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## PENSION EXPENSES AND BENEFIT PENSION PLANS IN RUSSIA

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**Abstract.** This paper aims to add to an important discussion on the main objectives of the IAS 19 in order to understand how the companies organize accounting and disclosure for employee benefits in Russia. We also aim to contribute to the discussion on the question of pension plans along with the accounting specifics of pension expenses in Russia. At the same time, Russian pension system has undergone dramatic changes recent years. The situation is complicated by the lack of pension allocation by working people and, moreover, by the decrease in demographic. We analyze the tendencies in Russian pension system through literature review and find that most of the Russian recent research literature is dedicated to the issues of state-level administration of pension expenses rather than to the companies' interests. This appears to affect more menacing on the background of the required International Financial Reporting Standards (IFRS) implementation. The findings should be of interest to the accounting academics, companies and policymakers.

**Keywords:** Accounting of the Pension Payments, Employee Benefits, History of Pensions, Pension Expenses.

Since the paper covers the transition experience of the Russian accounting towards IFRS-based one, we look at the history and approaches to the IFRS implementation in Russia. We find that the specific interest towards the issues of planning and management of pension expenses increased last years from the side of the companies. The actuality of the raised issues in this study is caused partly by the increasing demand for effective pension plans administration, and partly - by the necessity of planning the expenses from the company's side through the logics of the mechanism of decision making support realization.

The issues that are discussed in relation to the management of the pension system are still not examined enough. For example, the issues of planning and managing of the company's pension expenses, etc. By raising these issues we hope that this study will add to a discussion whether the questions of state administrating of the pension payments are playing a predominant role in the research within the scientific, organizational, administrative and regulatory activities.

From the other hand we consider that the preliminary aim of the company is to determine the effectiveness of its business

activities and decisions. We find thus that the existing challenges are connected with the peculiarities of balancing state and private interests.

The paper therefore shows the necessity of developing such mechanisms of planning and management of pension expenses that will provide an optimal balance between the interested parties. Some steps for creating such mechanisms are reflected in this paper.

We trace the evolution of the pension expenses system from the time of the insurance deductions theory development authored by W. Petty in his "Treatise on Taxes and Fees" (1662), as well as in the papers by A. Smith and J. Sysmondi (Schumpeter, J. A., 1954).

The literature review shows that European research of the pension payments issues mostly relate to such facts as the widespread concern that the population of working age people are not currently allocate sufficient funds for their pension provision in the future (Paraskevi, Peasnell, 2009). This can be partly explained not only by the imperfection of the formation mechanism for management and planning of such payments, but by the demographic situation as well (Mikhalkina, Pisanka, 2013). This is due to a decrease in the

population of working age people, economic activity reduction, and an increase in the number of pensioners as a consequence of the increasing availability and quality of health services (health care reform). The other issue here to be examined - is the migration (the growth of the number of refugees and migrants).

In order to assess the extent of the pension system, we set a system of indicators of an aging population retirement (Table 1).

Among these indicators we excrete:

- the retirement aging index,
- the demographic burden and
- the proportion of the elder people in the total number of people of retirement age.

The methodology suggested can be realized within several iterations:

1 Step - calculating the retirement aging index:

$$\left( \frac{P_p}{P_{ch}} \right) * 100 \quad (1)$$

where  $P_p$  - is the total population of both sexes, older than the employment age;  $P_{ch}$  - is the total population of both sexes under the age of working age (children).

2 Step - understanding the demographic burden on the working population due to the retirement-age population:

$$\left( \frac{P_p}{P_w} \right) * 100 \quad (2)$$

where  $P_w$  - is the total population of both sexes of working age.

3 Step - the proportion of older people (80+) in the total number of persons of retirement age:

$$\left( \frac{P_{80+}}{P_p} \right) * 100 \quad (3)$$

where  $P_{80+}$  - is the population aged 80+.

We use the suggested methodology to find out the dynamics of structural indicators that quantify the retirement aging population in Russia, as follows.

Table 1

### The dynamics of structural indicators that quantify the retirement aging population in Russia

Indicators	2001	2002	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement aging index	107,2	111,6	121,0	124,8	129,2	132,3	133,5	134,3	137,0	137,6	137,2	136,6	136,8	136,5
Demographic burden due to the retirement-age population	34,3	34,2	32,3	32,2	32,6	33,2	33,7	34,7	36,2	37,2	38,4	39,6	41,1	42,7

Source: Authorial computation based on Federal State Statistics Service data [<http://www.gks.ru/> (10.02.2017)]

Among others, one of the main functions of the state is the production of public goods. In Russia national insurance, health and educational services, pensions and benefits are affordable due to the state's resources (natural, power, financial) allocated for the implementation of such projects. Thus state provides financial support for such activities in various ways. Therefore, a reasonable budget policy allows the state to perform its functions most fully and efficiently.

There is an assumption that Russian budget is going through hard times. This is caused partly by existing fall in oil revenues in 2013-2014. And partly because of the changes in internal and external political situation: while share of defense and security expenses is growing, the share of "closed" expenditure items is growing. Meanwhile, the share of expenses for the social projects is decreasing. Now the state is searching ways to extract additional income and reduce costs (e.g. through possible increase of the income tax

by attaching it to the pension contribution rate).

After all, we see the additional purpose of this paper in describing the existing problems of Russian budgetary policy, their nature and the ways to overcome them.

Based on the data from the Table 1 we conclude that there is a tendency of pension aging index increasing in Russia (Table 2). We explain such dynamics through the life expectancy overall increase, from the one hand. And from the other - through the low level of fertility. Socio-economic effects of aging can be also evaluated by the increasing dynamics of the demographic burden on the working population due to the retirement-age population. (see Figure №1).

This trend in the field of demography and migration is quite typical for Europe as well. In addition, the transition to a fixed payment form (including UK), calculated on the amount of wages paid, was complicated by the new regulatory requirements and demographic changes that significantly increased the cost of such schemes (Paraskevi, Peasnell, 2009).

We consider the main IAS 19 requirement that the entity should recognize "a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits" (IAS 19).

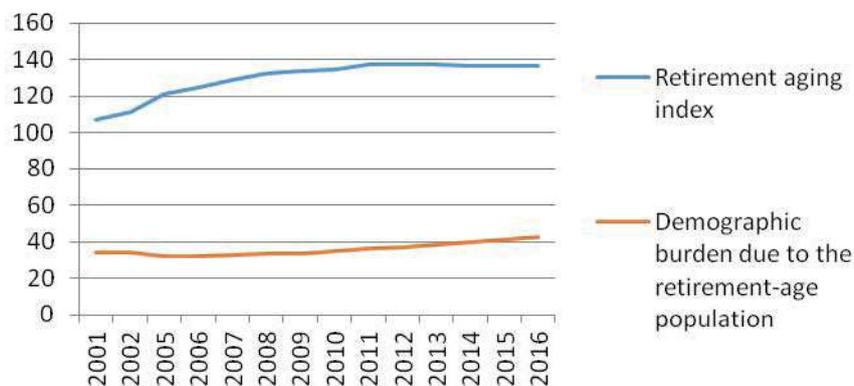


Fig. 1 Pension aging index through 2001-2016 in Russia  
Source: Authorial computation based on Federal State Statistics  
Service data [<http://www.gks.ru/> (10.02.2017)]

A separate group of problems include questions of the pension expenses which are indicated in the financial statements. International Financial Reporting Standards (IFRS) in the early editions (SFAS 87, 1985; IAS 19, 1983) oriented mostly on the disclosure of costs and financial assets information reflection (Napier, 2009). However, these accounting standards that allow companies to ignore wash out or segregate insurance contributions figures are constantly criticized and gradually disappear (ib.).

Besides, accounting and pension expenses administration issues are caused also by the "influence of accounting reporting on management decisions by the enterprises, government, trade unions, investors and creditors" (Zeff, 1978).

In Sandu M. paper (2012) the issue of the employees in the performance of their pension expectations, and companies' interests balance is investigated. There is a concern about the influence of the produced charges on net income, cash flows, as well as the overall stability of the companies. Normally accounting standards (IFRS 19, SFAS 158) assume two types of pension payments: deductions plans with a fixed payment of pension (DB) plans, and deductions from wages, including extra-budgetary funds, without a guaranteed payout (DC). Selected contributions scheme will be in their own way affect the ways of their accounting and reflecting in the reports.

Russian legislation provides a unified system of insurance funds formation: by

deductions of payments from the payroll and payout amount at retirement is calculated based on accumulated points, formed on the basis of deductions made for each employee.

Thus the main role of insurance contributions is to promote the implementation of social support and protection for citizens by the state. The main problems existing in pension contributions of today's Russian system are considered to be: increasing burden on budget because of medical and social expenses rising for elder people (Samaruha, 2013); aging of the people; and besides, deterioration of the numerical ratio of workers and pensioners.

In order to provide readers with the full possible understanding of the areas of research in the field of insurance

contributions in Russia, we analyzed the principle publications issued through the period 2012-2017. We define the area of the research objectives and measure their relevance to each.

We find that 34 research publications were dedicated to the pension and social payments issues (Appendix 1, Table 1). The overall analysis gives us a notion on the most widespread area of existing research in the field of social and pension insurance. It was found that most popular fields of research were state and funds interests (19 points from 30) and population (18 points from 30). However the issues of the companies' interests and their role in the system of insurance coverage remain unrevealed (10 points from 30).

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