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Indexation of Pension Payments: Finding a Balance Between Inflation and Wage Changes in the Economy

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ABSTRACT

The objective of the study is to analyze the effectiveness of the principles of regular indexation of insurance pensions practiced in the Russian pension system, as well as their compliance with the existing similar practice in other countries with pension provision and insurance pension systems. In international practice, these principles correspond to the initial belonging of these systems to one of two basic pension models – continental and Danish (Anglo-Saxon). With an annual increase in pension payments, the governments of countries with pension systems of the first model are guided by changes in the average wage in the economy, the second model – by the consumer price index. The aim of the study is to determine the most optimal formula for indexing insurance pensions in the Russian Federation. The authors use general scientific methods: analysis, modeling and comparison. The article analyzes the practice of indexing pensions that has developed in the Russian Federation and provides a calculation of the results of the valorization of such payments in the early 2000s. It also provides a theoretical justification for the need for the transitions to the indexation of pensions in accordance with the wage index in the economy. The study gives a comparative retrospective analysis of the level of indexation of pensions based on the consumer price index and the index of wage changes. This analysis is based on data from official statistical observations of inflation between 2011 and 2021, as well as the growth of income of employees. As a result of the study, the authors conclude that the annual pension indexation scheme adopted in Russia does not correspond to the modality of the domestic pension system and does not allow ensuring the standard replacement rate. The authors propose their own methodology for calculating the indexation coefficient based on the principles of the functioning of the domestic pension system as a continental-type insurance pension system. In addition, the article provides a calculation of the sources of funding for pension indexation in accordance with changes in wages in the economy.

Keywords: pension; indexation; wage; inflation; effective rates of insurance premiums; replacement rate

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INTRODUCTION

For most countries of the world that have their own national systems of pension provision and pension insurance, including Russia, the most important problem is to maintain the purchasing power of pensions and maintain the real income of pensioners at the normative level. The solution to this problem is complicated by the change in the demographic structure of the population and the increase in the proportion of people of retirement age. According to the forecasts of the European Commission, the costs of the EU countries related to social support for the elderly (including the payment of pensions, the provision of treatment, long-term care, as well as transfers related to unemployment and education) for 2035 will amount to 25.8% of GDP, and by 2060–27.8% of GDP¹.

The solution to this problem requires the application of additional measures to balance the income and expenses of pension funds. At the moment, most countries apply either raising the retirement age or reducing or completely refusing to index pensions for certain categories of pensioners. In Russia, both of these measures were applied. The retirement age was raised, and a moratorium was introduced on the indexation of pensions for working pensioners. However, the effectiveness of both these measures was relatively low.

In EU countries, there is an understanding that the vast majority of older people receiving a pension are unable to compensate for the decline in their income by returning to work due to disability. Healthy life expectancy for people over 65 in the European Union is 8.7 years for men and 8.9 years for women. This severely limits the potential for further increases in the retirement age in these countries. A similar situation is observed in Russia, where life expectancy in 2020 decreased to 71.54 years.

It should also be considered that the level of consumption of people of retirement age is a factor in economic development. Thus, the study and evaluation of the effectiveness of the pension indexation mechanisms operating in the world as an important element in improving the efficiency of social insurance systems is an important, albeit still poorly studied, problem. A significant indicator of such efficiency is both the coefficient of replacement of lost earnings by a pension at the time of an individual's retirement, and the value of this coefficient for him during the entire period of receiving pension payments. Older pensioners aged 75 years and older are more at risk of poverty due to the fact that when they were granted a pension, the nominal value of their wages during their working life could be lower than the nominal value of the wages of younger pensioners who were representatives of the same profession or social group. From this, it is concluded that solving the problem of only maintaining the purchasing power of a pension during its indexation may be insufficient and increases the risk of older people falling into poverty.

Economic science, unfortunately, has so far paid little attention to the problem of indexation of pension payments and the methodology for calculating the corresponding indexation coefficients. The mainline of discussion is built around the problem of balancing the costs and incomes of the pension system, as well as moral and ethical principles in determining the parameters for indexing pensions.

V.V. Shushukov and I.R. Topunova in the article "Generalization of the world experience in carrying out pension reforms" state that "the use of a different (non-inflationary) procedure for indexing pensions — based on wages — is unpromising since a retired person does not need to further increase the level of consumption if the costs of treatment are compensated by other social benefits and, thus, do not depend on the change in the average wage in relation to pensions" [1]. Such a view on the principles of indexation is controversial due to the existing ideology

¹ OECD Economic Policy Papers. URL: https://www.oecd-ilibrary.org/economics/fiscal-challenges-and-inclusive-growth-in-ageing-societies_c553d8d2-en; jsessionid=Mp9U3qDK4CSfl3VYR4tgJLZL.ip-10-240-5-182 (accessed on 29.05.2021).

of pension insurance. This also contradicts the provisions of the national legislation of individual countries of the world, as well as the very concept of “pension”.

If a pension is recognized as part of an individual's earned income (pension insurance system), pension payments should be indexed to changes in wages. And vice versa, in pension systems of the Anglo-Saxon type, focused on providing a living wage for a pensioner, in accordance with the consumer price index.

In his article “Pension Policy and Population Aging”, the head of the Economic Expert Group E. T. Gurvich points out that Russia is distinguished by “relatively generous indexation of already assigned pensions” [2]. He draws the corresponding conclusion on the basis of comparing the level of pensions with the subsistence level of a pensioner and calls for “more economical indexation of pensions”. However, when comparing the procedure for indexation of insurance pensions in the Russian Federation and similar pension payments in other countries, it is precisely the modest indicators of their increase in Russia in relative terms that catch the eye. Therefore, the procedure for increasing pension payments proposed by the authors of these works can be considered as not taking into account the insurance nature of the domestic pension system and the orientation of the size of the pension on the unearned earnings of a pensioner, and not on the subsistence minimum or purchasing power.

When analyzing the order of indexation of pension payments, domestic researchers pay the most attention to the problem of the annual increase in pensions for the so-called “working pensioners”. Its relevance increased significantly after the Government of the Russian Federation singled out this category

of pensioners in a separate social group in 2016 and abandoned the annual indexation of their pensions. When analyzing the situation that has developed as a result of this measure, researchers, as a rule, operate with the concept of “social justice”, and the discussion itself boils down to a discussion of the question of whether such a refusal is discriminatory in relation to a certain category of citizens. For example, in his article “Indexation of pensions and the principle of social justice” N. D. Gomonov notes the absence of a normative definition of the principle of “social justice” [3]. The inconsistency of this measure with the principles of “social justice” and “formal equality” is indicated in the work of N. L. Zueva [4]. At the same time, the authors do not consider the fact that the very concept of “pension” is associated primarily with disability and only secondarily with a person's age. Therefore, the term “working pensioner” itself is debatable, and not just the procedure for indexing pensions for this category of citizens.

The discussion about the procedure for indexation of pension payments in Russia, as a rule, is in the field of legal analysis of an already existing procedure or changes initiated in it. There is a lack of theoretical understanding of the problem posed from the point of view of social relations of a socio-economic nature. In this regard, the author has set himself two main goals: to analyze the effectiveness of the current mechanism for indexing pensions in the Russian Federation and its compliance with the principle of compulsory pension insurance, as well as to calculate and propose possible changes to this mechanism aimed at increasing the pension coefficient of replacement of lost earnings by a pensioner.

Foreign researchers also pay insufficient attention to the problem of indexation of regular pension payments. Eva Maria Hohnerlein, Professor at the Max Planck Institute of Social Law and Social Policy, in his work “On the issue of indexation of pensions for pensioners — regulatory models and legal standards”, indicates that the rules

for indexing pensions in the EU countries are constantly becoming more complicated and the emphasis is on improving the efficiency of public pension schemes in terms of providing them with a guaranteed income in old age and reduce the risk of poverty as a result of retirement. She also points out that most countries of the world are gradually moving away from the practice of annual pension increases taking into account inflation, moving to indexation in accordance with changes in the average level of wages in the economy [5].

Other foreign researchers adhere to a similar point of view. For example, in his work "In the Wake of the Crisis: Pension Reforms in Eight European Countries", University of Bremen Professor Karl Hinrichs notes that since the 2008 global financial crisis, the eight European countries he surveyed (Ireland, Greece, Portugal, Spain, Italy, Hungary, Romania and Latvia) have either suspended or introduced "less favorable pension indexation rules" that have been used to ease the burden of pension obligations on their public finances. However, amendments to national legislation that led to reductions in pension payments in at least three countries (Romania, Latvia and Portugal) were declared unconstitutional [6].

The authors of the Oxford Pension Policy Guide "Defending the Minimum Income in Dynamics", published in 2007, note that the choice of the countries of the continent between indexing pensions to inflation or the dynamics of wage changes is determined by the general ideology of their pension policy and the compliance of pension systems with one of two basic pension models. Accordingly, countries such as Great Britain or Denmark index pensions paid under the patronage of the state at the level of the consumer price index, and, for example, Germany, Austria, or France, depending on the dynamics of wages [7].

Even earlier, in 1998, Ute Klammer, Professor at the Duisburg Institute of Sociology, noted that the latter option for raising the level of pension payments is more consistent not only with the expectations

of pensioners themselves but also with the ideology of pension systems based on Bismarck's principles [8].

Thus, the problem of indexation of pensions is connected not only and not so much with the current financial and economic indicators of national pension systems, the balance of their accumulated total pension liabilities and incoming defined contributions, but with the principles of relationships in the employee — employer — state triangle. If a pension is recognized as part of an individual's earned income (pension insurance system), pension payments should be indexed to changes in wages. And vice versa, in pension systems of the Anglo-Saxon type, focused on providing a living wage for a pensioner, in accordance with the consumer price index.

ANALYSIS OF THE MECHANISM OF INDEXATION OF PENSIONS IN RUSSIA AND OTHER COUNTRIES AND THE CONDITIONS OF ITS OCCURENCE

The indexation mechanism for pension payments in the Russian Federation was initially focused on preventing the excess of the pension system's expenses over the amount of insurance premiums it receives annually. The result of this policy was a decrease in the level of pension payments. As the Strategy for the Development of the Pension System of the Russian Federation until 2030 points out, the replacement rate for shortfalls in income by pensions decreased from 34% to 27% from 2002 to 2007. This necessitated a targeted increase in the basic part of the labor pension in 2008–2009 and carrying out in 2010 the valorization of pension rights².

From January 1, 2010, the Pension Fund of the Russian Federation made an automatic recalculation (valorization) of the pension rights of citizens who had experience before 2002 (including in Soviet times). The amount

² Federal Law No. 166-FZ of December 15, 2001 (as amended on December 22, 2020) "On State Pension Provision in the Russian Federation". URL: http://www.consultant.ru/document/cons_doc_LAW_34419/fd6bbb57443078720f77a8442718f2123ea9a367/#dst100196 (accessed on 17.05.2021).

of pension rights of pensioners who had seniority before 2002 and formed as of January 1, 2002, has been increased by 10 percent. At the same time, for those pensioners who worked before January 1, 1991, another 1% was added to their pension individually for each year of experience acquired during the Soviet period. Thanks to this measure, by 2012 the replacement rate increased to 36.8% [9]. In subsequent years, a gradual decrease in this indicator was again observed. This fact is also explained by the scheme chosen in the domestic pension system for increasing pension payments.

From 2010 to 2020, Russia had a “tacit” rule for indexing pensions at the level of inflation of the previous year. The indexation coefficient is determined by the government and approved by the State Duma annually when the law on the federal budget is adopted and is tied to the pensioner’s subsistence level [10]. In 2021, the legislator established that the living wage for a pensioner in the whole of the Russian Federation to determine the amount of the federal social supplement to a pension is 10,022 rubles per month³. At the same time, we make a reservation that the methodology for calculating the subsistence minimum for a pensioner in Russia also requires a more detailed study for its compliance with international practice for calculating similar indicators.

In 2020, an amendment was made to Article 75 of the Constitution of the Russian Federation, according to which the country guarantees a regular increase in payments in the system of compulsory pension insurance. Paragraph 6 of Article 75 of the Basic Law is now formulated as follows: “In the Russian Federation, the system of pension provision for citizens is formed on the basis of the principles of universality, justice and solidarity between generations, and its effective functioning is maintained, and the indexation of pensions is

carried out at least once a year in the manner established federal law⁴.

Thus, the discussion about the procedure and parameters for indexation of pension payments in Russia is now of a fundamental nature. Now this is connected not only with the issue of social protection of the elderly, but also with the need to exercise their constitutional right to a regular increase in their pension payments [11]. It can be stated that the current practice in Russia of indexing pensions at the level of inflation does not correspond to the declared insurance principles of its pension system.

Russia and its international obligations are required to revise the indexation parameters. For the first time, the International Labor Organization (ILO) made a recommendation to regularly increase such payments in 1944. According to Paragraph 22 of ILO Recommendation No. 67 of May 12, 1944, “benefits should replace lost earnings, taking into account family responsibilities, without, as far as possible, weakening the desire to resume work, if this resumption is possible, and without placing such a heavy burden on the costs of producer groups, that it will hinder output and employment⁵. The minimum standards for the size of pensions were also established in 102 and 128 ILO conventions, which today are the main guideline in determining indexation parameters. Each state that follows this recommendation independently determines both the amount of such payments and their ratio with the pensioner’s lost earnings, and the level of indexation of pensions in accordance with the rate of established contributions paid by employers and employees [12].

Legal mechanisms that provide a fixed degree of income for a citizen in retirement exist not only in Russia, but also in almost all coun-

³ Paragraph 4 of Article 8 of Federal Law No. 385-FZ of 08.12.2020 “On the Federal Budget for 2021 and for the Planning Period of 2022 and 2023”. URL: http://pravo.gov.ru/proxy/ips/?docbody=&link_id=4&nd=218003977&intelsearch= (accessed on 17.05.2021).

⁴ The Constitution of the Russian Federation (adopted by popular vote on 12.12.1993 with amendments approved during the nationwide vote on 01.07.2020). Article 75. URL: http://www.consultant.ru/document/cons_doc_LAW_28399/4db010c9950baa1d07371f4a0ab352d5a0027d20/ (accessed on 17.05.2021).

⁵ Recommendation of the International Labor Organization on Income Security No. 67 as of 12.05.1944. URL: <http://base.garant.ru/2561770/#friends> (accessed on 17.05.2021).

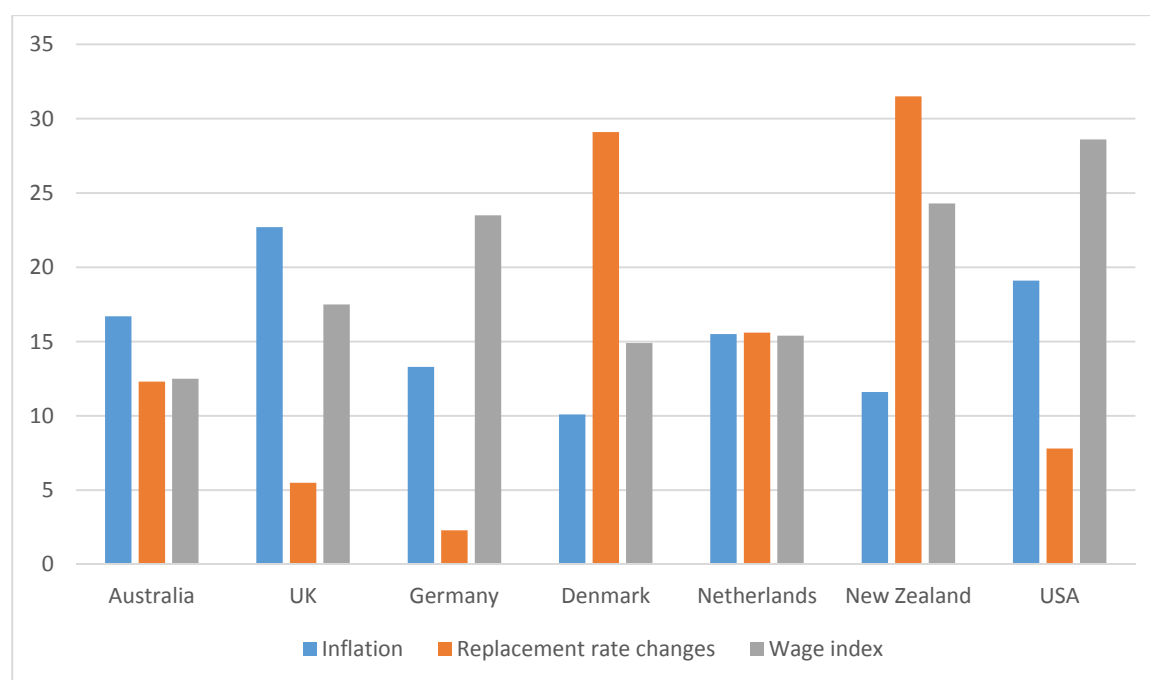


Fig. 1. Consumer price index, wages and replacement rate change in 2011–2020 in selected countries

Source: author's calculations based on OECD and IMF statistics.

tries where there are systems of compulsory pension insurance or pension provision [13]. For the first time, a system of regular indexation of pensions was introduced in France in 1940. At the end of the 50s. introduced by Germany and the Netherlands. As of 1975, such rules already existed in 34 countries. The vast majority of them provided for the indexation of pensions at the level of inflation, and in 11 states — at the level of the wage index. During the same period, countries such as Italy, Norway and Uruguay introduced combined normative pension increases that combined both inflation and changes in average wages in the economy [14].

According to the Organization for Economic Co-operation and Development (OECD), the replacement rate increased by 3.4% in Germany between 2015 and 2019, by 2.9% in the US, by 3.1% in the Netherlands and by 6.3% in New Zealand. Such an increase in this indicator is only possible if pensions are indexed to a level that exceeds both the consumer price index and wages⁶.

⁶ The replacement rate, calculated according to the OECD methodology, is the ratio of the amount of pension rights accumulated by an individual during the period of employment

Over a longer period, from 2011 to 2020, in countries such as Germany, the United States and the United Kingdom, we observe a decrease in the replacement rate associated with the lag of pension indexation not only from changes in the average wage in the economy, but also from inflation (*Fig. 1*).

The revision of the parameters of the annual increase in pension payments began in these countries after 2014 and was associated with the need to overcome the trend towards a decrease in the replacement rate [5]. *Fig. 1* shows countries whose national pension systems can be called modal for similar social protection systems in other countries. The pension systems of Germany and the United States can be attributed to the continental basic model of pension insurance, and the pension systems of Australia, Great Britain, Denmark, the Netherlands and New Zealand can be attributed to the so-called Danish (Anglo-Saxon) basic model of pension provision. Their main ideological difference lies in the fact that in the first model the pension is seen as a way

and expressed in monetary units to his last earned income before retirement.

to ensure earnings in case of disability, and in the second — as a tool to combat poverty.

Currently, in most OECD countries, old-age pensions are typically indexed twice a year, with a factor oriented towards either the consumer price index or the wage index, whichever is higher during the indexed time period. The indexation of pensions, focused only on inflation or on an increase in the cost of a pensioner's subsistence minimum, is considered the most conservative in international practice and primarily meets the objectives of budget consolidation, rather than increasing the size of the pension and maintaining the replacement rate at the normative level [15].

Today the Russian government is faced with the task of changing the parameters of the annual increase in pension payments, considering the dynamics of wages in the country and identifying an additional source of financing for such indexation.

The indicated combined indexation coefficient is logical precisely from the point of view of maintaining the purchasing power of the pension and its relation to lost earnings. With low inflation, the orientation of indexation parameters to this indicator stimulates a decrease in the replacement rate. The same situation develops with high inflation, falling incomes of workers and the orientation of pension indexation parameters to indicators of changes in average wages.

Determining the parameters of pension indexation is inextricably linked with the goals of the state pension policy and cannot be reduced to the task of reducing the obligations of the pension system in relation to GDP. It should be aimed both at maintaining the purchasing power of current pension payments, and at their normative relation to the earnings lost by the pensioner [16].

The theoretical justification for the need to move from indexation of pension payments in accordance with inflation to their increase, focused on changes in the wage index, was first given by the German economist Wilfred Schreiber, the founder of the theory of “dynamic pension system”, in 1955. He was able to substantiate such a need by analyzing efficiency of the pension insurance system introduced in Germany during the chancellorship of Otto von Bismarck [17]⁷. As Schreiber wrote, “The reform of social insurance he proposes is based not on nominal amounts of money, but on the basis of an appropriate “standard of living”, which means that the unit of measurement is not the German mark, but the corresponding “average earnings”. The rates of fixed contributions to the pension system should be based on this principle, and the system of their collection should ensure the equality of all economic entities”.

In the strategy for the development of the pension system of the Russian Federation until 2030, the reason for the decrease in the replacement rate is directly named “the lag in the rate of indexation of labor pensions from the rate of wage growth.” It defines the adequate size of the pension as its ratio to the average salary of an employee not lower than 40%⁸. Thus, today the Russian government is faced with the task of changing the parameters of the annual increase in pension payments, considering the dynamics of wages in the country and identifying an additional source of financing for such indexation.

To do this, it is necessary to fix the attitude towards the concept of “pension” as part of the salary of an individual, and not the allowance paid to him upon reaching retirement age, not

⁷ “In our proposal, the absolute level of pensions is automatically increased in line with the average labor income, that is, approximately in line with the social product per capita. Thus, each pensioner is guaranteed that his retirement income will be adjusted annually, considering the income of his younger colleagues who are still working.” (Schreiber plan).

⁸ Government of the Russian Federation. Decree dated December 25, 2012 No. 2524-т.

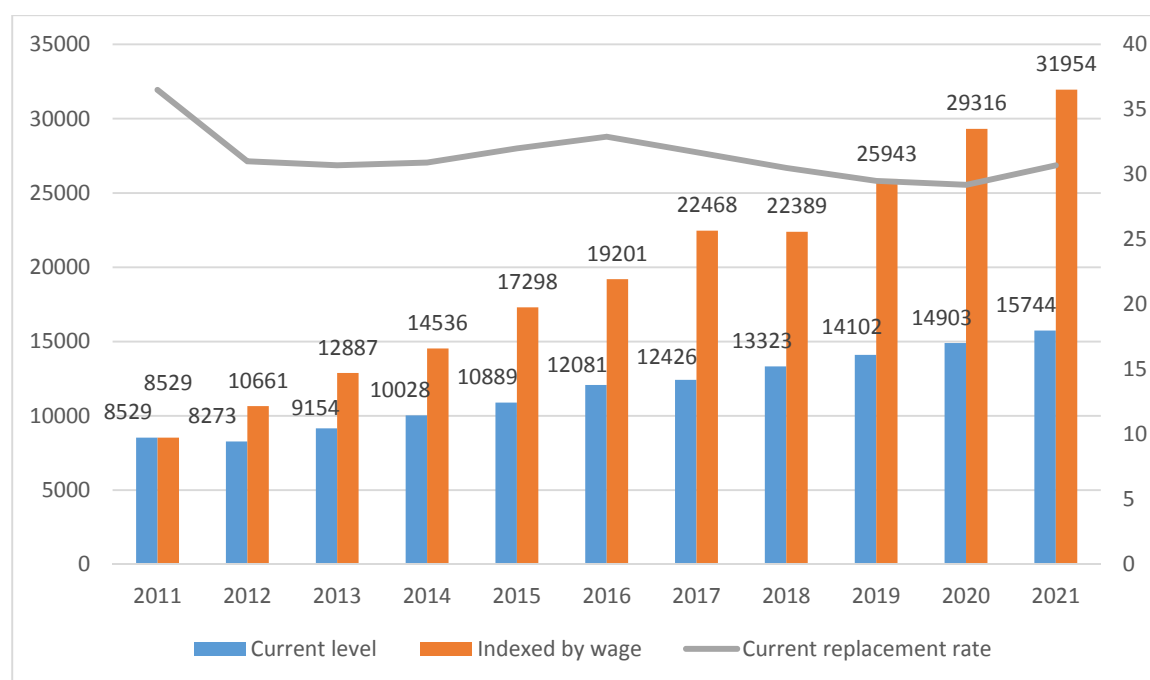


Fig. 2. Comparison of the level of pension payments in Russia indexed by inflation and by wage index changes

Source: author's calculations based on official statistics.

only at the legislative level, but also in the main strategic documents of the government. The belonging of the Russian pension system to the continental basic model of pension insurance is evidenced, in particular, by the definition of this concept, which appears in Law No. 400-FZ “On Insurance Pensions”. It establishes the following legal definition: “Monthly cash payment for the purpose of compensating insured persons for wages and other payments and remunerations lost by them due to the onset of disability due to old age or disability...”⁹. Such a fixation would be more in line with the socio-economic nature of the domestic pension system. At the same time, it will demand the rejection of entrusting it with the task of combating poverty, which replaces the goal of providing an acceptable replacement for the lost earnings of a pensioner. In the meantime, it should be stated that the current practice of indexing pensions in the Russian Federation is poorly consistent with the principles outlined.

⁹ Federal Law No. 400-FZ of December 28, 2013 “On Insurance Pensions”.

COMPARATIVE ANALYSIS OF THE EFFICIENCY OF PENSION INDEXATION PARAMETERS IN RUSSIA

To solve the problem of determining the index of the annual increase in pensions, corresponding to the ideology of pension insurance formed in Russia, it is necessary to determine the ratio of pension payments indexed in accordance with the inflation of the previous year and the wage index (Fig. 2).

From 2011 to 2020, Russia has seen a steady increase in the nominal amount of pensions paid. Over ten years, in nominal terms, the average pension in Russia increased by 84.6%. At the same time, the level of cumulative inflation for the same period amounted to 112.23%. The size of the annual indexation of pensions during this period was slightly higher or equal to the inflation rate of the previous year. At the same time, the general lag of pension growth over 10 years from 10-year inflation is due to a number of factors. First of all, the state refused to index pensions in 2016 and replaced it with a lump sum payment in the amount of 5 thousand rubles per pensioner.

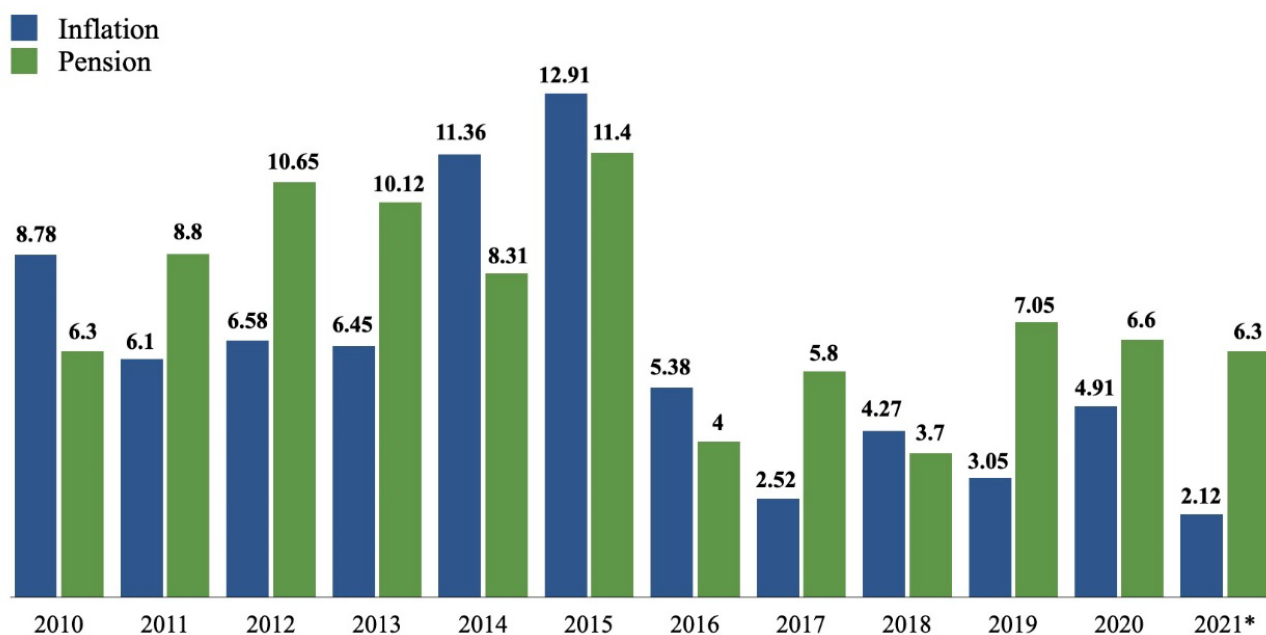


Fig. 3. Inflation rate and pension indexation in the Russian Federation in 2010–2021, %

Source: author's calculations based on official statistics.

This has reduced the base for indexation of pension payments since 2016.

Another factor should be considered a temporary discrepancy between the moment of pension increase and the moment of annual inflation fixation. Finally, as a third factor, it should be considered that the current formula for assigning pensions includes the mathematical possibility of an opaque understatement of the level of indexation of pensions by executive authorities. It lies in the right of the Government to set not the relative amount of the increase to the paid pension, but to increase the value of the individual pension coefficient in absolute terms (Fig. 3).

Every year, the legislator, when determining the parameters for indexing pensions in the subsequent period, focuses on the inflation of the previous year, and not the current one. Each time, he is forced to compensate for this lag in his calculations by setting the pension increase index a little higher. However, this mathematical action still does not compensate for the result of the time gap described above.

The amount of pension payments in 2015 served as the basis for calculating the parameters of pension indexation in 2017. The one-time pension supplement paid in 2016

cannot be called indexation [18]. As a result, with inflation of 12.91% in 2015 and 5.38% in 2016, indexation of pensions in 2017 not only did not compensate for the purchasing power of pensions lost over two years, but also reduced the level of indexation of pensions in subsequent periods.

The decrease in the replacement rate for shortfalls in income by pensions, judging by Fig. 1 also resumed in 2016. This figure, which was 36.5% in 2011, decreased to 30.7% by 2021. The decrease in the replacement rate is explained both by the low level of indexation of pensions and by the definition of indexation parameters focused on the consumer price index, and not on wages.

CALCULATION OF THE PENSION INDEXATION INDEX, ORIENTED ON THE DYNAMICS OF WAGES

The next increase in pension payments in the Russian Federation, provided for in Paragraph 6 of Article 75 of the Constitution of the Russian Federation, should focus on two parameters at once: the annual index of wage changes in the economy and the annual consumer price index. Moreover, the last parameter becomes significant only if in some

period of time it exceeds the first parameter in relative terms. The difference arising from the lagging of wage growth behind inflation during indexation of pensions should be compensated from its income by an institution that receives inflationary income (seigniorage) or by the National Wealth Fund (NWF), which is legally entrusted with the task of maintaining a balanced pension system [19]. This combination will help to avoid a situation in which the purchasing power of a pension decreases in the event of high inflation, and to maintain the replacement rate for lost income by a pension at the required regulatory level.

Fig. 2 shows that if pensions had been indexed in accordance with the growth of wages, the average old-age pension in the country should have been 29,316 rubles in 2020 instead of 14,903 rubles per month. At the same time, in 2020, the replacement rate for lost earnings by pension would have been 57.4%. Thus, it would have been almost one and a half times higher than recorded (29.2%). With the number of pensioners in 2020 of 43,546 thousand people, the financial obligations of the pension system would have amounted to 15,319,134 billion rubles per year. This is 7,399,121 million rubles more than the Pension Fund of the Russian Federation (PFR) spent on the payment of insurance pensions in 2020. In other words, the amount of the fund's current pension liabilities should have increased by 48.3%. A closer analysis of the state of the PFR budget shows that this increase in pension spending is not financed from the internal sources of the pension system.

The effective rate of insurance premiums paid by employers to the pension system of the Russian Federation is currently 12.2%. This indicator is obtained by calculation by converting the Nicholas Barr formula, which calculates the rate of defined contributions to the pension system required to fully meet its obligations [20]. Raising the effective rate by refusing to grant benefits to certain business entities, as well as regressing its payment when an employee's wages are above a certain level, will almost double the amount of income

received by the pension system. Such a refusal to provide benefits to employers would also mean an end to the practice of subsidizing entrepreneurs at the expense of employees' wages, and not federal budget revenues. It fully complies with the legal nature of the concept of insurance premiums and allows pensions to be indexed in accordance with the index of wage changes in the economy [21].

Due to the established paradigm of economic policy aimed at increasing the competitiveness of domestic sectors of the economy by reducing their costs in the production of goods and services, and not by increasing the capacity of the domestic market, such a refusal to provide benefits to certain industries and shift the main burden of subsidizing them from the employee to the state is possible only for a long period of time [22]. On the other hand, given the high share of pensioners' spending on consumer goods, this will mean an increase in the level of consumer demand in the economy. According to the author's forecasts, based on an analysis of the share of household expenditures in GDP, as well as the structure of expenditures of the elderly, the indexation of pensions in accordance with the annual change in the wage index will increase domestic demand by at least 1 trillion rubles annually. At the same time, additional revenues of the consolidated budget from consumption taxes will amount to at least 330–350 billion rubles per year.

Thus, the transition to the indexation of pensions in accordance with the annual change in wages in the economy will not only help overcome the existing pension crisis by increasing the replacement rate of lost earnings with pensions above the standard mark of 40%, but will also create additional incentives for economic growth by expanding domestic demand.

CONCLUSIONS

The nature of indexation of pensions in the country is a clear indicator that reflects both the current ideology of the state's social policy and the direction of its

economic policy. An increase in pension payments, oriented to the consumer price index and not considering the growth of nominal wages in the economy, can be seen as evidence of the government's desire to increase the competitiveness of the economy by reducing the cost of labor, rather than increasing its productivity. This practice is more typical either for countries with developing economies, which, as a rule, do not have universal pension systems, or for countries with pension systems of the Danish (Anglo-Saxon) basic pension model. In Russian conditions, the increase in pensions, oriented towards the level of inflation, is exacerbated by the vicious practice of providing benefits for the payment of established (insurance) contributions to individual business entities.

The obligation of the Russian state, enshrined in the Constitution, to conduct annual periodic indexation of insurance pensions, sets the task for the Government of Russia to determine the most fair and expedient form of such an increase in pensions, corresponding to the nature of Russian pension insurance. Obviously, we are talking about the indexation of pension payments in accordance with changes in wages in the economy. This will make it possible to maintain the replacement rate for shortfalls in income with pensions at the required normative level. The source of financing for such indexation should be the refusal to provide benefits for the payment of insurance premiums to individual business entities, as well as the refusal to regress when calculating the defined payment rate to the pension system itself. The continuation of this practice should be seen as an attempt to subsidize employers by lowering the wages of workers.

The calculations made by the author show that the indexation of pensions in accordance with changes in wages in the economy will not require an increase in the current rate of insurance premiums even in the face of a worsening demographic situation in the Russian Federation and an increase in the life expectancy of pensioners themselves. Changing the parameters of pension indexation will also not require an increase in subsidies to the pension system from the federal and regional budgets and will not lead to an increase in the deficit of the Pension Fund of the Russian Federation associated with the payment of pensions. On the other hand, this practice can become a more effective tool for stimulating economic growth in the country than simply stimulating individual industries and even individual economic entities.

When developing parameters for the annual indexation of insurance pensions, one should consider the hypothetical possibility of a situation in which, in a certain period of time, inflation may be higher than the wage index. At the same time, in order to maintain the purchasing power of pensions, they should be indexed in accordance with the consumer price index, and the difference between it and the wage index should be repaid at the expense of the National Wealth Fund, which has the function of maintaining a balanced pension system by virtue of the current Budget Code of the Russian Federation. Another source of repayment of this difference may be additional income received by the Bank of Russia as a result of an increase in the consumer price index.

The topic under study is considered for the first time in the scientific community of the Russian Federation and can later be used in the development of textbooks and scientific papers.

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