proportionate to the period of applicant's employment in the previous country.

This option requires legal changes at the highest level since it is going to contradict the no-offset regulations between CIS countries who joined Pension Agreement 1992 (see Appendix 3). However, offset is possible if bilateral agreements are in place: "No offset shall be possible unless otherwise provided for in bilateral agreements" (Art. 3). Under this Agreement, pensions shall be paid by the country where pensioners reside, regardless of the pensioner's country of citizenship within CIS or countries where the pensioner used to work. Thus, the current situation is beneficial for donor countries that do not have to pay pensions to their citizens, but is disadvantageous to recipient countries, such as Russia and Kazakhstan. Therefore the effective 1992 agreement on the common pension space between CIS countries shall be improved or amended at the level of Customs Union members (Russia, Kazakhstan and Belarus) and the countries running a process of joining the Customs Union and EEU (Armenia, Kyrgyzstan are officially in this process, and Tajikistan is the third nearest potential CU-EEU new member). The second option requires a thorough elaboration of contribution and work record mechanisms. It also needs more labour input and a longer preparation and implementation period. At the same time, it takes into account the impact caused by a big inflow of retirement age migrants to recipient countries.

7. **We see the following potential problems related to the establishment of a common pension space in EEU countries:** 1) long and labour-consuming pension calculations due to significant differences in pension schemes and retirement age in CIS countries; 2) sophisticated calculations and potential mistakes in pension accrual due to significantly different life and income standards in CIS countries.

There is a solution to this problem. EU experience shows that a common pension space can be functioning effectively in countries with various pension calculation rules and retirement ages.

8. **We see the following basic advantages and positive consequences of the common pension space:** 1) reduced unofficial employment, impetus to legalise migrants' income, and lower illegal migration rates; 2) additional contributions to pension funds of recipient countries (e.g. an inflow of young migrants' contributions is essential to Russia); 3) less social tensions; 4) better investment potential of EEU; 5) EEU will become more attractive for qualified migrant workers due to improved social security; 6) stimulation of legal migration and deeper economic integration between EEU countries; 7) EEU's stronger influence in CIS.

9. Currently we see the following **obstacles for the common pension space project:**

1) **Discrepancies in the laws and pension schemes of various CIS countries** (different retirement age and contribution record systems) leading to hard negotiations and long time required to sign bilateral agreements or develop a new agreement between EEU active and potential members.

2) **Pension funds are not prepared to change to unrestricted pension portability.** There shall be comprehensive and transparent contribution record systems and unhindered communication between funds.
3) **Differences in remuneration and earnings, minimum wages and living standards across CIS countries** can also hinder the establishment of the common pension space, since these factors require complicated pension recalculations that can take account of different pension rates and ensure fair retirement payments. For this reason, the second option is preferable since it is based on proportionate pension accrual.

8. Based on our research, we have developed the following **recommendations for interstate executive authorities**:

- Employ a monitoring method for the common labour and pension space and contribution records to ensure effective communication between pension funds, facilitate statistical recording and establish strong connections between pension funds of various EEU countries. Develop a legal framework for the transition to the common pension space within the Customs Union and EEU.

- Develop an integrated work and earnings record system (adjusted, where necessary, with the use of labour complexity and conditions factors). At the same time, the proportionate accrual principle shall be followed.

- Establish an effective communication and offset system for pension funds of different EEU countries (to later include other CIS countries).

- Develop software to facilitate effective and prompt communication between EEU pension funds.

Besides that, the following actions shall be taken to communicate information and get prepared for the transition to the common pension space:

- Inform the population and train experts and state representatives who will carry out the common pension space project in EEU; and provide trainings and information to pension fund employees.

- Perform a comprehensive evaluation of pension funds to check whether they are prepared for the transition.

- Conduct public surveys on the necessity of and readiness for the common pension space establishment in recipient countries to further develop an adequate communication programme for the population.

- Conduct surveys among migrants to see what they think of the common pension space project and whether they would like to stay in recipient countries upon retirement.