Income Security in Transition for the Aged and Children in the Soviet Union and in the Russian Federation

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A dynamic process of social security reform took place during the economic transition in the Soviet Union from 1985 through 1991, and in the Russian Federation in 1992. Despite administrative and financial difficulties, the Gorbachev reform objectives have been incorporated (with modest revisions) into the Russian Federation pension legislation and family allowance programs. Following the adoption of a radical economic reform policy in January 1992, policymakers in the Russian Federation have been hard pressed to meet rising social needs under severe fiscal constraints. As the number of the vulnerable population has increased, and as the emerging poor have had to face more severe hardships, the social security system has overcome unprecedented political and economic disruptions to become fully operational. Local governments and civic groups are organizing assistance to help meet needs where the State-operated programs have been inadequate. These efforts, however, have been made haphazardly.

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Transforming a centrally planned economic system into one based on market forces calls for the restructuring of economic institutions, the privatization of a vast number of State enterprises, and the decontrol of prices and wages. In the short term, such changes have exacerbated the difficulties faced by former Communist countries, the Soviet Union included, in meeting social needs in a market-based economy. Centrally planned economies typically promised full employment, free education, and free or low-cost housing and health care, while wages were low and the quality of social services was poor. There were generally no programs to protect unemployed citizens or to cope with inflation. The Central Government, which monopolized social policies and programs, offered its citizens few incentives to be even partially responsible for their own economic security, and allowed little, if any, local government or nongovernment initiative to supplement the State efforts.

Under the pre-Gorbachev Soviet system, beneficiaries of social security[1] —(1) disability, and survivors; (2) work-related disability and death; and (3) allowances for families with children—depended on fixed benefits that were especially vulnerable to inflation.

As of January 1991, under the first and second of the programs specified above, there were 61.2 million pensioners (21 percent of the total Union population) in the Soviet Union, including 33.8 million (23 percent of the total Russian Federation population) in the Russian Federation, which was the largest of the 15 constituent Republics of the U.S.S.R. Approximately three-fourths of these pensioners relied on pension benefits as their main source of income in the Soviet Union and in Russia. A large number of people also receive family allowances (the third program specified above). According to 1989 census data, some 61 percent of the 73 million families in the Soviet Union had at least one child; in the Russian Federation, 58 percent of a total of 40 million families had one or more children under age 18.[2] By 1990, cash allowances were made available to all families with one or more children.

This article examines the transition of the social security system in the Soviet Union during the Gorbachev years (1985-91) and in the Russian Federation during 1992. The discussion is presented in six parts: First, the Soviet social security system prior to 1985 on the eve of Gorbachev's reforms; second, a summary analysis of social security reforms during 1985-90, and the four objectives of these reforms; third, the implementation of new social security programs under political and economic restructuring during 1991; fourth, the impact on social security programs of the collapse of the Union Government; fifth, social security developments under radical economic reform in the Russian Federation during 1992; and sixth, remaining issues regarding income security programs for the aged and children.

The Pre-Gorbachev Social Security System

Prior to 1990, two laws governed pension programs in the Soviet Union: The 1956 Law on State Pensions covered workers and employees of State farms, enterprises, and institutions, and the 1964 Law on Pensions and Benefits for Collective Farmers covered members of collective farms and their families. Allowances to families with a large number of children were first introduced in 1944. Over time, these allowances were extended to children of unmarried mothers and of low-income families. The 1977 Constitution of the U.S.S.R. incorporated the existing family benefit programs, thus providing a legal foundation for these benefits.[3]

The pre-Gorbachev system shared a number of the features that characterize social security systems in Western economies. The Soviet pension benefits were wage related, as is the case in most Western economies.[4] The Soviet pension system had separate benefit formulas for urban and agricultural labor forces—a policy that is also applied in other countries (for example, Austria, France, and West Germany).[5]

Pension program financing was based on the "pay-as-you-go" method, whereby current obligations to beneficiaries were funded by the current generation of workers. Such programs may be funded by employer/employee contributions (as in France), government budget allocations (as in Australia and New Zealand), or a combination thereof (as in West Germany, the Netherlands, and Sweden). In the Soviet Union, pension funding was based on a combination of budget allocations and employer contributions; employees did not contribute.[6] Family allowances were funded from general revenues (as in Canada, West Germany, the Netherlands, and the United Kingdom) and were paid to families with low income and those with a large number of children (as in Japan).

There were, however, significant differences between the pre-reform Soviet social security system and the prototypical Western system. Under the pre-Gorbachev system, the combination of relatively low retirement age, short service tenure required for pension eligibility, and an inadequate reward structure for longer service was generally regarded as ineffective for productive and prolonged labor. The normal pensionable ages for men (60) and women (55) were low by Western standards.[7] The required minimum years of service to qualify for a pension was 25 for men and 20 for women. Supplementary benefits for longer service required either a minimum of 10 years over the required minimum years of service or at least 15 years of uninterrupted service in the same enterprise.[8] Also, the Soviet benefit computation was based on wages during the last 12 months before retirement. As a result, retirement income was not determined by one's life-long earnings records (a function of productive labor) but on the worker's ability to negotiate a higher wage for the last year preceding retirement.[9]

Since there were no regular cost-of-living benefit adjustments, recipients of fixed benefits from family allowances and pensions saw their income deteriorate in value over time. Even though the Government controlled the prices of goods and services, wages had risen over the decades. Current wage earners and new pensioners could afford a living standard that proved elusive to many recipients of pensions and grants who had begun receiving benefits years earlier. This state of affairs had contributed much to the poverty of some pensioners and recipients of family allowances. Moreover, the pre-Gorbachev social programs were notable for their low level of public assistance to those who never worked or were unable to work due to child rearing or disability since childhood.[10] In contrast, some Western economies (For example, the Netherlands, Sweden, and the United Kingdom) provide a floor of subsistence benefits for all residents or citizens, while others (for example, the United States) offer means-tested benefits for the poor. Most countries guarantee a routine benefit adjustment according to price and/or wage indices so that benefits and allowances usually rise with the overall standard of living.

Characteristic of the centrally planned economic system, the Soviet social security system was financed primarily from general revenues. No employee contributions were required. State-sector employers (State farms, enterprises, and institutions) paid an average of 9 percent of payroll to social security in 1989 (ranging from 4 percent to 14.4 percent, varying across industries), a rate far below the combined contributions by employers and employees in Western economies.[11]

Finally, unlike most Western government social security systems that coexist with private pension plans, the Union-level Soviet Government provided the only income security for the average citizen. There were very limited (if any) republic or locally initiated complementary cash benefit programs or charity available to populations suffering from economic hardship.

The First Phase of Transition: Legislative Reform, 1985-90

The impetus for social security reform had been present throughout the 1970's and early 1980's, before Mikhail Gorbachev took the position of General Secretary of the U.S.S.R. Communist Party.[12] By the mid-1980's, researchers claimed that hidden inflation had impoverished many pensioners, single-parent households, and families with two or more children. Soviet Government data showed that, in 1989, over 80 percent of the 43 million persons who lived in poverty (with income under 75 rubles a month) were pensioners. Of the rural pensioners, 90 percent were living in poverty.[13]

Incremental Revisions, 1985-89

Since the promulgation of the 1956 and 1964 laws, various decrees and resolutions have increased pension benefits and extended coverage to the disadvantaged. Ad hoc incremental changes accelerated from 1985 through 1989; all were attempts to partially ameliorate some of the perceived shortcomings in the social security system. Among these measures were one-time increases in minimum old-age benefits (and corresponding adjustments for disability and survivor pensions) for collective farmers and State employees (1985 and 1989, respectively); improvements in cash grants to children in poor families (1986-87); and newly introduced grants to disabled children and single elderly and disabled persons who were not eligible for pensions (1985).[14]

To partially offset the erosion in value of fixed benefits over time, a 1985 decree introduced a mechanism by which State employees' pensions awarded more than 10 years earlier were adjusted upward. Benefits in this category were recalculated, adding 1 percent of the wage base for each year that had elapsed since the pension was first awarded. For collective farmers, a 1987 decree stipulated that minimum pensions awarded more than 10 years earlier were to be raised from 40 rubles to 50 rubles a month.

Efforts to bring a pluralistic approach to income security also began in the mid-1980's. In 1985, Soviet authorities proposed to central ministries other than Social Security to offer in-kind subsidies, and suggested that local governments offer added cash or in-kind subsidies from local budgets to aid the impoverished population groups. The authorities also enlisted the Red Cross, Red Crescent, Young Pioneers, and Communist Youth League as potential partners in projects to help alleviate poverty. In an unprecedented move, the Government introduced a voluntary complementary pension program in 1987 to supplement social security income. Before reaching retirement age, workers (men aged 35-59 and women aged 30-54) could choose to pay monthly premiums through their employers as part of a group insurance "contract" with the State Insurance Administration. Depending on the number of years under contract, the size of the premium, and the age of the participant, the worker could receive 10-50 rubles per month in addition to his or her monthly pension from the State-operated social security system.[15]

Ad hoc measures during 1985-89 to redress perceived shortcomings in existing income security programs coalesced with two other concurrent developments. First, the Gorbachev government was designing a new, market-oriented "social contract," namely, a new prescription of social values and material rewards to revitalize the work force and economy while solidifying public support and political legitimacy.[16] Second, as the policy of restructuring the centrally planned economic system gradually took hold throughout the late 1980's, a blueprint for social security in a transition economy also took form. By 1990, all three developments culminated in (1) a draft proposal for a social safety net during the transition to a market economy;[17] (2) resolutions and decrees further expanding the coverage and improving the benefits for families with children; and (3) the May 1990 U.S.S.R. State Pension Law. Taken together, these initiatives underscored four objectives for the country's social security programs during economic transition: a minimum level of income security for all, a new social contract for the work force, a modern social insurance system (for pensions) that was deemed compatible with and would facilitate the transition to a market-based economy, and a pluralistic approach to income security in anticipation of a decentralized and open economic and political system.

Family Allowances, 1990

In 1990, two resolutions (in April and in August) detailed the Government's policy for alleviating poverty among families with children and for partially protecting these allowances from inflation. Both resolutions were to take effect in January 1991. The April resolution linked family allowances to the minimum wage (70 rubles a month in January 1991, with adjustments to be made for price increases). A monthly allowance equal to the minimum wage would be granted to working mothers (with more than 1 year in covered employment) until the child is 18 months old. The same amount also applied to the upbringing of children of widowed parents, and to children residing in orphanages or in children's homes. Nonworking mothers aged 18 or older and working mothers whose tenure of service fell short of 1 year would receive a monthly benefit of 50 percent of the minimum wage.

The August resolution raised the universal, one-time birth grant to three times the monthly minimum wage for each child, replacing the birth grant that had differentiated rates (higher rates for families with more children). It also improved the monthly allowance (of 50 percent of minimum wage) to single mothers for each child from age 18 months through 16 years, and established cash grants for children (aged 18 months through 6 years) in poor families (earning up to two times the minimum wage) at the rate of 50 percent of the minimum wage.[18]

By April 1991, the objective of "minimum income security for all" had been woven into the family allowances program. There were 11 categories of benefits payable to families with children of different age groups for varying needs. Moreover, these benefits were no longer limited to families with at least two children, or subject to a means test. All benefits were linked to the level of the minimum wage (albeit with ad hoc modifications).[19] The 11 categories fell into four broad groups: Benefits payable to all families with children, regardless of income or any other qualifying conditions; those payable to persons meeting a means test (means test waived in Russia, Belarus); those payable to working mothers; and to disadvantaged families. Families were entitled to all benefits for which they were eligible with no offsets.

All families received (1) a one-time grant for the birth of each child, (2) monthly payments to mothers caring for children up to 18 months old, (3) monthly allowances to children aged 18 months to 6 years old. Families with per capita income less than four times the minimum wage received (1) quarterly cost-of-living compensations for any child up to 18 years of age and (2) a monthly benefit until age 16 if the child does not receive any other social security benefit (or to age 18, if a student not receiving a stipend).

Working mothers were further granted (1) paid maternity leave to care for a child under 18 months and (2) compensation for unpaid leave to care for a child under 3 years. Allowances to disadvantaged families included monthly benefits payable to (1) single or unmarried mothers, or foster parents with children under age 16 (age 18 if a student and not receiving a stipend); (2) children whose parents were evading support (to age 16, or 18 as above); (3) children of widowed parents, or children in orphanages, or in children's homes (to age 16, or 18 as above); and (4) children under age 16 who were infected with HIV or had AIDS.[20] (See table 1.)

U.S.S.R. State Pension Law, 1990

With the promulgation of a new unified U.S.S.R. State Pension Law in 1990, the Soviet Government introduced a systemic overhaul of the country's pension program. The first signal of the Government's determination to revamp the antiquated 1956 and 1964 pension laws came in 1986, when the Politburo of the U.S.S.R. Communist Party's Central Committee approved the preparation of major pension reform.[21] After 4 years deliberative process to reform the pension program, the 1990 law embodied all four objectives of income security in economic transition: It provided a protective shield of minimum income for pensioners to help them endure the hardship during transition, it incorporated a new social contract to reward productive labor, it brought the Soviet system closer to the prototypical Western model of social insurance, and it adopted a pluralistic approach to pension security. The Central Government pension program was no longer to be the sole source of income for pensioners.

Minimum income security for all.—The new legislation addressed the shortcomings of the existing system in providing income security to pensioners and the elderly and disabled who never earned the entitlement to a pension through covered employment. It also prepared for the need to protect these population groups from price and wage decontrol under the forthcoming economic reforms. To rectify past unequal treatment of urban and rural pensioners, the new law unified pension benefits for urban workers and collective farmers by raising rural pension benefits to the level of urban pensioners. To help alleviate poverty among the aged and the disabled who did not have the required years of work to qualify for a work-related "labor pension" a "social pension" was created. More importantly, the new law stipulated that the minimum pension would be linked to the minimum wage, which in turn would be adjusted periodically to partially compensate for wage and price increases.[22]

A new social contract.—Government reformers also took several decisive steps away from socialist welfare state provisions. The May 1990 pension law adopted provisions that followed the prevailing policy guidelines to revitalize the labor force. It granted higher benefits for longer service by adding 1 percent of assessed wage to each year of covered employment beyond the minimum years of service required for benefit eligibility, and it raised the maximum benefit from 2.5 to 5.2 times the minimum pension. Old-age benefits were no longer computed according to the last 12 months of earnings before retirement. Instead, in order to better reward productive labor, benefits would be computed from the highest average earnings of five consecutive years within the last 15 years of continuing service. Pensioners would be permitted to work for remuneration, sometimes at their old jobs, without causing a reduction in their benefit amounts.

The social insurance model.—With the new pension law, the Gorbachev government embraced the social insurance model for income security that is favored by most market-based economies. Specifically, the Union Government budget would minimize its subsidies to pension benefits and family allowances. Instead, social security for employed persons would be financed mostly by payroll contributions from employers and partly by employee contributions. The collected funds would cover all expenditures for the work-related "labor pension" and the "social pension" (the public assistance component of the pension law). However, the funds would also pay for special compensations for victims of the Chernobyl nuclear power plant disaster, and the costs of some family allowances, even though these are not part of the pension program.[23]

While pension program financing was based on the "pay-as-you-go" method as before,[24] a major restructuring of the management of the pension funds was introduced. Three months after the May 1990 pension law was promulgated, an independent U.S.S.R. Pension Fund was decreed into being, under the jurisdiction of the U.S.S.R. Council of Ministers (that is, the cabinet). The management of pension financing was thus removed from the State budget accounts and made independent of the State Bank and the Ministry of Finance. The U.S.S.R. Pension Fund system, including counterpart republic and local government pension funds, was designated to collect contributions, appropriate the collected funds for benefit payments, and manage and capitalize fund reserves (if any). In a cryptic statement, the "Regulation on the U.S.S.R. Pension Fund" refers to this newly created institution as "an independent financial and banking system," and states that, among other functions, it "places fund reserves in short- and long-term government

Table 1.—Family allowances in the U.S.S.R. (1991) and in Russia, 1992-93[1]

[In current rubles]

Benefits by age of children[2]	4/2/91[3] mw = mp = R165	1/2/92[4] mw = mp = R342	6/1/92[5] mw = mp = R900	12/1/92[6] mw = R900 mp = R2,250	2/1/93[7] mw = R2,250 mp = R4,275
At birth:					
(1) One-time grant for birth of each child	250	3 x mw	2,700	5,400	6,750
To 18 months:					
(2) To mother with at least 1-year covered employment or on leave and in school, or mother under age 18 with less than 1-year covered employment	110	60% x mw	500	1,000	1,250
(3) To nonworking mother (or working mother aged 18 or older with less than 1-year covered employment)	80	45% x mw	400	800	1,000
18 months to 6 years:					
(4) To children aged 18 months to 6 years	80	45% x mw	400	800	1,000
To age 3:					
(5) To mother (or relative) on unpaid leave to care for child	60	35% x mw	300	600	750
To age 6:					
(6) To single or unmarried mother; foster parents; or child whose parent(s) evading support	80	45% x mw	400	800	1,000
Age 6 to 16 (or 18):					
(7) Single or unmarried mother; foster parents; or child whose parent(s) evading support (to age 18, if student and not receiving stipend)	90	50% x mw	450	900	1,250
To age 16 (or 18):					
(8) To child not receiving other social security subsidy; student not receiving educational stipend	40	25% x mw	200	400	500
(9) Nonworking able-bodied person caring for a child with total disability requiring constant attendance	(8)	35% x mw	300	600	750
(10) Children with HIV or AIDS	110	60% x mw	500	1,000	1,250
(11) To children of widowed parents, or children in orphanages or in children's homes (to age 18, if student and not receiving stipend)	110	60% x mw	500	1,000	1,250
Quarterly compensation for cost of children's goods:					
(12) To age 6	50	30% x mw	250	500	625
Age 6-13	60	35% x mw	300	600	750
Age 13-18	70	40% x mw	350	700	875

[1] The monthly minimum pension and monthly minimum wage are denoted mp and mw, respectively.

[2] Benefits (2) through (11) are monthly payments.

[3] "On the Reform of Retail Prices and the Social Protection of the Population," *Pravda*, 21 March 1991, pp. 1-2 (translated in *FBIS-SOV-91-056*, 22 March 1991, pp. 35-36).

[4] Monthly benefits are expressed as a ration to the minimum wage. "Ukase of the President of the Russian Soviet Federated Socialist Republic on Increasing Compensation Payments in 1991-1992 and the Procedure for Indexing Personal Monetary Income in 1992," *Rossiiskaia gazeta*, 24 December 1991, p. 2 (translated in *FBIS-USR-92-005*, 16 January 1992, pp. 23-24).

[5] "On Increasing the Amounts of Social Subsidies and Compensation Payments in 1992," *Rossiiskaia gazeta* , 23 May 1992, p. 1 (translated in *FBIS-USR-92-067* 5 June 1992, pp. 42-43).

[6] "Edict of the Russian Federation President 'On Increasing the Amounts of Social Benefits and Compensatory Payments to Families with Children and Other Categories of Citizens,' " *Russiiskii vesti* 28 November 1992, p. 4 (translated in *FBIS-USR-92-159*, 14 December 1992, pp. 7-8).

[7] "Yeltsin Decree Increases Social Benefits," *FBIS-SOV-93-025*, 9 February 1993, p. 18; and "Further Details on Benefits," *FBIS-SOV-93-025*, 9 February 1993, pp. 18-19.

[8] Not available.

obligations and securities and carries out other *commercial* [emphasis added] activities."[25]

Pluralistic approach to income security.—The May 1990 U.S.S.R. pension law kept the 1987 provision that allowed employees to enter into a contract with the State Insurance Administration (through the employer) and join a voluntary supplementary pension program to augment their old-age or disability pension income.[26] In addition, an unprecedented provision of the new pension law allowed republic and local authorities, as well as employers, to offer supplementary benefits as long as the costs were paid by their respective budgets. The Union pension law was designed as basic legislation for application in all 15 constituent republics, including Russia. This move to encourage complementary contributions to social security benefits dovetailed with reforms that gave republic and local governments more control over their financial resources.[27]

The Second Phase of Transition: Implementing Changes, 1991

January and December 1991 marked the beginning and the end of the second, or implementation, phase of the Gorbachev social security reforms. This was the period when financing for the restructured social programs would be dependent on the smooth operation of the newly established funding mechanism; when the fruits of the improved benefit formula would be felt by pensioners and children if an efficient administrative mechanism could implement the revised provisions.

Given the centrifugal forces already at play within the Soviet Union by mid-1990, the U.S.S.R. Pension Fund was not able to collect pension contributions from its republic counterparts. Republic governments had become more assertive over their control of fiscal and budgetary policies.[28] On the political front, by the end of August 1990, three of the 15 constituent republics of the Soviet Union had declared independence from the Union (Lithuania, Latvia, and Armenia) and 10 had proclaimed sovereignty within the Union. The remaining two republics (Kazakhstan and Kyrgyzstan) followed with their own declaration of sovereignty by the end of October 1990.[29] The rush among republic governments to assert political and financial control within their respective jurisdictions and the Union Government's continuing control over State enterprises and resources created rather confusing circumstances that caused much uncertainty regarding the Union Government's authority to collect tax revenues.

The collection of payroll contributions for social security was no exception. During 1990 and 1991, all but the three Baltic republic governments adopted the 1990 U.S.S.R. State Pension Law (some with modest revisions) for their respective social security programs, and established republic pension funds. However, at least six of the 15 republics (including the three Baltic republics, as well as Moldova, Georgia, and Russia) never forwarded the collected payroll contributions to the U.S.S.R. Pension Fund. Some enterprises claimed to be under the direct jurisdiction of the Union Government and refused to pay their share to republic or local collectors.[30] As of May 1991, the U.S.S.R. Pension Fund had collected only about 30 percent of the projected receipts.[31] Contribution collection could hardly improve in the second half of the year, given the rapidly disintegrating Union authority following the failed August coup to overthrow the Gorbachev government.

Table 1 addendum—
funding for family allowances (1991-92)
and monthly supplements (1992), by age of children

Family allowance monthly supplements, (in current rubles), 1992

February and March, R50; April, R75 for children in age groups (5), (8), and (9).

February and March, R100; April, R150 for children in age groups (2), (3), (4), (6), (7), (10), and (11).

Family allowance funding

In 1991—
- U.S.S.R. Pension Fund paid for benefits to children in age groups (2), (3), (4), and (10).
- Social Insurance Fund (as part of cash maternity benefit) paid for benefits to children in age group (1).
- Republic budgets paid for benefits to children in age groups (5), (6), (7), (8), (9), (11), and (12).

In 1992—
- Russian Federation Pension Fund, none.
- Social Insurance Fund paid for age groups (1), (2), and (3).
- Federation budget paid for age groups (4), (5), (6), (7), (8), (9), (10), (11), and (12).

Sources: For monthly supplements, V. Mudrakov, "Compensation Payments to Low-Income Persons for February, March, and April 1992," *Trud*, 13 May 1992, p. 4 (translated in *FBIS-USR-92-060*, 20 May 1992, pp. 23-24), and "Decree on One-time Payments for April 1992 and Social Protection for Certain Sections of the Population," *Rossiiskaia gazeta*, 9 April 1992, p. 2 (translated in *FBIS-USR-92-043*, 17 April 1992, p. 54). For sources of funding, see Article 5 of "Regulation of the U.S.S.R. Pension Fund," August 1990; "On the Reform of Retail Prices and the Social Protection of the Population," *Pravda*, 21 March 1991, pp. 1-2 (translated in *FBIS-SOV-91-056*, 22 March 1991, p. 36); and mimeographed tables from the Ministry of Social Protection.

Meanwhile, benefit obligations rose beyond expectations in 1991 because of the introduction of price liberalization that began in April and continued through the end of the year. The new U.S.S.R. pension law already promised periodic adjustments of the minimum old-age pension according to the minimum wage, and corresponding recomputations of all other benefits based on the revised minimum pension. On the eve of the scheduled price decontrol of April 2, 1991, the Gorbachev government issued a resolution establishing the policy of concurrent adjustments for wages, pensions, and family allowances, although not necessarily to the fullest extent of price increases. (See table 1 for the minimum wage and family allowances and table 2 for comparisons between the minimum wage and the minimum pension.) Despite a shortfall in receipts from enterprise and employee contributions, and notwithstanding financial and administrative problems that led to delays in some payments, social security benefits were paid out with the help of loans from the U.S.S.R. State Bank.

Impact of the Soviet Breakup on Social Security

As the political structure of the Soviet Union disintegrated in late 1991, the Union-based social security system devolved into republic systems with rather limited impact. Throughout the deliberations leading to the 1990 U.S.S.R. State Pension Law, the U.S.S.R. State Committee on Labor and Social Issues served in many ways as the mastermind behind the market-oriented legislation in the last years of the Gorbachev reforms. Since December 1991, while the central social policymaking authority has shifted from the U.S.S.R. State Committee on Labor and Social Issues to republic ministries of labor, the 1990 U.S.S.R. State Pension Law has remained the model for legislation initiated by the 12 republics other than the three Baltic States. Some republics have set their own minimum wages, pensions, and allowances, but they have kept intact key elements of the U.S.S.R. pension law designed to foster the transition to a market-based economy. The social insurance model remains in place. Also unchanged are provisions for benefit adjustments, the social pension for the indigent, the system of an independent pension fund, and the pluralistic approach to income security.[32]

Generally, operations of pension programs have continued as before in all republics under the ministries of social security, disrupted only by financial and administrative difficulties of their own. Program administration of the U.S.S.R. pension law had always been under the authority of the republic ministries of social security and not at the Union level (no Union ministry of social security was ever established). The funding mechanism fell upon the newly created republic pension funds. These organizations took form during 1991 as part of republic authorities' efforts in asserting their own financial independence from the Union Government. The Russian Federation Pension Fund, for example, began to strengthen its revenue collection activities in late 1991 and became operational by early 1992.

There is, however, one important difference between the Russian Pension Fund and its precursor, the U.S.S.R. Pension Fund: While the latter was subordinate to the U.S.S.R. Council of Ministers (cabinet), the former is under the jurisdiction of the Russian Supreme Soviet (parliament). In other words, the Russian legislature's permanent Commission on Social Policy controls pension financing in addition to its legislative power, while the executive branch monitors pension program administration without any authority over funding. Under this arrangement, pension funding and administration are subject to an institutional tug-of-war between the legislature and the executive, the full import of which is just beginning to unfold in 1993 (more on this later).

Developments in the Russian Federation, 1992

Since January 1992, President Boris Yeltsin and his advisers have embarked on a "shock therapy" program of economic reform characterized by immediate comprehensive price decontrol, tight monetary policy, deficit reduction, and enterprise privatization. The year of 1992 witnessed steep price rises of consumer goods of an estimated 2,400 percent, and a wage increase of 1,200 percent. High inflation was also accompanied by a drop in production, reported to be about 20 percent below the 1991 level of gross national product.[33]

How well did the Gorbachev design of a social safety net for transition to a market economy hold up under this unprecedented challenge? To answer this question, we may begin by reviewing developments in 1992 against the four objectives laid down by Soviet reformers.

Minimum Income Security For All

On the eve of the radical economic reform, laws and regulations had linked social security benefit amounts with the minimum wage. In theory, this linkage could be a powerful dynamic mechanism that upgrades the income security of a majority of the population according to wage trends. In practice, there is a downside to automatic benefit indexing to the full extent of wage or price trends. Given the current declining production and supply of goods in Russia, at issue is the extent to which automatic indexation of pension and allowances would contribute towards fiscal imbalances, and even an inflation spiral. The most controversial task for policymakers under the circumstances is the search for an appropriate level of a minimum social security benefit amount at any given time. While Russian authorities sought to provide a fiscally "affordable" safety net to families with children and pensioners, trade union groups and social security recipients themselves have argued that the cost of living since January has far outpaced the scheduled benefit adjustments.[34]

Since January 1992, the Ministry of Labor of the Russian Federation has assumed the role of establishing the subsistence minimum and the minimum wage. To approximate the level of a minimum subsistence living standard under rapidly deteriorating economic conditions, the Ministry developed a "physiological subsistence minimum" (PSM), which takes into consideration only the cost of essential food and nonfood items and services.[35] The minimum wage was adjusted twice in 1992, to 342 rubles a month beginning in January, and to 900 rubles in May; it remained unchanged until January 1, 1993, when it rose to 2,250 rubles a month.[36] (A comparison of minimum wages and average wages in 1992 indicates that the minimum wage fell far behind average wage growth; see table 2.)

Throughout 1992, the Supreme Soviet amended social security laws and regulations and the President issued decrees as they took steps to adjust social security benefits. On the whole, these benefit amounts were linked closely to minimum wage levels although they trailed behind the minimum subsistence level.

Family allowances.—On the eve of the January 1992 price decontrols, Russian President Boris Yeltsin issued a decree reaffirming the link between family allowances and the minimum wage, as established in the Soviet regulations earlier (table 1). During 1992, the Supreme Soviet raised family benefits three times (on January 2, June 1, and December 2), following minimum wage changes in January and May, and a minimum pension change in November. In addition, a Presidential decree allowed retroactive flat-rate supplements for different types of family allowances in February and March, and again in April (table 1 addendum). The June adjustment lagged behind the minimum wage change by a month (although the December adjustment preceded the minimum wage change by 1 month); there were no flat-rate supplements from June to December. The December increase also fell short of pension benefit adjustments; the amount of family allowances increased only by 100 percent, while the minimum pension was raised by 150 percent in November. Starting in February 1993, the minimum pension was again increased by 90 percent; family benefits, however, were increased by only 25 percent.[37]

Pension benefits.—The search for an appropriate level of minimum pension was circuitous and elaborate. Prior to the collapse of the Soviet Union, Russia had promulgated its own pension legislation in November 1990 (effective March 1991).[38] Although this Russian version followed the May 1990 U.S.S.R. model in many respects, it contained two notable revisions. First, it raised the level of guaranteed minimum pension income for old age from 70 rubles a month under the U.S.S.R. program to 100 rubles a month. There were also corresponding increases for minimum benefits for disability, for orphans, and for the newly created "social pension" for those elderly and disabled who did not qualify for the work-related "labor pension." Second, the minimum pension was to be adjusted yearly according to an estimated level of "minimum subsistence" established by the Russian Supreme Soviet, not to the minimum wage as stipulated by the Union pension law.[39] Both measures apparently took into consideration the extensive poverty among pensioners and the need to adjust pension benefits to offset price increases to maintain a minimum standard of living. With significant price increases anticipated from January 1992 onward, the Russian Supreme Soviet superseded the 1990 provision for annual adjustments in accordance with the "cost of living," and instead linked the minimum pension to the minimum wage, no matter how frequent or rare the revaluation.

In practice, the adjustment of the minimum pension was set according to the minimum wage only during the first 3 quarters of 1992, specifically, at 342 rubles in January and 900 rubles in May. The link with the minimum wage was ignored in October when the Russian Supreme Soviet decreed an increase of the minimum pension by 150 percent, from 900 rubles to 2,250 rubles a month (taking effect November 1, 1992) and raised it again by 90 percent to 4,275 rubles, effective February 1, 1993. The Ministry of Labor followed by raising the minimum wage to 2,250 rubles to equal the newly adjusted November level of the minimum pension, but not to begin until January 1, 1993.[40] The minimum wage level lagged behind the minimum pension by 2 months. By January 1993, the Supreme Soviet had settled on its own formula for benefit adjustment, no longer restrained by the Labor Ministry's minimum wage, and had instead made the minimum pension a likely standard for setting the minimum wage.

During 1992, the minimum pension was also affected by Presidential decrees, granting ad hoc, flat-rate supplements to all pension recipients at 200 rubles a month for February and March, 300 rubles a month for April, and 420 rubles a month for August through October 1992. These supplements brought pension benefits somewhat closer to, but still lower than, the PSM estimated by the Labor Ministry. According to the Ministry's calculations in July, the minimum pension benefits during the first 6 months were no more than 40 percent of PSMs.[41]

The July estimates of PSMs developed by the Labor Ministry have been criticized for having allowed food protein consumption (74 grams, including 29 grams of animal protein) to exceed amounts recommended by the World Health Organization (WHO) and Food and Agriculture Organization (FAO). A revised version of the minimum subsistence has since been developed according to international standards of food intake that is necessary to meet daily energy requirements for the pensionable age population (men aged 60 or older, and women aged 55 or older). Still, the minimum old-age pension trailed behind the revised subsistence minimum level during most of 1992 (table 2).

Pensioners who depended on social security benefits for their daily sustenance faced further hardship because of prolonged delays in payments of the adjusted amount or nonpayments of pensions altogether. A host of administrative and funding difficulties contributed to these problems in 1992. First, the tight fiscal policy in the spring of 1992 brought about a credit crunch and a cash shortage that extended into summer, so that pension and wage payments reportedly were sometimes delayed.[42]

In addition, there has been a persistent lag in pension payments because of a lack of coordination between the Supreme Soviet (the lawmaker) and the Ministry of Social Protection (the program implementer). The former legislates and decrees changes without giving advance notice to the latter, and generally has allowed no more than 2 weeks lead time to prepare for recalculation of benefits for payment. All adjustments in the minimum pension, computations of coefficients for past earnings, and subsequent upgrades of these coefficients require recalculation of benefits. In addition, working pensioners may request recomputation of benefits if their more recent earnings could yield higher benefits. At present, benefit computations are carried out manually and are labor intensive and time consuming.[43] Automation of social security computations reportedly is under way. The lengthy and labor intensive process may be gradually eased in the not too distant future.

A Modified Social Contract

Even before the onset of radical economic reform in 1992, the November 1990 Russian pension law modified the May 1990 U.S.S.R. benefit formula in its "incentive" structure designed to encourage productive labor. For example, the U.S.S.R. pension law had raised the maximum pension benefit from 2.5 to 5.2 times the minimum pension in order to better reward higher earners. It also required that benefits would be calculated from the highest average earnings of five consecutive years within the last 15 years of continuing covered employment, thus replacing the provision of computing benefits according to the last 12 months' earnings before retirement. The November 1990 Russian law lowered the maximum pension benefit to three times the minimum pension; it then allowed workers the option of having benefits computed either from the average wage during the last 24 months before retirement, or from any 60 successive months of work during their entire working life before applying for pension benefits.[44]

During the first 4 months of 1992, the problem of pension leveling occurred. Because past wages used for computing benefits were not indexed while the minimum pension was raised to partially offset price decontrols, a great majority of pensioners became entitled to the same minimum pension amount. To counter this problem, the Supreme Soviet developed a series of coefficients for indexing past wages in April, effective May 1, 1992.[45] The Supreme Soviet, however, was concerned with the overall pension costs, as it vacillated over the pension ceiling. The April amendment lowered the maximum benefit from three times (3.5 for hazardous occupations) to two times (2.5 for hazardous occupations) the minimum benefit, citing the need for economic stabilization.[46] By October 1992, the Supreme Soviet had repealed this amendment and raised the benefit ceiling again to three times the minimum benefit, thus reinstating the November 1990 position.

The April 1992 amendment further stipulated that, from 1993 on, pensioners can request that their benefits be calculated from wages over the preceding 12 months. This provision is a temporary measure and applies only to earnings during the 2-year period beginning with January 1, 1992, ending December 31, 1993. This move in effect negated (albeit temporarily) the Gorbachev social contract by reverting back to the pre-Gorbachev benefit formula that gave full weight to earnings in the last year before retirement as the basis for benefit computation.

Table 2.—Monthly pension and wage comparisons, 1991-92

[In current rubles]

Item	U.S.S.R. January 1991	Russian Federation January 1992	Russian Federation August 1992	Russian Federation October 1992
Minimum old-age pension	[1] 70	[2,3] 342	[4,5] 1,320	1,320
Minimum wage	70	[3] 342	[5] 900	[5] 900
Minimum subsistence	[6]	[7,8] 478.5	[8] 1,410.3	[8] 2,062
Average pension (all pensioners)	[9] 113.2	[9] 419.3	[5] 2,000	[10] 3,600
Average wage (all sectors)	[11] 274.6	[5] 1,438	[5] 5,876	[12] 8,553

[1] "Privileges of Everyone," *Argumenty i fakty*, December 1990, pp. 2-3.

[2] Minimum pension for February was R342; R200 supplement for February paid retroactively in May 1992.

[3] A. Struvev, "The Pension is Payment of a Debt," *Torgovaia gazeta*, 1 January 1992, p. 1.

[4] Minimum pension for August, R900; monthly supplement, R420.

[5] Sanjeev Gupta, "Russian Federation-Social Sector Mission Back-to-Office Report," October 1992, pp. 1-3. Amounts for average monthly pension and average monthly wages were estimates. Mr. Gupta is an economist at the International Monetary Fund.

[6] Not available.

[7] Estimate for February 1992.

[8] Barry Popkin, Marina Mozhina, and Alexander Baturin, "The Development of a Subsistence Income Level in the Russian Federation," August 1992, and October 1992 update. The minimum subsistence level is developed based on necessary food intake to meet the daily energy requirements recommended by the World Health Organization and Food and Agriculture Organization for pensioners (men aged 60 or older and women aged 55 or older). The consumption basket assumes that 80 percent of the income is for food.

[9] *Sostoianie sotsial'noi zashchity netrudosposobnykh grazhdan i semei s det'mi v Rossiiskoi Federatsii (Sbornik statisticheskikh materialov)*, chast'I, Moscow, 1992, p. 35.

[10] Ministry of Social Protection preliminary estimate.

[11] 1990 data. See *Narodnoe khoziaistvo SSSR v 1990g*, p 38.

[12] Derived from Gupta (see footnote 5) and Sheila Marni, "Economic Reform and Poverty in Russia," *RFE/RL Research Report*, 5 February 1993, pp. 31-36.

The Social Insurance Model

The Soviet social insurance model for the pension program survived the initial challenge of radical economic reform of 1992, and has become all the stronger under the Russian Federation. On the program funding side, the centrifugal forces that plagued the Gorbachev government at the Union level also undermined the Russian Federation's ability to collect tax revenues from its constituent republics and regions in early 1992. Some local governments decided not to pass on tax revenues (presumably including social security contributions) in retaliation for the Central Government's failure to provide them with payments of wages and pensions.[47]

However, this problem has been largely overcome, thanks to the systematic organizational efforts by the Russian Federation's Pension Fund since September 1991. The Russian Pension Fund has since extended its network in all 88 provinces (oblasts, krais, or constituent republics) and over 2,000 counties (raions) to collect payroll taxes from enterprises by its own collection agents. By late 1992, this organization had established stringent regulations for late payments and for delinquent enterprises. Partly due to efficient tax collection, and partly because average wage increases have surpassed average pensions throughout 1992, the Russian Pension Fund has accumulated substantial reserves. It is generally estimated that the surplus equals at least 7 percent of payroll contributions.[48]

Another contributing factor to the robust financial health of the Russian Pension Fund may be that it has freed itself from some of the prior funding obligations for nonwork-related benefits: Social pensions, special compensations for victims of the Chernobyl nuclear power plant disaster, and family allowances. These benefit payments are now reimbursed by general revenues and other sources.[49] Efforts at limiting pension expenditures to benefit payments to contributing employees for insured risks have allowed the Russian Pension Fund to move closer toward the social insurance principle of pension program financing.

The social insurance model will be further strengthened by the Russian Pension Fund's plan to establish individual records for employees contributions, scheduled to start in 1993.[50]

Pluralistic Developments

The Russian Federation continues the pluralistic approach to income security adopted by the U.S.S.R. in 1990 in three respects.

Supplementary pension benefits.—The 1990 Russian Federation Pension Law followed the Soviet model in allowing republic and local authorities, as well as employers, to offer supplementary benefits as they deemed appropriate, and to bear the costs thereof. Some regions and cities have decreed their own minimum pensions above the minimum stipulated by the Central Government. However, data indicating the extent of such practices are not available.

Voluntary non-State pension program.—The Russian Government also endorses the introduction of a voluntary pension program to supplement the State-operated pension system. Instead of having employees enter into contract with the State Insurance Administration and join a voluntary pension program as prescribed by the May 1990 U.S.S.R. pension law, the Russian Federation established a new Non-State Pension Fund in May 1991 as the sponsor and promoter of non-State pension plans. An interministerial commission—consisting of representatives from the Ministries of Social Protection, Labor, Finance, Economics, and Law and the State Committee for the Management of State Property—is drafting a legislative proposal to regulate the establishment and operation of individual non-State pension funds.[51]

The Russian Government envisions that these supplementary pension programs will enhance retirement income and generate investment capital for economic development as well.[52] These funds are expected to absorb and pool private savings for medium- and long-term investments, while at the same time they help protect private savings from inflation. In view of the tendency among regional governments to move toward greater independence from the center, capital accumulation is becoming decentralized and fragmented. Proponents of the non-State pension funds suggest that these funds serve as an instrument whereby neighboring provinces, for example, can pool their funds to invest in joint projects of infrastructure investment that are otherwise not affordable for individual provinces. One report claims the existence of hundreds of insurance companies in Russia today, and estimates that a minimum of several hundred thousand employees are already enrolled in various private pension plans.[53]

Regardless of the contents of the final legislative proposal for the supplementary pension program, implementation of the new proposal faces formidable obstacles. The lack of a mature insurance industry and a stable financial market in present-day Russia does not augur well for private pension investments. A crucial element in the plan's appeal for capital depends on the extent to which these private pension plans can guarantee benefit indexing to protect the beneficiaries from the highly inflationary economy in Russia today. Western experience with private pensions does not provide optimism regarding inflation protection, however.[54]

Local government and civil initiatives in social assistance.— As a result of the decentralization in Russia's political and financial systems, many local governments and civic associations are organizing assistance to help meet the many needs left unfilled by the Russian State-operated social security system.

• *Local government programs.*—The phenomenon of local government public assistance programs to aid the needy is significant in two respects. It highlights a departure from the central planning mode of governance, and it testifies to local initiatives in public affairs. Such activities have greatly expanded since January 1992 to meet rapidly increasing demands as minimum pensions and wages fell below the level of minimum subsistence. Although there is no aggregate data to assess the distribution of such efforts nationwide, available information suggests that these programs are common, and play an important role in alleviating current hardship.[55]

These programs may benefit all local residents by subsidizing producers and/or retailers of staples (bread, milk) to keep prices low, and by granting free plots to all residents who wish to grow vegetables. They may extend eligibility to broad categories of vulnerable groups by granting all pensioners access to discount stores and to free or subsidized transportation; they may target the poorest as recipients of free or subsidized soup kitchens and meal coupons; or they may meet individual needs by awarding house-bound single elderly and disabled with free or subsidized telephones, or by providing low-income families that have three or more children with discounted fuel, water, and/or electricity.

Typically, these local programs share two common features. They (1) often require an income test to identify the neediest amidst the general vulnerable groups and (2) offer far more in-kind benefits than cash benefits.

Since early 1992, the Central Government has identified the needy by category (for example, large families and those who live alone with no other means of support, whether they are elderly or disabled). To meet rapidly growing demands for assistance, many local governments are using a combination of criteria, such as category (for example, pensioners) *and* income level (for example, minimum pension or below) to target the broad categories of vulnerable groups and to effectively utilize limited resources. For example, in Cheliabinsk province in the Ural mountains, eligibility for social assistance is limited to those whose income is below the minimum pension; in Novosibirsk province, to those whose income is below a locally established subsistence minimum; and in Barnaul city in Altai province, to low-income families with children and those earning less than two times the minimum wage.

In-kind benefits are expanding in an environment where the market availability of food items tends to be unpredictable and cash benefits devalue quickly. Programs for food stamps, meal coupons at soup kitchens, and free meals for school children are common. Cash grants are sometimes available for specific purposes (burial, partial compensation for heat and water, and medical care of poor pregnant women), or for general expenses of certain groups identified as in need of emergency assistance. In Cheliabinsk province, of the 26,775.4 million rubles budgeted for benefits to the needy in 1993, only 3 percent will be for cash allowances; 27 percent were allocated to in-kind benefits, and 70 percent for discounts, cash compensations, and subsidies (including 17,338 million rubles in bread subsidies). In-kind and cash benefits per month per recipient vary over time and across regions according to need and available resources. In Novosibirsk province in September 1992, it is estimated that about 32 percent of all pensioners received some public assistance equivalent to an average of 213 rubles per person per month; of the families with three children or more receiving assistance, each child received benefits equivalent to an average of 166 rubles per month.[56]

• *Charitable and civic initiatives.*—Charitable activities reemerged in the Soviet Union in the late 1980's, in the form of quasi-government organizations after a seven-decade absence: The Children's Fund, and the Soviet Fund for Health and Charity were established in 1987 and 1988, respectively. Each was described as a "self-governing public agency" that worked closely with government institutions. These organizations quickly extended to republic, provincial, and county levels, and they remain active in Russia today.[57] From the late 1980's to January 1992, many other private voluntary organizations, including some affiliated with churches, have appeared to provide assistance to the needy. Some serve specific objectives, such as the Memorial Society that began as a mutual support group for former political prisoners and has since taken on the function of collecting contributions and providing assistance to former prisoners and their family members. Some have broad constituencies such as Miloserdie (Mercy) and the Nadezhda (Hope) Association, which have the support of physicians, lawyers, ecologists, journalists, and entrepreneurs to provide for the vulnerable of any background. Religious organizations, including the Russian Orthodox Church, the Methodists, Baptists, Lutherans, and Seventh-Day Adventists, have taken on charitable causes and often render aid to the indigent who are not necessarily their parishioners. By January 1992, two laws were passed that formalized the authority to organize charitable activities administered by religious orders (1990) and civic groups (1991).[58]

Throughout 1992, an increasing number of Russian citizens participated in voluntary organizations, spurred on by the rising demand for charity. Civic groups (advocacy organizations for women, veterans, and the disabled, as well as community activists) also sprang up with the infusion of resources made available through foreign aid packages and financial and/or administrative support of central and local governments. Some of these organizations assisted international humanitarian aid efforts and/or local programs by compiling and screening lists of needy groups; some engaged in monitoring the distribution of international aid shipments to prevent pilfering for profit; and others organized concerts, dances, lotteries, auctions, and marathon television programs to raise funds for the needy. International philanthropic organizations, including the International Salvation Army, United Way International, the Protestant Chaplaincy, and others, have established branches in Russia, generally concentrated in Moscow and St. Petersburg, and work closely with local voluntary groups and government agencies. By the end of 1992, more and more Russian citizens have begun to volunteer at soup kitchens and other organized welfare facilities.[59]

A commonly cited reason for the relative underdevelopment of charitable activities in Russia today is that the current law does not offer favorable tax treatment for nonprofit civic organizations and private philanthropic donations. At present, only a specified number of charitable and welfare organizations (Fund for Health and Charity, homes for the elderly and the disabled, for example) are tax exempt. Reportedly, the Supreme Soviet is drafting a law granting tax deductions for private contributions to charities and tax exemptions for nonprofit organizations in general.[60]

To be sure, there have been allegations of mismanagement and/or fraud with regard to the distribution of foreign aid packages at all levels of operation, ranging from the Central Government to city and county nongovernment groups. The extent of proven mismanagement and fraud remains unknown, however.[61]

Inadequate information and data make it difficult to conduct a systematic study of the contributions of local governments and nongovernment organizations to the economic security of the needy. It is significant that press reports about such activities seem to suggest that they are common occurrences. Nevertheless, the fledgling nongovernment organizations still have to face the test of time to answer questions about how stable their programs are and how effective they can be in serving as supplementary sources of income security for the most vulnerable.

Remaining Issues

In Russia, as of spring 1993, income-maintenance programs for the aged and children appear to have survived the breakup of the Soviet Union and the "shock therapy" of economic reform in 1992. State-operated programs of pension benefits and family allowances continue to make payments due to the successful conversion of pension funding from general revenues to employer and employee payroll contributions, and to the diligence of the Ministry of Social Protection, as well as provincial and county social protection departments. In addition, the Government continues to promote pluralistic approaches to social security by delegating social welfare responsibilities to local governments, by establishing private pension schemes as supplementary retirement income for seniors, and by fostering civic and philanthropic activities.

Three issues, however, remain: Benefit adequacy, pension program administration and fund management, and the role of the Central Government regarding local public assistance programs.

Benefit Adequacy and Fiscal Responsibility

The most immediate issue dominating policy debates between the Supreme Soviet and Government ministries relates to the appropriate level of pension and family benefits necessary to guarantee minimum income security. The question that remains is, on the one hand, the extent to which benefits are helping pensioners and families with children to cope with the ever worsening inflation and, on the other hand, the extent to which better benefit protection against inflation would create a significant fiscal imbalance and further economic instability.

Evidence suggests that minimum pensions and family allowances fell behind the minimum subsistence standard of living throughout 1992 in Russia (table 2). Government ministries' measures in 1992 relied on flat-rate supplements to provide a *floor* of minimum income for social security beneficiaries regardless of their past earnings. The Supreme Soviet, however, has taken steps to raise benefits above the minimum pension by improving the income of pensioners with average to high earnings. It began by introducing a series of coefficients to index past earnings in May 1992; raising the ceiling of maximum benefits from two to three times the minimum benefit in November 1992; and stipulating that new retirees may apply their earnings over the preceding 12 months (instead of a 2-year period) to compute benefits, starting in January 1993. More recently, in November 1992 and again in February and May 1993, the Supreme Soviet departed from the past practice of linking the minimum pension to the minimum wage and adjusted it according to its own estimate of "cost-of-living" increases. It also set a time table for quarterly benefit revaluation, instead of the ad hoc adjustments that characterized the minimum pension changes during most of 1992. Pension benefits at all levels above the minimum pension are thus guaranteed better protection from price changes than before.

The new automatic quarterly revaluation of pension benefits, together with benefit enhancement for the average and high-earning pensioners through earnings indexation, have alarmed those who are concerned about the impact of improved benefit adjustments on a mounting inflation. From the fourth quarter of 1992 through January 1993, monthly inflation climbed from 25-30 percent to 50 percent. The Minister of Finance, especially, argued against an automatic quarterly adjustment for all pension benefits. He maintains that the quarterly adjustment of the minimum pension tends to drive the minimum wage up to the same level,[62] thus increasing Government expenditures for State-sector wages and enlarging the budgetary deficit as well. He also prefers to revalue benefits above the minimum level with reduced coefficients to better control total pension expenditures. Moreover, the infusion of large sums of money into the hands of pensioners and wage earners in an economy where the availability of goods is on a decline due to a continuing fall in domestic production may indeed trigger a wage-price spiral with only limited real advantage to the public.[63] The Minister of Labor has since entered the debate by deploring the low standard of living of average Russian citizens (pensioners included) and asserting that it is a potential cause of political instability. He claims that "the possibility of achieving financial stabilization by limiting people's incomes has been exhausted, and a further decline in living standards runs the risk of causing a social explosion."[64]

The eventual impact of the improved benefit adjustments on budget deficits is yet to be assessed.[65] It is possible that the Supreme Soviet may still revise the formula for benefit adjustment, as it is wont to do, over time. The extent to which quarterly adjustments may bring better living standards to pensioners and low wage earners (given the current limited supply of goods), and the extent to which such adjustments would cause further inflation and fiscal imbalance, will undoubtedly be subjects of inquiry in future studies.[66] To policymakers, the linkage between benefit and wage levels, the national economy, and political stability is very real, while the resolution in achieving a balance between the economic welfare of pensioners and the country's economic and political well-being remains elusive. As the search continues for an appropriate level of minimum income security for Russia's poor, the cost of a misstep could be inordinately high.

Pension Program Administration and Fund Management

Administration.—Since Russia is currently experiencing runaway inflation at 25-50 percent per month, any delays in pension payment cause added hardship for Russian seniors. Both the Supreme Soviet's Commission on Social Policy and the Ministry of Social Protection point to the largely manual operation of benefit adjudication and computation as a major cause of the extended time required for processing pension payments; both regard it as necessary to automate these processes. They also recommend a restructuring of social security institutions to streamline program administration.

Under the current arrangement, governance of the pension program is shared between the legislative and executive branches of the Russian Federation. Institutionally, the cluster of Ministries of Social Protection, Labor, Finance, and the Economics report to the Russian President. These ministries coordinate pension policy in the context of social needs, minimum subsistence, fiscal policy, and economic reform. The Ministry of Social Protection is also responsible for program implementation through a network of social protection departments at the provincial and county levels. Specifically, these provincial and county offices review applications for benefits, adjudicate applications, compute benefits, and pay benefits mostly through the local post office (and occasionally, through the network of savings banks). Provincial and county social protection departments are directly subordinate to the respective local administrators, and *indirectly* to the Ministry of Social Protection in Moscow. Parallel to the executive arm is the Supreme Soviet's Commission on Social Policy and its affiliate Russian Federation Pension Fund. The latter collects payroll contributions, appropriates payments through its provincial and county counterparts, and manages cumulative receipts.[67]

The two parallel institutions interact at both federal and provincial levels. At the federal level, the Supreme Soviet's Commission on Social Policy legislates pension policies that require implementation by the Ministry of Social Protection and provincial and county social protection departments. At the provincial level, the social protection department notifies its counterpart pension fund each month of projected pension expenditures so that the latter transfers the estimated amount to the social protection department for payment to beneficiaries. At both levels, one branch of government carries out its function separately and independently from the other with minimal communication or coordination between them. The Commission, for example, does not deem it necessary to discuss or inform the Ministry of Social Protection in advance of its plans to revise the benefit formula or the coefficient for benefit adjustments.[68] Typically, there is no sharing of information or data between the provincial pension fund and social protection department other than monthly projections of benefit payments and transactions of the said amounts through transfers in their respective savings bank accounts.

Both the Supreme Soviet's Commission on Social Policy and the Ministry of Social Protection regard this institutional arrangement as inefficient and costly; both favor a merger of pension fund collection with benefit adjudication and payments. They differ, however, on the jurisdiction of this new, unified administrative structure. To the Commission, the Russian Pension Fund system that so successfully collects payroll contributions can conveniently incorporate into its operation all the responsibilities currently carried out by the Ministry of Social Protection and provincial and county social protection departments. The Commission's proposal in effect places both the administrative and funding operation of the pension program under the legislative authority, separate from the executive branch. It creates two issues that relate directly to the delineation between legislative and executive branches of government. First, to what extent should the executive function of the government (that is, pension program administration) be incorporated into the legislative structure. Second, how could adequate oversight be established over the operation of the pension program under the Supreme Soviet.

The Ministry of Social Protection proposes the unification of pension funding and administration into a new, independent Federal Pension Administration under the executive branch of the government. The Supreme Soviet will continue to exercise its legislative authority of pension law and oversight of the new pension administration. A largely trimmed Ministry of Social Protection will focus on its responsibility for family allowance programs and other social assistance programs.

The Ministry further proposes that the Federal Pension Administration be established along the "federative" principle of the Russian Government. At each level of the government (federal, republic, provincial to county) the Federal Pension Administration would integrate all functions regarding the pension administration (from the collection of payroll contributions to payment of benefits) into one. According to the Ministry's proposal, all regions will adopt the "federal norm" for minimum contribution rates by employers and employees, while regional pension services have the right to levy a higher rate. In matters of pension fund collection and disbursement, the new pension agency and its constituent services will depart from the present centralized structure of the Russian Federation Pension Fund and assume a coordinating role for constituent republic and provincial pension administrations; it will provide redistribution of collected contributions (according to a pre-established formula) to help finance provinces that have a deficit between contributions and benefits.

The Ministry of Social Protection's proposal, therefore, reclaims the Russian Pension Fund for the executive branch. This arrangement, however, does not provide any mechanism to ensure coordination of legislation and program implementation, and communication between the Commission on Social Policy and the new agency. It nevertheless decentralizes the pension program so that legislative and executive authorities competing over social security matters will be replicated at the republic and provincial levels, thus causing the governance of the pension program to become further fragmented.

The final outcome of these proposals is likely to depend on the resolution of the larger issue of governance in Russia with regard to the relationship between its legislative and executive branches. Considering the unstable and ambiguous relationship that currently exists between these two branches of Government, and the palpable tension between the center and the periphery in Russia, a fragmented pension system would probably undermine prospects of risk pooling in pension financing and portability in benefit payments among regions.

Fund management.—There remain two areas of concern with regard to pension fund management. First, potential or real instances of misuse of pension fund receipts are surfacing. A recent *Moscow News* report, for example, alleged that the Russian Federation Pension Fund was using payroll contributions to subsidize the publication of "Official Chronicle" by the Moscow Patriarchate of the Russian Orthodox Church.[69] Such practices of diverting monies earmarked for benefit payments to purposes unrelated to the pension program or to any other income security programs, if proven to be true, directly violate the "social insurance model" of pension funding and undermine the average citizen's confidence in the financial integrity of the public pension program.

The second area of concern relates to the Commission of Social Policy's plan for the Russian Pension Fund to establish a network of commercial banks throughout Russia that would extend from its Moscow center to republic, provincial and county levels. As part of the Commission's proposal to effectively collect payroll contributions and manage pension receipts, the Russian Pension Fund will have control over this commercial banking system by holding 51 percent of its assets. According to the Commission, the Russian Pension Fund can capitalize fund reserves through commercial banking activity, and it can expedite fund collection by mandating enterprise payment of payroll contributions through direct deposits to the Russian Pension Fund's banking system. This arrangement replaces the current circuitous route of having the local commercial bank transfer enterprise contributions to the county pension fund's account in the local savings bank, which subsequently transfers the monies to the provincial pension fund's account in the provincial savings bank. The Commission of Social Policy, in short, plans to transform the Russian Pension Fund from its current primary function of a contribution collection agency to a full-fledged administrative organization for the country's pension program, coupled with a mandate to also perform the function of a commercial banking system. If carried out, the Russian Pension Fund will be moving the program into commercial spheres that Western governments have not previously attempted to enter.

Central Government Role in Local Assistance Programs

Since the Gorbachev reform, the Soviet Government and, more recently, the Government of the Russian Federation have taken the policy of decentralization as a "corrective" measure to counteract the centrally planned economy and governance that had prevailed up to that time. In areas of pension policy and family allowances where the Central Government already had established programs, it continues to assume the lead in policymaking, payroll collection, and program implementation. However, in the sphere of public assistance, a relatively new endeavor with limited precedents, the Central Government in Russia has thus far delegated most of the responsibility to local authorities. The stance of decentralization persisted even after the Ministry of Social Protection was reorganized in late 1991 from its predecessor, the Ministry of Social Security. The new ministry's mandate has since expanded beyond the protection of pensioners to that of all vulnerable groups. In practice, the Ministry's transition to its newly expanded role is slow, and officials thus far have reported no plans to take the lead in developing comprehensive policy directives regarding public assistance. There are no plans to design a national guideline for local implementation of social welfare programs, to provide technical know-how for establishing strategies (means-test or otherwise) in targeting the needy or in developing programs for the emerging poor, and there are no proposals to help local governments to shore up unstable funding or to pool resources available for public assistance.[70]

To the extent that local governments provided pensioners and children with cash and in-kind benefits to ease their hardship during 1992, and to the extent that such assistance will continue to be necessary for the most vulnerable, the absence of Central Government leadership may hurt most those regions that lack resources and energetic administrators.

At present, local governments rely on four sources of extra-budgetary funds for social assistance: The Supreme Soviet Fund for Social Protection, the Ministry of Social Protection's Fund for Social Protection, and provincial and county governments' own funds for social protection.[71] The establishment of extra-budgetary funds has become increasingly common since 1990 as a tool to generate additional sources of funding for social assistance. These funds represent an obvious departure from central planning for social welfare, and they are generally regarded by Russian reformers as a flexible tool suited for a market economy. Their sources of funding, however, are limited and they are too unstable for local governments to fund recurring expenses such as public assistance to the needy.

Social Protection Funds from the Supreme Soviet and the Ministry serve as federal resources for local public assistance programs. However, little is known about the source or the financial status of the Supreme Soviet Fund for Social Protection. It is distributed to and then disbursed by provincial and county legislative councils (independently, or through the local social protection departments, depending on the working relationship between local legislative councils and governments). The Supreme Soviet's criteria for allocation of its Social Protection Fund across regions are not generally known.[72]

The Ministry's Fund for Social Protection has been an important financial source for local programs. It consists primarily of monies transferred from the now defunct Communist Party, proceeds from privatization of State enterprises, enterprise tax on income from price increases, special levies on enterprises, private donations, and receipts from sales of foreign humanitarian aid. In addition, where provincial and county governments have created their own social protection funds, these funds also depended on the same sources (privatization proceeds, enterprise taxes and levies, for example) of support at the local level, plus allocations from the Ministry's Social Protection Fund. While proceeds from the privatization of State enterprises will continue as long as the process lasts, most other sources of income are one-time injections. This element of instability for future resources has prompted many provincial and county governments to invest their initial capital in presumably profitmaking endeavors in order to expand their resources, or at least to maintain the real value of the unused funds, even though the prospects of such endeavors remain uncertain.

The Ministry of Social Protection claims that allocations of its Social Protection Fund to local funds are directed, first and foremost, to the "emergency counties" (regions suffering from ecological disasters, ethnic conflicts, food shortages, or a sharp decline in the production of military and heavy industrial goods; and areas with a large inflow of migrants and refugees). In reality, the distribution of resources was generally based on requests from locales; the Ministry has not conducted independent assessments of need across regions. Locales that do not request aid may turn out to be the ones that federal technical and/or financial assistance could help the most, according to at least one observer.[73]

Central Government leadership in helping local governments to organize their work and resources to meet public assistance needs is important, especially in view of the expected mass bankruptcies of State enterprises in 1993 and beyond.[74]

Concluding Remarks

Social security in the Soviet Union and in the Russian Federation takes on a multi-dimensional significance during economic transition. The Gorbachev social security reforms were intended to (1) alleviate apprehension about economic reforms by providing protection of minimum income security during the transition period; (2) revitalize the Soviet work force by introducing incentives for longer service and higher pay; (3) instill in employees a sense of responsibility for their own economic security by adopting the Western market-based social insurance model for social security financing, and by offering voluntary supplementary pension plans; and (4) foster a pluralistic approach to economic security by allowing local government add-ons to the Union-based benefits, and by encouraging local governments and nongovernment groups to take part in public assistance and charity.

The Gorbachev design of social security for transition to a market-based economy has withstood the political breakup of the Soviet Union and the radical economic reform subsequently introduced by the Russian Federation. Under conditions of radical and comprehensive price and wage decontrol in 1992, social security benefits were paid, albeit marred by delays and inadequate protection from inflation. Also, the Russian Federation has successfully transformed pension program funding from primarily general revenue financing of the Soviet pension program to a social insurance model. The Ministry of Social Protection and provincial and county social protection departments carried out program operations with limited administrative resources against great odds.

Pensioners and children may fare better in 1993 than previously because of modifications in the Gorbachev social contract and the recent adoption of a quarterly revaluation of pension benefits and subsequent upgrade of family benefits as well. Finally, the pluralistic approach to income security has begun to bear fruit, as local governments have initiated public assistance to aid the indigent, and as Russian citizens have begun to organize and volunteer in civic associations for causes of philanthropy.

Three issues remain. First, will the improved benefit adjustment against inflation continue without modification and, if so, to what extent may the increase in benefits undermine economic stability. Second, how will the institutional restructuring evolve in pension administration, and how will vigilance against misuse of the collected funds be exercised. Finally, given the lack of experience of local administrators in public assistance, and given the uneven and unstable financial resources available across regions, will local governments be able to meet ever-increasing demands in 1993 and beyond.

As President Boris Yeltsin and the Supreme Soviet consider whether or not to press for a deepening of the radical economic reform plan in early 1993, their decision may very well depend on the extent to which continuing reform may bring further hardship for the population, and the extent to which the State-operated social security and other government and nongovernment programs can be a stabilizing force. Regardless of their decision on the course of economic reform, income security issues will continue to be a crucial consideration in the Government's economic and political agenda.

Notes

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[1] For purposes of this article, "social security" is applied primarily to income security programs for the aged, disabled, survivors, and children. This definition of social security is broader than the current U.S. usage of the term. In the United States, "Social Security" refers only to cash benefits for the Old-age, Survivors, and Disability Insurance programs. In contrast, social security as defined by the International Labor Organization also includes unemployment insurance and health care, which are too vast to be included in this article.

[2] In January 1991, population in the Soviet Union and the Russian Federation totaled 290 million and 148.5 million, respectively. *Narodnoe khoziaistvo SSSR v 1990 g.* Moscow, Finansy i statistika, 1991, pp. 68, and 76; "O chisle i sostave semei v SSSR," *Press-Vypusk*, No. 156 (23 May 1991), p. 3; *Sostoianie sotsial'noi zashchity netrudosposobnykh grazhdan i semei s det'mi v Rossiiskoi Federatsii (Sbornik statisticheskikh materialov)* Moscow, 1992, chast' II, p. 45.

[3] Bernice Madison, "Social Security - Soviet Style," Institute of International and Area Studies, University of California at Berkeley, chapters 3 and 9 (forthcoming). For family benefit programs from 1944-77, see *Social Security Legislation Throughout the World, 1949*, Washington, DC, U.S. Government Printing Office, and *Social Security Programs Throughout the World*, editions 1951 through 1979, Washington, DC, U.S. Government Printing Office.

[4] Unless otherwise specified, for detailed information on pre-Gorbachev Soviet social security programs, see *Social Security Programs Throughout the World, 1985*, Washington, DC, U.S. Government Printing Office, 1986; for non-Soviet programs, see *Social Security Programs Throughout the World, 1989*.

[5] The 1964 Pension Law for Collective Farmers and subsequent ad hoc benefit enhancements for these rural pensioners helped to gradually bridge the gap between income security for State employees and collective farmers until the two systems were unified in 1991. By 1981, collective farmers earned 70.8 percent of the average earnings of State employees. See Madison, "Social Security - Soviet Style," chapter 3.

[6] Employer contributions and general revenues financed the Soviet pension program until January 1991, when the 1990 U.S.S.R. State pension law took effect and began to levy payroll contributions from employees as well.

[7] Statutory retirement age for full pension is 65 for both men and women in Canada, the Netherlands, and the United States; age 65 for men and 62 for women in Portugal; age 65 for men and 60 for women in Austria, Chile, France, Germany, and Greece. In contrast, retirement age at 60 for men and 55 for women is common among other transition economies; for example, China, Bulgaria, Czech and Slovak Federal Republic, Hungary, and Romania.

[8] By 1985, a supplementary benefit of 20 percent of pension was awarded to those who had accumulated 10 years' work beyond the qualifying 20-25 years under covered employment and 25 uninterrupted years in the same enterprise. Those who had 10 years' work beyond the qualifying 20-25 years or only 15 years of continuous employment received a supplemental benefit of 10 percent of pension. See, *Social Security Programs Throughout the World, 1983*, pp. 262-263.

[9] As an alternative, pensioners could choose to compute their benefits from their earnings during the best five consecutive years within last 10 years of their employment before retiring.

[10] Public assistance for the aged and the disabled who did not qualify for a pension was meager at best. Until 1985, eligible residents in cities received an average of 11.8 rubles (20 rubles in Russia) a month. Only eight republics (including Russia) provided public assistance to needy adults in rural communities not affiliated with collective farms. These republics paid 10 rubles a month, an amount far below the poverty level of 50 rubles a month that was set in 1967. As of November 1, 1985, these payments were raised to 30 rubles a month. See Madison, "Social Security - Soviet Style," chapters 3 and 9. (In 1967, US$1 = R0.9 and in 1985, US$1 = R0.84.)

[11] The Soviet employer contribution of an average of 9 percent of payroll also included contributions to cash benefits for sickness and maternity. In comparison, 1989 payroll contributions (from employers and employees) for comparable programs (*but excluding cash benefits for sickness and maternity*) in the United States, Japan, France, and the Federal Republic of Germany were 14.12 percent, 13.95 percent, 27.53 percent and 20.08 percent, respectively. Among the middle income countries, comparable payroll contributions were at least 17.55 percent in Chile and 17.25 percent in Greece. The notable exceptions in Western economies are Australia and New Zealand, where general revenues finance most of the social security programs. See, *Social Security Programs Throughout the World, 1989*.

[12] See, for example, Madison, "Social Security - Soviet Style," chapters 3 and 16.

[13] Two studies extensively discuss living standards and poverty in the Soviet Union: Mervyn Matthew, *Patterns of Deprivation in the Soviet Union*, Stanford, CA, Hoover Institution Press, 1989, and Alastair McAuley, *Economic Welfare in the Soviet Union: Poverty Living Standards and Inequality*, Madison, WI, University of Wisconsin Press, 1979. See also, *A Study of the Soviet Economy*, Vol. 2, Washington, DC, International Monetary Fund, 1991, pp. 141-142; various articles in *Report on the USSR* (in 1989, see Aaron Trehub, "The Congress of People's Deputies on Poverty," Vol. 1, No. 24, pp. 5-8;

D.J. Peterson, "Supreme Soviet Adopts Emergency Pension Measures," Vol. 1, No.33, pp. 7-9; William Moskoff, "The Aged in the USSR," Vol. 1, No. 37, pp. 7-9; and in 1990, see Margot Jacobs, "Soviet Pensioners Finally Get a Boost," Vol. 2, No. 32, pp. 2-5; Jeanine D. Braithwaite, "Income Distribution and Poverty in the Soviet Republics," *Journal of Soviet Nationalities*, Vol. 1, No. 3, 1990, pp. 158-173; and Alastair McAuley, "Poverty and Underprivileged Groups in the USSR," paper prepared for the Conference on Political Elites and Classes under *Perestroika*, held at Emmanual College, Cambridge, England, September 28-29, 1991. (The official ruble and U.S. dollar exchange rate in 1989 was US$1 = R0.6. This rate remained constant through September 30, 1992. On October 1, 1992, the ruble was changed from the official rate to the market rate (US$1 = R280). As of March 31, 1993, US$1 = R576.)

[14] In May 1985, the Central Committee of the Communist Party, the Council of Ministers and the All-Union Central Committee of Trade Unions jointly issued a decree "Concerning the Most Important Measures for Improving the Material Well-Being of Poor Pensioners and Families, and Strengthening Care of Solitary Citizens." A. Solovev, the deputy chief of the Social Security Department of the U.S.S.R. State Committee on Labor and Social Issues, described it as a broad program for improving the living standards of the most vulnerable segments of the population. See A. Solovev, "New Steps to Improve Pension Security," *Sotsialisticheskaia zakonnost'*, October 1985, pp. 53-55 (translated in *JPRS-UHR-86-002*, 23 January 1986, pp. 36-41). For references to incremental changes decreed during 1985-89, see Madison, "Social Security - Soviet Style," chapters 3, 9, and 16, and D.J. Peterson, "Supreme Soviet Adopts Emergency Pension Measures," *Report on the USSR*, Vol. 1, No. 33, 1989, pp. 7-9.

[15] Madison, "Social Security - Soviet Style," chapters 3 and 16, and Robert J. Myers, "The New Voluntary Annuity Program in the Soviet Union," *Society of Actuaries Transactions, 1989*, pp. 189-198.

[16] For discussions of the new "social contract," see Elizabeth Teague, "Gorbachev's 'Human Factor' Policies," pp. 224-239, and Peter Hauslohner's "Commentary," pp. 344-352 in *Gorbachev's Economic Plans*, Vol. 2, Washington, DC, Joint Economic Committee, U.S. Congress; Peter Hauslohner, "Gorbachev's Social Contract," *Soviet Economy*, Vol. 3, No. 1, 1987, pp. 54-89; and Linda Cook, "Brezhnev's 'Social Contract' and Gorbachev's Reform," *Soviet Studies*, Vol. 44, No. 1, 1992, pp. 37-38.

[17] "Goskomtrud [U.S.S.R. State Committee on Labor and Social Issues] Draft Proposal for Market Transition Safety Net," *Izvestiia*, 9 August 1990, pp. 1-2 (translated in *JPRS-UEA-90-033*, 13 September 1990, p. 59).

[18] See the April "Resolution of the U.S.S.R. Supreme Soviet on Immediate Measures for the Improvement of the Status of Women, Maternity and Children, and the Strengthening of the Family" (translated in *JPRS-UPA-90-022*, 30 April 1990, pp. 92-94) and the August "Resolution on Additional Measures for the Social Protection of Families with Children in Connection with the Transition to a Regulated Market Economy" (translated in *FBIS-SOV-90-159*, 16 August 1990, pp. 45-46).

[19] By April 2, 1991, the day of the first price decontrol in the Soviet Union, the Government had streamlined the categories of benefits and revised the amounts for some family allowances so that the previously established link to the minimum wage was only partially preserved. For example, the one-time grant at birth of each child was decreed to be three times the monthly minimum wage as of January 1, 1991, when the minimum wage was only 70 rubles. On April 2, 1991, the minimum wage was established as 135 rubles in the Soviet Union (165 rubles in Russia) while the birth grant was raised to only 250 rubles (350 rubles in Russia) or 1.85 times the minimum wage (table 1).

[20] Benefits to children with HIV or AIDS were extended to age 18 as of June 1, 1992. Benefits to children of military personnel are not included here. "Compensation Plan for Families with Young Children Explained," *Argumenty i fakty*, No. 15, April 1991, p. 1 (translated in *JPRS-UEA-91-020*, 25 April 1991, pp. 70-72).

[21] *Pravda*, 12 September 1986. On the complex and often contradictory laws and regulations governing the Soviet pension program until the 1990 new pension law, see Madison, "Social Security - Soviet Style," chapter 4. For the text of the 1990 U.S.S.R. pension law, see *Trud*, 30 May 1990, pp. 1-4. (Law translated in *FBIS-SOV-90-121*, pp. 33-54.)

[22] For provisions of the 1990 U.S.S.R. State Pension Law, see *Trud*, 30 May 1990, pp. 1-4 (translated in *FBIS-SOV-90-121*, 22 June 1990, pp. 33-54).

[23] See Article 3 of the "Regulation" dated August 1990. For a list of family allowances and their respective sources of funding, see table 1 and table 1 addendum.

[24] The U.S.S.R. State Committee on Labor and Social Issues introduced the employee contribution rate at 1 percent of earnings, and set employer contribution rates at 26 percent of payroll for 1991, and 37 percent starting January 1992. The contribution rates were raised because of anticipated increases in expenditures. The demographic trend in the next century indicated a decline in the working-age population (men aged 20-59 and women aged 20-54) and an increase in the aged (men aged 60 or older and women aged 55 or older). The ratio of working-age population to aged population was 4.1 to 1 in 1990, and projected at 3.5 to 1 in 2005, and 2.8 to 1 by the year 2020. (Derived from population projections in *A Study of the Soviet Economy*, Vol. 1, Washington, DC, International Monetary Fund, 1991, p. 350.)

[25] See Articles 1 and 10 of the "Regulation" for reference to its banking role and commercial activity.

[26] It should be noted that the voluntary complementary pension scheme did not appeal to many workers since its inauguration in 1988. According to one official from the U.S.S.R. State Committee on Labor and Social Issues during an interview with the author in 1990, many workers took a wait-and-see approach, expecting that the forthcoming new pension law would greatly improve pension benefits anyway.

[27] See, for example, Donna Bahry, "The Union Republics and Contradictions in Gorbachev's Economic Reform," *Soviet Economy*, Vol. 7, No. 3, 1991, pp. 215-255; Gertrude E. Schroeder, "*Perestroika* in the Aftermath of 1990," *Soviet Economy*, Vol. 7, No. 1, 1991, pp. 3-13; and *The Economy of the Former U.S.S.R. in 1991*, Washington, DC, International Monetary Fund, 1992, p. 11.

[28] *The Economy of the Former U.S.S.R. in 1991*, International Monetary Fund, 1992, p. 11.

[29] Ann Sheehy, "Fact Sheet on Declarations of Sovereignty," *Report on the USSR*, 9 November 1990, pp. 23-25 and her "The State of the Multinational Union," *Report on the USSR*, 4 January 1991, pp. 16-19. Gertrude E. Schroeder, attributes the declaration of republic sovereignty to the conflicts

between the Union Government and the republics over control of the latter's economic affairs and individual enterprises. She observes "a growing regional autarky," in the second half of 1990. She then recounts Gorbachev's efforts to forge a coordination of price, wage, and social policies with the republics, together with an agreement in budgetary matters. Unfortunately, Gorbachev failed to induce some republics (including Russia) to remit agreed-upon funds to the Union budget. See Schroeder, "*Perestroika* in the Aftermath of 1990," in *Soviet Economy*, Vol. 7, No. 1, 1991, p. 3-13.

[30] See, Jeanine D. Braithwaite, "The Social Safety Net in the USSR in the (Sovereign?) Republics," paper presented at the 23rd National Conference of the American Association for Advancement of Slavic Studies, Miami, FL, November 25, 1991, p. 4; also my interview of an official from the U.S.S.R. State Committee on Labor and Social Issues, February 1991.

[31] Jeanine D. Braithwaite, "The Social Safety Net," 1991, p. 4, citing report in *Izvestiia*, 2 May 1991.

[32] A number of republics had passed their respective pension laws during 1990 and 1991, before the collapse of the Union Government. This may be one reason for the limited variations among the republic pension laws from the U.S.S.R. model. See, for example, "Zakon Latviiskoi Respubliki o gosudarstvennykh pensiiakh," 29 November 1990 (published in *Arods, gazeta profsoiuzov Latvii*, 19 January 1991, pp. 2-4); "Zakon Estonskoi respubliki: o pensiiakh," 15 April 1991; "Zakon Kazakhskoi Sovetskoi Sotsialisticheskoi Respubliki o pensionnom obespechenii grazhdan v Kazakhskoi SSR," (published in *Kazakhstanskaia pravda*, 6 August 1991, pp. 1-4); "O gosudarstvennom pensionnom obespechenii v SSR Moldova," 27 December 1990; and "Zakon o pensionnom obespechenii grazhdan v Turkmenskoi SSR," 25 March 1991. I am indebted to Mr. Nikolai Shinkov, International Labor Office, who made available the texts of these laws.

[33] Some 90 percent of all retail prices and about 80 percent of wholesale prices were taken off control in January 1992. Consumer price and wage increases in 1992 were reported by the Minister of Labor. See, "Labor Minister: One-Third of Population Below Poverty Line," *Interfax*, 5 February 1993 (cited in *FBIS-SOV-93-025*, pp. 22-23).

[34] The Ministry of Labor has closely aligned its policy with the Government's radical economic reforms, rather than with labor interests. Labor interests are represented by the present-day splintered trade unions that are merely shadows of the powerful Communist Party controlled All-Union Central Committee of Trade Unions under the Soviet regime. Critics of Government policies have claimed that the incomes of 90 percent of Russia's population have fallen below subsistence level. For example, "Local Soviet Deputies Mark Reform's Progress," *ITAR-TASS*, 29 June 1992 (translated in *FBIS-SOV-92-126*, 30 June 1992, p. 25).

The Labor Minister conceded in February 1993 that more than one-third of the population was below the poverty line, which was estimated as 4,000 rubles per person in December 1992. See, "Labor Minister: One-Third of Population Below Poverty Line," *Interfax*, 5 February 1993 (cited in *FBIS-SOV-93-025*, 9 February 1993, pp. 22-23). The Labor Ministry's methodology for the established poverty line is not readily available. The minimum pension and the minimum wage in December 1992 was 2,250 rubles and 900 rubles, respectively.

For a recent discussion of various estimates of poverty line, see Sheila Marnie's "Economic Reform and Poverty in Russia," *RFE/RL Research Reports*, February 1993, pp. 31-36.

[35] During an interview in spring 1992, the former Minister of Labor and Employment, A. Shokhin, explained that the PSM was not equivalent to the minimum consumer budget, which included the consumption of more than 200 items of goods and services and was used in times of economic stability as the lower limit for normal life. He then suggested that only 15-20 percent of the population in Russia lived below the PSM, which was estimated to be only 550 rubles a month at the end of January. See, "A. Shokhin: We Will Support Those Having a Tough Time. How to Get Through the Difficult Transitional Period to the Market," *Trud*, 4 April 1992, p. 3 (translated in *FBIS-SOV-92-067*, 7 April 1992, pp. 28-30).

Shokhin also explained that the minimum wage since January was developed according to an estimated PSM. See, "Shokhin Fields Questions on Unemployment," *Moscow Russian Television Network*, 2 June 1992 (translated in *FBIS-SOV-92-109*, 5 June 1992, p. 42).

[36] For Supreme Soviet's October 21, 1992 decree stipulating minimum pension increases and other changes and the Ministry of Social Protection's explanatory instructions for their implementation, see "Prikaz o povyshenii gosudarstvennykh pensii v Rossiiskoi Federatsii," 29 October 1992. For this and other documents relating to benefit changes of family allowances and pensions, I am indebted to Mr. Lev Yakushev of the Ministry of Social Protection who provided the texts of these decrees. See also, "Minimum Pension Levels To Increase," *Interfax*, 15 January 1993 (cited in *FBIS-SOV-93-011*, 19 January 1993, p. 36).

[37] "Edict of the Russian Federation President 'On Increasing the Amounts of Social Benefits and Compensatory Payments to Families with Children and Other Categories of Citizens,'" *Russiiskie vesti*, 28 November 1992, p. 4 (translated in *FBIS-USR-92-159*, 14 December 1992, pp. 7-8); "Yeltsin Decree Increases Social Benefits," (translated in *FBIS-SOV-93-025*, 9 February 1993, p. 18); and "Further Details on Benefits," (translated in *FBIS-SOV-93-025*, 9 February 1993, pp. 18-19); see also pension increases below.

[38] For text of the Russian State Pension Law, see *Sovetskaia Rossiia*, 7 December 1990, pp. 3-5 (translated in *FBIS-SOV-93-025*, 9 February 1993, pp. 18-19).

[39] For comments on improved benefits under the November 1990 Russian pension law by M. Zakharov, Chairman of the U.S.S.R. Commission on Social Policy, and subsequently the chairman of Commission on Social Policy of the Russian Supreme Soviet, see V. Romanenko, "Privileges for Everyone," *Argumenty i fakty*, December 1990, pp. 2-3 (translated in *JPRS-UEA-91-003*, 18 January 1991, pp. 28-30).

[40] See note 36.

[41] The Labor Ministry's July 1992 estimates for monthly PSM for pensioners in January, April, June, and July 1992 were 900 rubles, 1,335 rubles, 2,256 rubles, and 2,481 rubles, respectively. See, Olga Plakhotnikova: "Living Standard; Time of Wildly Increasing Prices," *Rossiiskaia gazeta*, 8 July 1992, p. 3 (translated in *FBIS-USR-92-092*, 22 July 1992, pp. 25-26). The minimum pension for these corresponding months were 342 rubles, 642 rubles (including a supplement of 300 rubles for April), 900 rubles, and 900 rubles, respectively. In other words, the minimum pension was 38 percent of PSM in January 1992, rose to 40 percent of PSM in June, and fell to 36 percent of PSM by July.

[42] Ministry of Social Protection officials acknowledged in an interview in October 1992 that there had been delays of up to

2 months in benefit payments due to manual computation and recomputation of benefits. (In the international context, the capability to recalculate benefits in 2 months is considered highly efficient, and it compares rather favorably even with countries where benefit computation is largely or completely automated.)

[43] See, "What Is Going on with Pensions?" *Svobodnyi Sakhalin*, 7 March 1992, p. 4 (translated in *FBIS-USR-92-050*, 1 May 1992, pp. 68-70); "Commission on Social-Labor Relations Meets," *Interfax*, 8 May 1992 (reported in *FBIS-SOV-92-091*, 11 May 1992, p. 37); "Chelyabinsk-Russian Budget Crisis," *RFE/RL Daily Report* (No. 84), 4 May 1992, p. 2. These anecdotal accounts of delays in benefit payments do not provide a systematic analysis of the scale of the problems cited here—for example, the proportion of pensioners and recipients of family allowances affected, and how severely. A. Zinchenko, director of a main administration of Russia's Central Bank cited a total of 39 billion rubles in shortfall of payments for wages, pensions, and allowances in March 1992, as compared with 19 billion rubles in shortfall in January 1992. He did not provide an amount for pensions and allowances separate from wage nonpayments."Bank Official on Current Cash Shortage Implications," *Trud*, 11 April 1992, p.2 (translated in *FBIS-USR-92-045*, 22 April 1992, pp.37-38).

According to Russia's State Committee for Statistics, in the first quarter of 1992 (that is, before the cash and credit crunch), the payments of pensions and allowances were delayed at one in every four enterprises in industry, and one in every three enterprises in construction and agriculture, without specifying the causes for such delays. See, "The Socioeconomic Situation of the Russian Federation in the First Quarter of 1992," *Ekonomika i zhizn*, No. 17, April 1992, pp. 14-15 (translated in *FBIS-USR-92-055*, 8 May 1992, p. 19).

[44] See Articles 18 and 102 of the November 1990 Russian State Pension Law, "On State Pensions in RSFSR," *Sovetskaia Rossiia*, 7 December 1990, pp. 3-5 (translated in *JPRS-UEA-91-004*, 23 January 1991, pp. 15-30).

[45] This newly introduced revaluation upgrades past earnings by multiplying them with a coefficient, ranging from 11.2 for earnings in 1971 and earlier, to 2.9 for earnings in 1991. An October 21, 1992 amendment further upgraded the coefficient for 1991 earnings from 2.9 to 5.5, applied retroactively from May 1 to November 1. See, the Ministry of Social Protection's publication, *Organizatsiia sotsialnogo obespecheniia pensionnoe obespechenie*, No. 3, 1992; and "Law of the Russian Federation on the Early Introduction of the RSFSR Law 'On State Pensions in the RSFSR,'" *Rossiiskaia gazeta*, 20 April 1992, p. 2 (translated in *FBIS-SOV-92-080*, 24 April 1992, pp. 26-27). For an account by a Ministry of Social Protection official about the problems created by some faulty design of these wage coefficients that had been developed by the Supreme Soviet, see V. Raskin, "News on Pensions in Russia," *Selskaia zhizn*, 7 March 1992, p. 4 (translated in *FBIS-USR-92-042*, 15 April 1992, pp. 29-30).

Without revaluation of past wages, practically all pensioners received the same minimum pension, plus a monthly supplement, if any. Those receiving more than the minimum pension were generally paid extra benefits credited for their qualifying employment exceeding the required 25 years. For example, the *maximum* pension in March 1992 was 610 rubles, consisting of the minimum pension of 342 rubles a month, plus a supplement of 200 rubles a month for March awarded to all pensioners, and an additional 20 percent of 342 rubles (that is, 68 rubles) for a maximum of 20 years' qualifying employment over the required 25 years. In other words, the difference between the maximum pension and the minimum pension was only 68 rubles.

[46] This cap for the maximum benefit did not apply to certain special categories of pensioners, for example, survivors of individuals who died of war injury or disease contracted during military service.

[47] *RFE/RL Daily Report*, 4 May 1992, p. 2; "Gaydar Addresses Deputies on Budget," *Moscow Russian Television Network*, 16 July 1992 (translated in *FBIS-SOV-92-138*, 17 July 1992, pp. 44-46).

[48] Based on unofficial, preliminary estimates by officials from both the Supreme Soviet's Commission on Social Policy and the Ministry of Social Protection. According to Russian Federation Pension Fund officials, the compliance rate of payroll contributions is as high as 95 percent.

[49] In addition, benefit expenditures paid to older unemployed workers who are allowed to retire up to 2 years before reaching retirement age would be reimbursed by the Employment Fund.

[50] At present, employers contribute a total of 32.6 percent of payroll (including 1 percent on behalf of employees) for pensions, without establishing individual employee accounts to credit the employees' contributions accordingly. (The employer contributes an additional 5.4 percent of payroll to a Social Insurance Fund for cash benefits for sickness and maternity.)

[51] Unless otherwise specified, the following accounts about the non-State pension plan are based on (1) an interview with Vladimir Nikitin, Director General of the Non-State Pension Fund on October 27, 1992 and (2) an item about the organization that appeared in *Kommersant*, 1 September 1992. According to Nikitin, any organization or enterprise can set up a non-State pension fund as an individual account, receive contributions from employers and/or employees, and invest the accumulated capital. Employees will benefit from the investment profits at time of retirement in payment of contributions plus interest. Pension payments can take the form of lump sum, termed annuity, inheritance for family members, account transfer to family members, or other options.

[52] "Program for Deepening Economic Reforms (up to 1995-1996): Brief Summary; Prepared by the Government of Russia, Taken under Advisement by the Parliament," *Rossiiskie vesti*, 11 July 1992, pp. 3-16 (translated in *FBIS-USR-92-093*, 24 July 1992, pp. 26-54, see especially, pp. 35-36 and 54).

[53] Alexander Lonshteyn and Alexander Zayants, "Pensions in Russia: Transformation in a New Market Economy," *Contingencies*, January/February 1993, pp. 28-41. I am grateful to Messrs. Howard Young and Robert J. Myers who brought this article to my attention.

[54] Robert L. Clark, "Inflation Protection of Retirement Benefits," pp. 53-57, in *Pension Policy: An International Perspective*, John A. Turner and Lorna M. Dailey, editors, Washington, DC, U.S. Government Printing Office, 1991. In the same publication, see also papers by David W. Conklin, "Pension Policy Reforms in Canada," pp. 91-93; Kees Zweekhorst, "Developments in Private Pensions in the Netherlands," pp. 179-181; and William Birmingham, "Occupational and Personal Pension Provision in the United Kingdom," pp. 225-227.

[55] The Ministry of Social Protection estimates that about 1 million persons were using food stamps or receiving free meals in November 1992, for example. Unless otherwise indicated, the following discussions are based on interviews with officials of the Ministry of Social Protection, and depart-

ments of social protection in Altai, Cheliabinsk, and Novosibirsk provinces from October 26 through November 17 1992. For monthly press summary of local government public assistance activities, see monthly news digests *Humanitarian Aid and Philanthropy in the Former Soviet Union*, beginning March 1992. For the legislative basis of local governments' responsibility for social welfare programs, see Article 56 of "Law on Krai and Oblast Soviets of People's Deputies and Krai and Oblast Administrations," adopted March 1992, in *Rossiiskai gazeta*, 20 March 1992, pp. 3-5 (translated in *FBIS-USR-92-054*, May 1992, pp. 15-16).

[56] The 1993 Cheliabinsk provincial budget for social assistance is based on the Provincial Fund for the Social Support for the Population, provided by the Cheliabinsk Provincial Department for Social Protection. It does not represent additional provincial budgetary allocations or Central Government subsidies for social assistance purposes. Novosibirsk provincial public assistance expenditure to pensioners and to children are derived from the monthly report provided by the Provincial Social Protection Department. The provincial expenditures represent totals from the city of Novosibirsk and other cities and counties in the province, with Novosibirsk city providing about 45 percent of total expenditures to 47 percent of all recipients. Unfortunately, comparable reports for other months or for other provinces are not available.

[57] Charitable activity had a long history before the Soviet regime. On the reemergence of charity in the late 1980's, see Mervyn Matthews, "'Perestroika' and the Rebirth of Charity," in *Soviet Social Problems*, A. Jones, W.D. Connor, and D.E. Powell, editors, Boulder, CO, Westview Press, 1991, pp. 154-171. For examples of current activities of the Children's Fund, and Fund for Health and Charity, see *Humanitarian Aid and Philanthropy in the Former Soviet Union*, June 1992, p. 5; July 1992, p. 1; and September 1992, p. 4.

[58] Mervyn Matthews, "'Perestroika' and the Rebirth of Charity," in *Soviet Social Problems*, pp. 154-171; Oxana Antic, "Charitable Activities of Churches in the USSR," *Report on the USSR*, 22 September 1989; pp. 7-9; Yelena Kalacheva, "One More 'Hope,'" *Izvestiia*, 11 November 1991, p. 2 (translated in *JPRS-UPA-91-047*, December 1991, p. 67); and Michael Bourdeaux, "Russia's Good Samaritans," *Tablet*, 19 January 1991, pp. 70-71.

[59] For example, "Local Prices May Cause 'More Social Unrest,'" *TASS*, 13 January 1992 (reported in *FBIS-SOV-92-008*, 13 January 1992, p. 44); "All for the Moskovites," *Vercherniaia Moskva*, 6 February 1992, p.1 (translated in *FBIS Report: Central Eurasia*, 18 March 1992, pp. 46-7); "Proceeds of Foreign Aid to Moscow Eyed," *Rossiiskaia gazeta*, 21 April 1992, p. 2 (translated in *FBIS-SOV-92-080*, p. 34); "New Organization Seeks to Improve Social Conditions," *Izvestiia*, 11 November 1991, p. 2 (translated in *JPRS-UPA-91-047*, 10 December 1991, p. 67); "Khabarovsk 'Kray' Fund for Social Assistance Established," *Rossiiskaia gazeta*, 29 January 1992, p. 3 (translated in *FBIS-USR-92-012*, p. 113); "Ispolkom Official on Socioeconomic Situation in Nalchik," *Kabardino-Balkarskaia*, 5 March 1992, pp. 1-2 (translated in *FBIS-USR-92-058*, 15 May 1992, pp. 62-65); V. Tereshchenko, "Who Will Defend the Poor: The Capital's Authorities Are Doing What They Can," *Moskovskii Komsomolets*, 19 June 1992, p. 1 (translated in *FBIS-USR-92-089*, 17 July 1992). The Moscow City Fund for Social Protection reportedly receives subsidies from government and nongovernment sources, including the proceeds from auctions of foreign aid food packages. The auctions are held for enterprises to make wholesale purchases of food supplies for their workers and former workers now on pensions. "Food Auctioning of Humanitarian Aid Begins," *Moscow Radio Rossii Network*, 16 April 1992 (translated in *FBIS-SOV-92-075*, 17 April 1992, p. 27). See also a five-part series in *Moscow Times*, 10-14 November 1992, featuring international charitable organizations' holiday drive to aid the needy, including refugees; and monthly digests, *Humanitarian Aid and Philanthropy in the Former Soviet Union* beginning with March 1992.

[60] "Decree on the Procedure for Applying Legislative Acts of the RSFSR Concerning Taxation of Enterprises, Associations, and Organizations," *Rossiiskaia gazeta*, 3 July 1991, p. 2 (translated in *FBIS-USR-91-014*, 16 July 1991, pp. 75-76); and *Humanitarian Aid and Philanthropy in the Former Soviet Union*, July 1992, pp. 1-2.

[61] For example, "Khasbulatov Accused of 'Embezzlement,' Abuses," *ITAR-TASS*, 25 May 1992 (reported in *FBOS-SOV-92-101*, 26 May 1992, pp. 27-28); O. Plakhotnikova, "Scandal: He Who Dares Gets the Food," *Rossiiskaia gazeta*, 21 April 1992, p. 2 (translated in *FBIS-SOV-92-080*, 24 April 1992, p. 34); "Allegations of Sale of Charitable Aid Denied," *Rossiiskaia gazeta*, 11 June 92, p. 8 (translated in *FBIS-SOV-92-117*, 17 June 1992, p. 29); and "Problems in Aid Distribution Noted," *Polianaia pravda*, 9 April 1992, p. 2 (translated in *FBIS-USR-92-072*, 15 June 1992, p. 61).

[62] On April 10, 1993, Yeltsin decreed an increase of the minimum wage to 4,275 rubles, the level of the minimum pension since February 1, 1993. See, "Yeltsin Raises Monthly Minimum Wage," *Interfax*, 10 April 1993 (cited in *FBIS-SOV-93-068*, 12 April 1993, pp. 32-33).

[63] As noted earlier, family benefits were also upgraded, although not to the fullest extent of pension adjustments. "Finance Minister Criticizes Move to Increase Pensions," *FBIS-SOV-93-011*, 18 January 1993, p. 34.

[64] Quotation from Evgeni Timofeev, "Ministry of Labor Unveils Its Plans. The Minimum Wage Could Catch Up With the Minimum Pension," *Kommersant-Daily*, 6 February 1993, p. 9. (translated in *FBIS-SOV-93-025*, 9 February 1993, p. 23).

[65] The Finance Minister first reacted to Supreme Soviet's decision to carry out the quarterly pension benefit adjustment with an estimate of a total increase of pension and benefit expenditure at 4.8 trillion rubles, or almost 4 percent of the gross national product. He also maintained that total increases in social security benefits and wages would result in an additional 15-16 trillion rubles paid to the public and are thus likely to trigger further inflation. "Finance Minister Criticizes Move to Increase Pensions," *FBIS-SOV-93-011*, p. 34. Ten days later, when the Finance Minister revised his 1993 budget estimates, taking into consideration new changes in tax legislation and pension and wage amounts, he identified an increase of 624 billion rubles in the federal budget deficit. The expected budget increase resulting from any minimum wage changes would be 237 billion rubles. See, "Finance Minister Barchuk's Address," *FBIS-SOV-93-019*, 1 February 1993, pp. 31-32.

[66] To date, benefit indexing has not been a major factor because of the arbitrarily low level of benefit adjustment. The infusion of large sums of credits and subsidies to ailing State enterprises since summer of 1992 is generally regarded as the major factor in fueling inflation.

[67] Unless otherwise indicated, discussion in this and the following paragraphs in this section are based on interviews with officials

of the Supreme Soviet's Social Policy Commission, Russian Federation Pension Fund, and Ministry of Social Protection in Moscow, and provincial and country officials in social protection departments and pension funds in Novosibirsk, Altai, and Cheliabinsk provinces from October 26 through November 17, 1992.

[68] In the vast majority of these cases, the Ministry of Social Protection finds it difficult to compute and recalculate benefits with little (if any) advance notice given that all computations are done manually. There also have been incidences where the Supreme Soviet's amendments caused an uproar from pensioners. The April 3, 1992, amendment, for example, issues a list of coefficients to upgrade past earnings for benefit computation. The coefficients listed for 1990 and 1991, however, in effect created a situation in which two workers with identical employment and earnings records, the worker who retired on December 31, 1990, would receive higher benefits than the worker who retired on January 1, 1991. The Ministry had to continue to calculate pension benefits based on this set of coefficients until the Supreme Soviet revised it several months later in fall 1992.

[69] See, *Moscow News*, 11 February 1993, p. 11. I am indebted to James A. Duran for bringing the *Moscow News* item to my attention.

[70] Ministry of Social Protection officials insisted that public assistance fell within the jurisdiction of local governments and there was no need for a Central Government role in this area. This view was conveyed to me at a meeting on November 16, 1992, at the Ministry in Moscow.

[71] These funds are alternately named as Funds for the Social Support of the Population.

[72] The Supreme Soviet Fund was set up for regions experiencing "special hardship." See, "Resolutions on Social Security for [the] Underprivileged," *Rossiiskaia gazeta*, 31 December 1991, p. 3 (translated in *FBIS-USR-92-014*, 13 February 1992, pp. 85-86); and "Khasbulatov Issues Orders on 'Social Defense' of Krais, Oblasts," *Rossiiskaia gazeta*, 2 April 1992, p. 2 (translated in *FBIS-USR-92-043*, pp. 59-61). During our stay in Moscow, attempts to obtain information from various committees and commissions under the Supreme Soviet about the current status and distribution of this Fund were largely unsuccessful.

[73] Christine Wallach, a principal economist at the World Bank, reported in her "Intergovernmental Fiscal Relations in the Russian Federation" (draft report), 1992, p. 28.

[74] It is well documented that Russian enterprises continue to provide extensive social and welfare services and subsidies (including subsidies of foodstuff and other daily necessities) to employees and their families. Many enterprises in late 1991 and early 1992 have stepped up their services and subsidies as they bartered for food, medicine, and clothing for their employees. As State enterprises tighten their finances or face bankruptcy, their welfare services and subsidies would be curtailed or eliminated. It remains unknown whether the central or even local governments have developed plans to meet the expected rising demands to due to enterprise closings.

Appendix: Russian Federation Pension Program

Basic Laws and Coverage

The November 1990 Russian Pension Law (effective March 1991) provides old-age, disability (general and work-related), and survivors benefits for all employed persons. Under each broad category, there are two types of pensions: Work-related labor pensions paid on the basis of a contribution record and social pensions paid to the disadvantaged aged, disabled persons, and survivors with less than the five qualifying years of employment. The pension law has been amended by legislation and decrees in 1991 (April and December) and in 1992 (February, April, May, July, and October). Generally, the amendments relate to periodic adjustments of the minimum pension and computation of benefits. Contribution rates, qualifying conditions, and administrative agencies have remained unchanged since 1990. (See table I for the number of pensioners by category, 1991-92.)

Sources of Funding

There are three sources of funding for the pension program: Payroll contributions from employers and employees, State budget allocations for social pensions, and the Employment Fund for payment of benefits to unemployed older workers retiring up to 2 years before normal pensionable age. Contribution rates are 31.6 percent of payroll for employers (20.6 percent for State and collective farms) and 1 percent of wages for employees. The self-employed (including private farmers and lawyers) pay 5 percent of income; other working citizens contribute 1 percent of their earnings. There is no wage ceiling for contribution purposes. At present, there are no individual records for employee contributions. Plans are underway to establish such records starting in 1993.

Qualifying Conditions

Old-age pension.—Prerequisites for an old-age pension are: Age 60 and 25 qualifying years of work for men, or age 55 and 20 qualifying years of work for women. (Qualifying years include periods of study, military service, maternity leave, or caring for a disabled relative.) Requirements are reduced for work in the far North region, difficult or dangerous work, mothers of at least five children or disabled children, and disabled veterans. (Social pensions are payable to men aged 65 or older and women 60 or older who do not meet the requirement for covered employment.) Some groups (especially those working under hazardous or dangerous conditions) may receive their pensions earlier and/or with shorter qualifying years. For example, civil aviation pilots, teachers, medical workers, and certain categories of artists can retire provided that they satisfy only the condition for qualifying years, regardless of age; miners in exceptionally high-risk mines can retire provided that they have contributed for 25 years *and* are aged 50 or older; mothers of at least five children or of disabled children become eligible for benefits with 15 qualifying years at age 50. In addition, unemployed individuals within 2 years of normal pensionable age may receive their pension without penalty. There is no retirement test for old-age benefits.

Disability pension.—Qualifying

conditions are: Incapacity for any work (total disability) or usual work (partial disability), and a minimum of 15 qualifying years of work, depending on (1) the degree of permanent physical or mental disorder resulting in complete or substantial loss of ability to work, and (2) the required number of years of qualifying employment (from 1 to 15 years, rising with the age of the worker). Individuals who became disabled when they were under age 20 are not required to meet the employment conditions. There are three groups of disability: Group I, totally disabled and require constant attendance; Group II, totally disabled and incapable of work; and Group III, partially disabled. Continuing eligibility for Group I is subject to review every 2 years, and for Groups II and III disability is reviewed annually, except if the recipient is over pensionable age. There is no retirement condition for Group III. Neither the eligibility review nor the retirement test for Groups I and II are rigorously enforced. Official statistics for January 1992 showed that 6.6 percent of Group I and 7 percent of the Group II disabled continued to work while receiving disability pensions.

Eligibility for work-related disability (work accidents, occupational diseases, or war injuries) requires certification of a permanent condition of total or partial incapacity for work. There is no precondition for years of qualifying employment.

Survivor pension.—Contribution requirements for survivor benefits are the same as for disability pensions if death resulted from general causes. Contribution requirements are waived if death is related to work or military service. The pension is payable to nonworking surviving dependents who (1) had been dependent on the deceased as a permanent and principal source of material support, and (2) were under age 18 (23 if students), disabled since childhood, over normal pensionable age, or grandparents (in the absence of any other support).

Table I.—Number of pensioners and percent working, by type of pension, 1991-92

Pensioners by type	Number of pensioners (in thousands)		Percent working	
	1/1/91	1/1/92	1/1/91	1/1/92
Total	32,850	34,053	[1]	[1]
Pension fund supported:				
Labor pensions	1,444	32,539	[1]	[1]
Old-age [2]	26,011	27,131	23.5	20.2
Disability	3,322	3,250	21.3	20.2
Group I	(494)	(452)	(6.6)	(6.4)
Group II	(2,035)	(1,998)	(9.1)	(6.8)
Group III	(793)	(800)	(66.6)	(61.7)
Survivors	2,111	2,158	[3]	[3]
Employment fund supported:				
Early retirement [4]	82	84	34.4	37.1
State budget supported:				
Social pensions [5]	471	879	[3]	[3]
Old-age [6]	93	33	[3]	[3]
Disability	8	56	[3]	[3]
Disabled since childhood	368	471	[3]	[3]
Survivors	3	19	[3]	[3]
Military pension (servicemen and families)	852	551	[1]	[1]

[1] Data not available.
[2] Normal pensionable age at 60 for men and 55 for women.
[3] Not applicable.
[4] Early retirement granted to unemployed older workers 2 years before normal pensionable age.
[5] Social pensions were financed by the U.S.S.R. Pension Fund in 1991.
[6] Normal pensionable age at 65 for men and 60 for women.

Note: Where benefit subcategories do not sum to totals, they are the reported numbers in the source.

Source: *Sostoianie sotsial'noi zashchity netrudosposobnykh grazhdan i semei s det'mi v Rossiiskoi Federatsii (Sbornik statisticheskikh materialov)* Moscow, 1992, chast' I, pp.12-13, and chast' II, p. 15.

Pension Benefits

Old-age.—Monthly benefits are equal to 55 percent of wage during the 2 years preceding retirement, any continuous 5-year period, or the 12 months preceding retirement (during January 1, 1992-December 31, 1993), whichever is higher. In addition, benefits are increased by 1 percent of the wage base for each year of service over 25 (20 for women), but not more than 20 percent. As of November 1, 1992, past earnings are indexed with a coefficient ranging from 11.2 for earnings in 1971 and earlier to 5.5 for earnings in 1991.

Minimum pension is 8,122 rubles a month, effective May 1, 1993. Individuals receiving the minimum pension are also paid 1 percent of the minimum pension for each year of service over 25 for men (20 for women). The maximum benefit is three times (3.5 for hazardous occupations) the minimum pension or no more than 75 percent of the individual's pre-retirement wage. There is an additional monthly payment for pensioners requiring constant attendance, and for each disabled dependent of nonworking pensioners at two-thirds of the minimum pension.

Disability.—Monthly benefits for Group I disability are equal to old-age pensions and two-thirds of minimum pensions for constant attendance. For Group II disability, the benefits are the same as the old-age pension. For Group III disability, benefits are payable at 30 percent of pre-disability wage, but not less than two-thirds of the minimum pension. Disabled pensioners who reach the normal pensionable age are eligible for an old-age or disability pension, whichever is higher. Levels of minimum and maximum benefits are the same as for the old-age pension.

Survivor.—Monthly benefits are payable to each of the surviving dependents at 30 percent of the deceased worker's wage. If an individual's death is related to military service, the benefit amount to the surviving family equals the maximum pension benefit under the old-age pension.

All benefits (old-age, disability, and survivor) are adjusted quarterly, according to cost-of-living increases, as decreed by the Russian Supreme Soviet.

Program Administration

The Russian Federation Ministry of Social Protection exercises general coordination and guidance over administration of the pension program. Provincial and county departments of social protection administer the program locally, including processing and adjudicating claims, and computing and paying benefits.

The Russian Federation Pension Fund (under the jurisdiction of the Supreme Soviet) provides general coordination and allocation of resources across regions, and the payment of pensions abroad. Provincial branches of the Federation Pension Fund allocate payments across counties and submit the surplus to the Federation Pension Fund. County branches of the Federation Pension Fund collect payroll contributions and submit funds to their provincial superiors for distribution.

Sources: "Law on State Pensions in RSFSR," *Sovetskaia Rossiia*, 7 December 1990, pp. 3-5 (translated in *JPRS-UEA-91-004*, 23 January 1991, pp. 15-30); two mimeographed documents provided by the Ministry of Social Protection: "Prikaz o povyshenii gosudarstvennykh pensii v Rossiiskoi Federatsii," and "Ukazanie o povyshenii pensii v sootvetstvii s Zakonom Rossiiskoi Federation ot 21 oktiabria 1992 goda 'O povyshenii gosudarstvennykh pensii v Rossiiskoi Federatsii;" "Procedure for Payment of Insurance Contributions by Employers and Citizens to the Pension Fund of the Russian Federation (Russia)," *Rossiiskaia gazeta*, 23 January 1992, p. 2 (translated in *FBIS-USR-92-009*, 30 January 1992, pp. 70-71); the Ministry of Social Protection's *Organizatsiia sotsial'nogo obespecheniia pensionnoe obespechenie*, No. 3, 1992; Nicholas Barr, *Income Transfers and the Social Safety Net in Russia*, Washington, DC, The World Bank, 1992; and "Pensions Raised," *RFE/RL Daily Report*, 19 April 1993, p. 2.