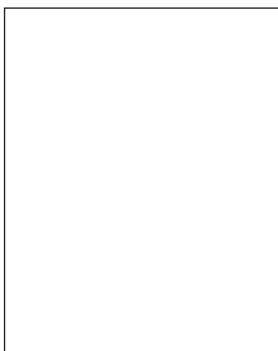


Social Insurance in Russia: History and Contemporaneity

by **Tatiana Goudima**, St. Petersburg State University and **Larissa Rybalko**,
IFU utbildnings AB



Tatiana Goudima

The IFU utbildnings AB has been engaged in several projects in Russia since 1993. One project assignment was to compare the social insurance system of Sweden with that of Russia. Thus a need arose to describe the present day situation in Russia.



Larissa Rybalko

In the development of the Russian social insurance system, which has evolved over one hundred years of history, we can discern four main stages:

The first stage – from the 1880ies to 1917. During this period social insurance developed in the same direction as analogical systems in other European countries (Sweden, Germany, France, Austria etc.). The first kinds of social insurance were sickness insurance and accident insurance of employees. Later old age pension insurance, disability insurance and maternity insurance appeared.

The Act of 15 May 1901 “Provisional pension regulations for mineworkers having lost the ability to work“ was the beginning of insurance for workers in industry. The Act was amended and adopted by the Third State Duma in 1912. Other laws aimed at insurance

came into force in 1912: “The Act on sickness and accident insurance for workers“, and “The Act of establishing an administrative body for workers’ insurance“. But all these laws applied only to the employees of factories, mines, and private railways, to those working in shipping (internal lines) and tramway companies. They were also only valid when the

Tatiana Goudima, PhD, Associate professor at the St Petersburg State University, The Faculty of Economics, is a guest researcher in the field of pension insurance at the Centre for Social Policy Research, Bremen University (Germany)

Larissa Rybalko was born in Ukraine. She has a Ph.D. in Economics and has worked as a lecturer at the St Petersburg State University, the Faculty of Economics, at the Institut Strakhovanija (Institute of Insurance, St. Petersburg), and at the Progress-Neva Insurance Company as a consultant. Now she works at the IFU utbildnings AB in Stockholm (Sweden), with East European insurance projects, as a specialist and adviser.

number of workers was not less than 20, and the enterprise used mechanical power in its industrial process.

The second stage: 1918 to 1933. In the course of this period an attempt was made to put the Bolshevik programme of social insurance into practice. This programme was elaborated at the Prague conference in 1912.

The first step by soviet power on the way to the reformation of the social insurance system was the adoption by the National Commissariat of Labour (Ministry of Labour) of “the Declaration of the introduction of complete social insurance“, and “the Regulation of the social security of the working people“ (1918). In accordance with this declaration social insurance was replaced by social security. As to social insurance bodies, they were abolished. According to this system of social protection, the funding should be secured from enterprises and entrepreneurs, and in certain cases from the budget. “The social protection“ period lasted until 1921, then NEP (The New Economic Policy) was proclaimed and the system of social insurance re-introduced.

In the 20ies financing systems of all kinds of social insurance were united. Insurance funds were built up by payments from the state, from co-operative enterprises, and from private entrepreneurs. Insurance premium rates were set according to the risk level of production sites on the one hand, and according to the profitability level of the different branches of the national economy on the other.

The complicated structure of the social insurance tariffs system (different premium rates for normal, privileged and partial tariffs) in the 20ies and 30ies resulted in the introduction of one common social insurance tariff.

The third stage: 1933-1990. In 1933 the Trade Unions Committee (which was almost nationalised) began to manage social insurance. All social insurance offices which

worked with the help of medico-actuarial science and differentiation of tariffs depending on labour conditions were liquidated. As a result, an under-developed model of social insurance has been used in the Soviet Union, working according to the “common stock“ principle, i.e. disregarding inter and intra-industry differences in labour conditions, as well as the effects of working under dangerous conditions.

With the transition to this model, social insurance stopped functioning as such, because:

- **firstly**, as premiums were no longer collected at the expense of the workers themselves, their incentives to take care of their social protection were sharply reduced (such an approach could be observed during the previous period);
- **secondly**, responsibility for disability indemnity no longer rested on the principle of insurance but on the principle of indemnity by employers;
- **thirdly**, the largest part of insurance funding was collected from enterprises which did not have any right to control the funds. For these enterprises, insurance payments were a kind of compulsory tax;
- **fourthly**, government monopoly of the means of production, though on the one hand simplified the procedure of tariff calculation, on the other hand caused an increase in budgetary subsidies to the social insurance system. So, in 1956 all pensions payments in the USSR were provided by the state budget.

Social insurance became an instrument of the redistribution policy of the Soviet state and changed into social security.

Thus, within the framework of the third stage, social insurance protection returned to the imperfect origin of social insurance, to organised mutual aid which adopted a nationwide character.

Social Insurance Reforms in the 90's in Russia

Superfluous centralisation of the soviet social insurance system's management, the "stocking" character of fund forming, which excluded any type of social insurance as an autonomous system, showed deep contradiction to the processes of the transformation of the Russian economy at the beginning of the 90ies. In place of a unified state social insurance system a system of subdivided social insurance arose: pensions, medical insurance for temporary disablement, unemployment insurance (subsidised from the budget).

Pension Fund, Compulsory Medical Insurance Fund, Employment Fund, which have insurance premiums as a main source of finance, have been created. Such funds accumulate about 9% of the GNP's financial resources and provide a better means of collection than the tax system. In 1994 these funds collected 75% of the expected calculated sum, the national budget – less than 50%¹.

Unfortunately to date, social insurance in Russia has been treated in the narrow sense of the word. Thus, the main tasks of the Social Insurance Fund (was founded 1990) are pronounced to be: "...provide the state guaranteed temporary disablement allowance, nursing help, family allowance, burial assistance, sanatorium treatment of employees and members of their families as well as other types of state social insurance according to legislation, for instance: partial financing of sanatorium-dispensaries, sanatoriums and health camps for children, dietetic nutrition..."². That is to say: The State Social Insurance Fund is engaged only in the payment of allowances and health measures. In connection with this, experts notice the illicit title of the Fund, to the extent that the other above mentioned funds are also social insurance funds.

Pension Insurance

In Russia the state pension insurance system is built according to the principle of solidarity between generations in the same way as it is in other countries. Insurance premiums for pensions are allocated to the Pension Fund of the Russian Federation which was founded in 1990. As for the premium-level to the Pension Fund, at present the following fees for compulsory insurance are deducted from the total wage sum (percentage)³:

- employer 28.0 %
- employer (agriculture) 20.6 %
- individual manufacturers using hired work 28.0 %
- person using hired work in the private economy 28.0 %
- individual manufacturers 5.0 %
- employees 1.0 %

The state pension system provides old age, disablement, and death of bread-winner pensions (see table 1).

Besides financing of pensions by the Pension Fund there are some kinds of pension payments provided by the federal budget. Pensions for the disabled veterans of the Great Patriotic War (which have not received old age pensions), pensions to the families of military servicemen lost in battle (from one minimum old age pension to 3 minimum old age pensions with supplements) as well as pensions to those who have reached pension age but have not been in the active labour force during their lifetime; disabled people without work experience, persons disabled from childhood (from one minimum old age pension to 2 minimum old age pensions).

Presently about 37 million people receive different kinds of social security allowances. In the middle of 1995, pension expenses amounted to 5.8% of GNP whereas in 1990 it was 5.5%⁴.

The volume the social security protection, including pensions, depends on the efficien-

cy of the economy. It is evident that under conditions of stagnating production, high rate of inflation, and shortage of financial resources, it is very difficult to hope for total social security protection. Indeed, the pension expenses part of GNP has not been reduced, but the GNP itself is not more than 50% of its 1990 level. As a result, the average level of old age pension, in real terms (including compensation payment) as of December 1994, was half as much as before the price liberalisation of December 1991. In the middle of 1995 the average size of the old age pension and disability pension was 40% of the average wage.

Essentially the incomes of retired people have not kept pace with price increases. If, in 1992, the minimum pension level was about

85% of the subsistence level of retired people, in March 1995 it had fallen to 45-47%.⁵. Economic difficulties do not allow increase of pensions to a level which would provide old people with an acceptable standard of living.

Neither indexing nor compensation payments save the situation.

One of the main deficiencies of the present system of pension insurance is not only that it does not provide the minimum requirement for pensioners but is also burdensome to the economy. The number of pensioners is increasing (the qualifying age for pension in Russia is one of the lowest in Europe) and the number of "bread winners" is reducing. At present, for every pensioner there are only 1.8 workers.

The main types of pension insurance in Russia

<i>Types of pension insurance</i>	<i>Basic payments^{a)}</i>
1. Old age pension for men from the age of 60 (for women 55) taking into account the labour probation period ^{b)}	1 minimum pension ^{c)}
2. Veterans in the Great Patriotic War (taking into account labour probation)	2 minimum pensions ^{b)}
3. Veterans of labour (taking into account labour probation)	1.5 minimum pensions ^{b)}
4. For meritorious service (taking into account labour probation)	1 minimum pension ^{b)}
5. Disability pension:	
1. group (including compensation for health care)	2 minimum pensions
2. group	1 minimum pension
3. group	2/3 minimum pension
6. Loss of bread-winner's pension (for recipient)	2/3 minimum pension
7. Children having lost parents (for recipient)	1,5 minimum pensions

^{a)} From January 1st 1993 the pensions are regularly indexed according to changes in the cost of living. At the end of 1993 the level of compensation was 11 700 roubles per month (about \$12), from May 1996 - between 85 000 and 150 000 roubles per month (about \$16-28). Person and Labour. 1996. N 7, p. 45

^{b)} For full pension 25 years of employment is required for men and 20 years for women. Every extra year gives an additional 1% of compensation (above the minimum level). However the maximum additional amount cannot exceed 20%.

^{c)} From May 1996 the minimum pension was 69 575 roubles (approx. \$13). Person and Labour. 1996. N 7, p. 45

The main principle of the pension insurance – the connection between contribution and compensation – is deformed. As a result of the compensation payment, the difference between the maximum and minimum level of pension has become minor. A tendency to level out pension insurance has appeared.

According to the law the maximum pension is limited to 3 minimum pensions, but in fact the relationship between minimum and maximum pension is 1:2.28. The average size of the old age pension differs from the maximum pension only by 14%⁶.

The financial problems of the pension insurance system have sharpened. The Pension Fund has great difficulties in collecting the premiums necessary for full and timely pension payments. In the middle of 1995, the fund received less than 11% of the expected insurance premiums. Such a situation can be explained by both objective factors, such as decline in production, refusal of enterprises to pay, salary payment in manufactured products, increase in unemployment etc., as well as refusal of some government structures to pay insurance premiums to the Pension Fund.

The absence of a uniform pension insurance system in Russia (there are the Pension Fund, the Ministry of Social Security, the Ministry of Communications and The Savings Bank which are all responsible for matters related to pensions) gives rise to problems of dilution of financial resources, collected by the Pension Fund. Quite often The Pension Fund's resources are used by the Ministry of Social Security (which is responsible for the redistribution) not only for pension payments, but also for other purposes, such as privileged places in rest homes for pensioners, extra allowances to needy people, in spite the fact that the necessary funds should come from other sources.

In order to radically change the Russian pension system, a concept of a new pension system has been developed, which proposes

the creation of a two-level system of public pensions.

The first level – basic pensions which provide subsistence level for all disabled citizens.

The second level – occupational (insurance) pensions. The right to receive compensation is conditioned by participation in the public pension programme.

Besides public pensions, non-public, i.e. private, pension insurance is also envisaged. This will be the third level in the Russian pension system⁷.

Compulsory Medical Insurance

This kind of insurance is general to all citizens of Russia. An employee enters the system from the very moment he/she signs a contract of employment⁸.

“The Act on Medical Insurance for the Russian Citizens“ was adopted in 1991 and came into force 1st January 1993. This act and subsequent amendments to it introduced radical changes in the public health system of Russia.

In 1993-1994, in accordance with the act in question, the federal as well as some territorial funds of the compulsory medical insurance system were organised as independent non-commercial financial and credit institutions. Medical insurance companies have also been created as well (public license is required for medical insurance).

The main functions of the federal fund for compulsory medical insurance are: to provide uniform conditions with respect to the operations of the territorial compulsory medical insurance funds, as regards the financing of the compulsory medical insurance programs, the financing of special programs, the collection and analysis of information on the financial resources of the compulsory medical insurance system, the control of the use of resources by the territorial funds, the estab-

lishment of regulative norms for compulsory medical insurance, the elaboration of normative documents and basic programs, as well as recommendations for premium tariffs, the training of specialists, the organisation of research in the area of compulsory medical insurance, and international co-operation in this field.

The territorial funds of the compulsory medical insurance system serve as organisational-financial links for the new system. At the end of 1995 there were 85 territorial funds in Russia.

The territorial funds establish regional and inter-regional units in order to organise the practical work: registration of payers, collection of charges, control of insurance premiums and payments, securing uniformity of system on a local level, financing of medical institutions etc. Today 30% of all health centres and 70% of hospitals have entered the compulsory medical insurance system. About 99 million people have already been insured⁹.

Medical insurance funds are financed by compulsory contributions from employers. 3.6% of the wage fund is set aside. The amount is divided into two parts: 0.2% is transferred to the Federal Fund and 3.4% to the territorial funds. Premiums are also paid from the regional local budgets in order to insure non-employed citizens. From 1993 up till 1995, 13 trillion roubles were collected by the medical insurance funds, and only in the first 6 months of 1995, 5 trill. roubles were obtained¹⁰.

The objective of the newly created system is to guarantee all citizen of Russia access to free medical protection, to observe the principles of social justice (the rich pay for the poor) and social solidarity (the healthy pay for the sick, the singles for those having many children).

The Russian model prevents insurance companies from "weeding out" bad risks, i.e. otherwise normally non-insurable individu-

als, and to insure only young and healthy people. Instead the resources are used efficiently to provide insurance protection in the interests of all insured persons. This is so since the system is built on the principle of risk-levelling in large populations: premiums are distributed between the participating insurance companies in the system in relation to the number of insured individuals and their sex – age structure, and not in relation to the total premiums paid for the insured persons.

In Russia today, a system is used where reimbursement for medical treatment is based only on the treatment the individual actually receives. Such a system creates incentives to treat more patients and to increase the capacity of clinics and the medical and preventive care they offer without impairing the necessary protection of the patients. However, it is not yet possible to fully realise all the advantages of the "per-capita" payment principle. To date, doctors are paid according to a salary scale used for employees working in governmental structures; the salary system is regulated by obsolete principles, which do not stimulate physicians to increase the volume and quality of the medical services they render.

The financing of health care is still insufficient because of a shortage of budget resources. The compulsory medical insurance system could increase efficiency in the use of resources, but at present only 30% of health care system financial resources come through the compulsory medical insurance system.

In addition there are some problems which are connected both to the financing and organisation of compulsory medical insurance and which have not yet been solved.

The present level of insurance premium payments are not sufficient to entirely finance territorial programs. As before, there are many insurance premium payers in in-stable financial positions. There are employees who for long periods, do not receive their salary, and whose legal status is unclear since they do not

qualify for unemployment compensation. The authorities, time after time lag behind in paying insurance premiums for non-employed people. More than 50% of the subjects of the Russian Federation are subsidised from the state budget. This fact seriously hampers the levelling-out within the compulsory medical insurance system at Federal Fund level, since the Fund will soon be emptied.

What is characteristic of compulsory medical insurance in Russia is that this social security only includes compensation for medical care. As regards compensation for temporary incapacity to work and preventive health care on work sites, these are financed by the Fund of Social Insurance. In the end, such lack of conformity hardly helps to protect against social risks in connection with loss of ability to work due to common illnesses.

Insurance against temporary inability to work

This type of insurance provides the following basic types of compensation:

- temporary incapacity compensation due to sickness between 60-100% of the wage (depends on the period of uninterrupted employment), but not less than 90% of the minimum wage.
- pregnancy and childbirth: 100% of the minimum wage;
- single supplementary sum in addition to the above mentioned to women who are registered at a pre-natal clinic at the beginning of a pregnancy (up to 12 weeks): 50% of the minimum wage.
- single sum at the birth of each child: 5 minimum wages.
- monthly family allowance from the birth of the child until the child reaches the age of 1½ years: 1 minimum wage.
- compensation for taking care of a sick child during the first 15 days: from the 1st to the

7th day (for single mothers from the 1st to the 10th day): 60-100%, depending on the period of employment; from the 8th to the 15th (for single mothers from the 11th to the 15th day) – 50% of wages.

One distinctive feature of the insurance against temporary inability to work is that up to the present the size of the benefit has been set in relation to the period of employment.

The financing of temporary disability insurance comes from the Social Insurance Fund, payments to which are made by employers and other persons employing hired labour to the order of 5.4% of the wage sum. But the problem is that in many sectors of the national economy, such as agriculture, consumer goods industry, higher education – this percentage does not even finance the issuing of medical certificates.

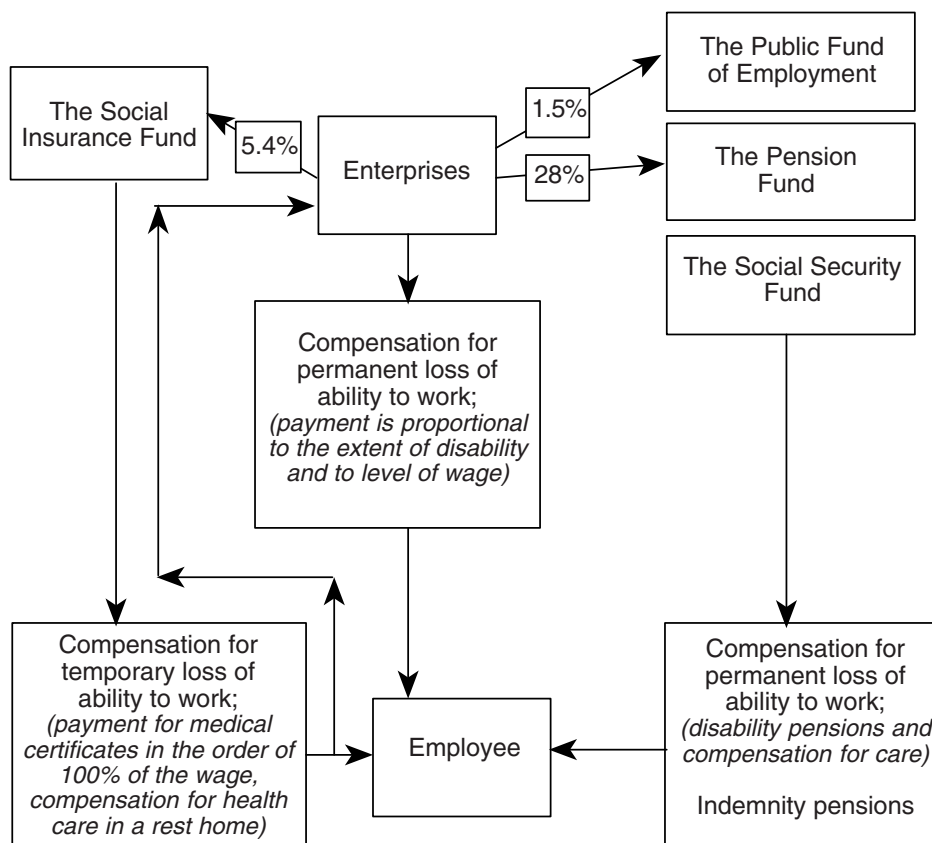
Workers accident insurance

There is no workers accident insurance in Russia. Its typical functions are taken care of by a system of individual compensation for loss of ability to work, which is a complicated scheme of insurance and non-insurance methods. This system provides only compensation for material damage and payment of an indemnity pension to the victim¹¹, but does not pay for expenses connected with work-place injuries, nor for treatment of occupational diseases or rehabilitation (see scheme).

According to estimates by experts, expenditures related to privilege and regional pensions as well as the individual indemnity costs are currently between 10 and 15% of the wage fund in industry and in some regions – 15-35% and higher¹².

In conditions of economic instability the indemnity problem is becoming more and more pointed. Payment to the victims are either delayed or made in reduced sizes or not paid at all. Thus the enterprises which were transformed into joint-stock companies have stopped paying out compensation for the loss

The Russian model of compensation for loss of ability to work due to industrial injury



of the ability to work for their former employees; a lot of enterprises do not reimburse this compensation for workers who have moved from other NIS. Rehabilitation of the victims of production (40-50 thousand persons per year) is in an extremely sorry state. The level of medical, professional and social rehabilitation of victims is extremely low. For the overwhelming majority of such cases no assistance is offered.

This means that the present-day system of individual indemnity connected to accidents in production does not answer to the changes currently underway in Russia's economy.

Unemployment insurance

Unemployment insurance¹³ exists in the Russian Federation since 1991, although it is not expressly mentioned in Russian legislation that payment of unemployment benefits have to be made by Social Security.

The general arrangement of the unemployment benefit scheme is regulated by the "Act on Employment of the Population of Russia".

According to this law, persons having lost their work are entitled to unemployment compensation for 12 months (persons not having reached retirement age – for 24 months) in the order of:

- first 3 months : 75% of the monthly wage of the last employment
- the following 4 months : 60%
- thereafter: 45%, but not less than the minimum wage and not more than the average wage in the region.

For individuals looking for a job for the first time or trying to resume their labour activity after a long period of absence (more than 1 year), and for those people who have lost their work and did not have a paid job for 12 weeks during the 12 months preceding the unemployment period, the level of compensation equals the minimum wage. In addition, persons who have lost their ability to work as a result of industrial injury or as a result of occupational sickness, receive 100% of the average wage at the last place of work, but not more than the average wage in the region.

The payments for unemployment compensation are financed by the Public Fund of Employment of the Russian Federation. The Fund's resources are collected from insurance premiums paid by enterprises in the order of 1.5% of the total wage sum. The present method used for calculation of the compensation level (based on the average wage at the last place of work) is labour-consuming and is not suitable under conditions of high inflation. As a result, most unemployed receive the same compensation, which is often lower than the subsistence level. The average level of unemployment compensation is approximately 12% of the average wage¹⁴.

* * *

At the beginning of 90ies considerable changes took place in Russia in the sphere of social insurance. However, the actual system of social insurance is not insurance in the real sense of the word, because it essentially fulfils a function as social security (allowance/relief): the size of the insurance premiums does not reflect the level of social and professional risk, nor the extent of rights and guar-

antees of the policy holder or the insured. As before, both policy holders and insured are prevented from taking part in the management of the public funds; the authorities attempt to keep the resources of the social insurance funds within the Federal Budget on the pretext of more effective utilisation.

Of course, the reformation of social insurance, which is a very important institution in the stabilisation of society, is not an isolated case carried out in no time flat. The creation of a general social insurance system in Russia that will provide an acceptable level of social security continues.

Notes

¹ Person and Labour. 1995. N 9, p. 48.

² "Provision of the Social Insurance Fund of Russian Federation". Economy and Life. 1994. N 9 p. 22.

³ Economy and Life. Yours Partner. 1995. N 52, p. 15

⁴ Economy and Purse. 1995. N 2, p. 3

⁵ Izvestija. 1995. June 28, p. 9

⁶ Person and Labour. 1995. N 12, p. 72

⁷ At the beginning of 1996, 800 non-state pension funds were registered in Russia, mainly in Moscow and St. Petersburg. The assets of the non-state pension funds were estimated to 1.2 trillion roubles (approx. 220 million dollars). But only 10% of the inhabitants (they had 35% of the aggregate income) had financial possibilities to invest in the pension funds. Economy and Life. 1996. N 5, p. 33

⁸ On October 1st 1992 a voluntary medical insurance was introduced, both on an individual and on a group basis.

⁹ Economy and Life. 1995. N 41, p. 14

¹⁰ Economy and Life. 1995 N 42, p. 27

¹¹ The indemnity pension in Russia covers 2200 professions with a high occupational risk profile, and professions carried out in territories of extreme natural-climatic conditions (arctic regions for instance), where approximately 10% of the working population lives. This system gives a right to receive additional pension at a lower retirement age.

¹² People and Labour. 1995. N 2, p.61

¹³ In June 1996 there were some 2.7 mill. unemployed, which constitutes 3.7% of the economically active population in Russia. Economy and Life. 1996. N 29, p.12

¹⁴ Person and Labour. 1995. N 3, p. 69