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PENSION FUND SYSTEM AND ITS HISTORICAL IMPROVEMENT IN REPUBLIC OF KAZAKHSTAN

Abstract. Kazakhstan was the first country that made pension reform and started new funded model of pension provision. Our country used Chilean pension model as an experience.

In this work we analyzed the pension fund system management of young country, its step by step historical improvement and its continuing development. So this system is on the right way but there are some macroeconomic problems like inflation, crisis and unemployment. Contributor's pension funds would like to have some assurance that their money will be saved from inflation and they will receive, though not great, but a steady income. Main objective of the work is to examine the achievements of the pension fund management under existing economic and social situation in Kazakhstan under global economic crisis.

Keywords: Pension system, pension funds, accumulative pension system, investment management of pension assets.

Introduction. Kazakhstan is young and perspective country in Central Asia. As well as its economics, pension fund system of the country is also on the way of development. Its historical improving reforms make this system more liquid and profitable for the economy of the country. A next important characteristic of pension fund is availability of detailed information for population about their savings as a guarantee for happy oldness. It is no coincidence that the government of Kazakhstan put forward the task of strengthening the social orientation of reforms by intensifying their efforts to reduce unemployment and fight poverty, create conditions for the implementation of the employment potential, the timely payment of wages, pensions, benefits and social aid to the poor. These measures are aimed at improving the social climate in the country.

We cannot consider all of the above without participation of pension funds, which is importance of the function of this system. Respectively, pension funds should work for the sake of its contributors, in our case present and future retirees. The task and aim of pension funds is to make high returns through investing pension savings to various state and non-state securities. Unfortunately, according to statistics in recent years we observe decrease in our saving instead of increases. It might be related to poor investment strategy of pension funds or impacts of global crises on financial market of Kazakhstan.

Dictionary definition of the word "pension" is a regular payment to a person that is intended to allow them to subsist without working. Pension funds are financial institutions that control assets and disburse income to people after they have retired. Pension funds, which invest in a variety of securities, control such enormous sums that their investment decisions can have significant impact on individual security price [1]. Also, according to Davis pension funds defined as forms of institutional investor, which collect pool and invest funds contributed by sponsors and beneficiaries to provide for the future pension entitlements of beneficiaries [2].

Methodology. Pension funds are typically sponsored by employers, such as companies, public corporations, industry or trade groups; accordingly, employers as well as employees typically contribute. Funds may be internally or externally managed. The latter have insurance features in respect of replacement ratios (pensions as a proportion of income at retirement) subject to the risk of bankruptcy of the sponsor, as well as potential for risk transfers between older and younger beneficiaries, which are absent in defined contribution funds [3]. For both types of fund, the liability is in real (inflation adjusted) terms. This is because the objective of asset management is to attain a high replacement ratio at retirement (pension as a proportion of final salary) which is itself determined by the growth rate of average earnings. Defined contribution plans have tended to grow

faster than defined benefit in recent years, as employers have sought to minimize the risk of their obligations, while employees seek funds that are readily transferable between employers.

According to Yermo[4], there are six characteristics of a private pension fund, they are (1) membership by private sector workers,(2) management by private sector institutions, (3) financial flows not being controlled by the general government, (4) a large proportion of assets invested in private sector securities, (5) regulated by private law and (6) guarantees being offered by private sector institutions. Furthermore, pension funds that do not fit this description are public in nature.

Initially the provision of pensions in Kazakhstan were a system of three levels (pillars), which combine both mechanisms of solidarity and storage systems.Functioning multi-tiered model of pension, is calculated on the entire population of Kazakhstan. Segmenting the population into categories, determining the source of pension payments (the state budget and / or pension funds), was based on age characteristics of working population involved in the pension system.

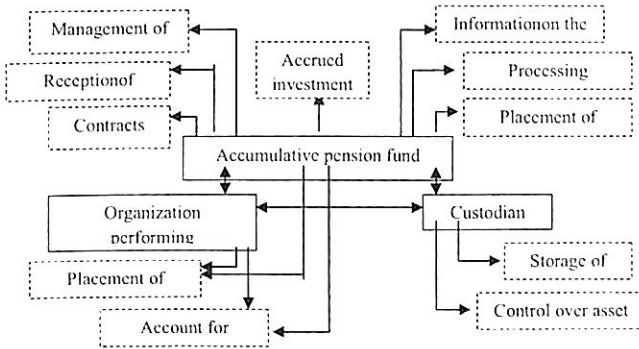
*Results and discussion.*The first level - a solidarity pension system, inherited by Kazakhstan from the Soviet Union after its collapse and based on "solidarity between generations", in which the source of pension payments is the state budget through tax deductions working population and other income. The size of pension payments is determined by employment record.

The second level is a compulsory pension contributions for the period of employment meets the conditions of second-tier pension system and has already obliged the young generation to bear sole responsibility for their income upon retirement, as a source of pension payments will be generated by them on individual retirement accounts savings.

Third level - funded system based on voluntary and voluntary occupational pension contributions. Every citizen has an opportunity through voluntary pension contributions to increase their savings and thus secure a higher income after retirement. Funded pension system is an essential component of social security of the Republic, on the one hand, and a tool to invest in Kazakhstan's economy, on the other[5].

The essence of the pension system - is to maintain and increase depositors' funds, i.e. investment in the real creation. The mechanism of its functioning is as follows: employers list in the form of compulsory pension contributions of 10% of salary, including all wages, various bonuses, and allowances, monthly. Pension accumulations of investors are formed due to this source of retirement [6].Pension contributions are sent to the pension savings fund at the option of the depositor, which on the basis of the pension agreement opens an individual retirement account and personal identification number - a social individual code. Continuing contributions to pension funds, investors are passed through an authorized bank custodian of the investment management of pension assets, which allocates funds in securities, deposits with banks and other financial instruments. Obtained by placing income called investment income is distributed to individual accounts of depositors in accordance with the amount of accumulated funds. Thus, a personal retirement savings depositors are paid to them at retirement.

Figure 1: Interaction between participants of accumulative pension system of Kazakhstan



Source: GNPF. Available at <http://www.gnpf.kz/>.

The structure of the pension system has three main elements in Kazakhstan: pension funds, organizations engaged in investment management of pension assets (IMPA), and the custodian bank. Scheme of interaction of these entities in providing funded pensions for future retirees is shown in Figure 1. According to this figure, accumulative pension fund (APF) in the implementation of its activities can collect pension contributions, receives a commission for their activities and to exercise other rights under the terms of the pension agreement, conclude a treaty with the organization that provides investment management of pension assets. Organizations engaged in investment management of pension assets from pension funds, is a legal person, a professional participant of securities market and created a joint stock company established by legislation the Republic of Kazakhstan. In its activities, pension funds, organizations engaged in investment management of pension assets and bank-custodian with respect to each other guided by the position of custodian tripartite agreement, which details the rights and obligations of each party and all the emerging relationship. The interaction between the three legal parties to the pension service is as follows: in accordance with the agreement on pensions between pension fund and investor contributions contributor recipient receives a bank custodian with whom the fund custodian signed a contract on a specially opened for this investment retirement expense fund [5]. IMPA, as their name implies, manage pension assets by investing them in various instruments allowed by law. Pension Fund enters into a contract with a management company, and one from my own experience and their own strategies, makes retirement savings to work by buying and selling financial instruments. These players have two main objectives: to invest pension assets and regularly evaluate them. In addition, asset management companies must report regularly on its activities to the FSA and the NPF, as well as through the media. IMPA is significantly different from other investment companies.

The third element of the system - the bank-custodian, which may not be affiliated with the NPF or IMPA, store pension money and controls the target location. It informs APF about status of its accounts and the activities of asset management companies every month. Each accumulated pension fund can work with only one custodian bank. But the bank can serve multiple funds. Custodian bank - a bank carrying out activities for the fixation and integration of rights in securities, storage of certificated securities and accounting of client's money. Custodian bank monitors the target location of the pension assets of APF and blocks instructions of IMPA or APF in the case of their incompliance with the legislation of Kazakhstan. Moreover, the law requires the custodian bank to immediately notify the authorized body and the APF. This system of independent elements provides a high level of reliability of the pension assets. In addition to the three main elements of the market, Agency for Financial Supervision (AFS) and the Kazakhstan Stock Exchange (KASE) has a major role in the pension system in the Republic of Kazakhstan.

The recipient, in turn, is entitled to receive pension payments from savings funds for retirement and in other cases stipulated in the Act, to transfer their pension savings from one pension fund to another more frequently than twice in a calendar year, to bequeath their savings, and also has the right to remove them when leaving for permanent residence outside of Kazakhstan [7].

In accordance with the law citizens are entitled to pensions:

- January 1, 1998 – male at age 61 years, female – 56 years;
- July 1, 1998 – male at age 61.5 years, female – 56.5 years;
- July 1, 1999 – male at age 62 years, female – 57 years;
- July 1, 2000 – male at age 62.5 years, female – 57.5 years;
- July 1, 2001 – male at age 63 years, female – 58 years.

Citizens living in emergency zones and the maximum radiation risk, from 29 August 1949 5 to July 1963 are eligible for award of pension:

Male – at age 50 years with a total length of service of not less than 25 years;

Female - at age 45 years with a total length of service for at least 20 years.

Pension payments will be as follows: if the labor activity began after January 1, 1998 by reaching the retirement age will receive pension payments only through their own retirement savings from his pension fund. For those who are in this period were 6 months or more, according to the law, their pension will consist of two parts: The first part of the SCPP its size is calculated in proportion to seniority. The second part is paid from the pension fund and its size is directly dependent on the value of pension savings. Everyone who receives a pension before 1 January 1998 (i.e., those citizens who have reached retirement age and having work experience of 20 and 25 years) will continue to receive pension payments from the State Center for Pension Payments in parallel with the benefit of the funded system [8].

Conclusion. In January 2013, the President has announced the following significant changes on the administration, investment, and benefit provisions of the accumulated pension fund system: All APFs are integrated into a Single State Accumulative Pension Fund (SAPF) established on GNPf grounds. All APFs' current pension assets and liabilities are transferred to the SAPF. All investments are placed under the National Bank. The newly established Board for Pension Assets Management under the President of Kazakhstan is also involved in assets management. This advisory and consultative body, among other matters, suggests the list of the financial instruments authorized for investment of pension assets of SAPF. The National Bank is also a custody bank of SAPF. The State Guarantee on minimum investment return will be continued. For employees in industries with harmful and arduous working conditions, the minimum retirement age is reduced to 50, as well as additional compulsory occupational contributions are provided at cost of employers in the amount of 5% of employees monthly income starting from January 1st, 2014. Women and men retirement age will become even by gradual increase for women from 58 to 63 starting from 2018 (plus 6 months annually). Since January 1st, 2014 the State subsidizes the compulsory pension contributions for each working woman on the maternity leave until her baby ages one year. At that, the core principles of pension provisions in the Republic of Kazakhstan remained intact. The multilevel system will continue to comprise PAYG, compulsory and voluntary accumulative components. Furthermore, the APS will keep managing the individual savings accounts, the SAPF members will retain their descendible ownership over pension savings; as well as the State Guarantee on minimum investment return will be continued. On September 24th, 2013, the Fund has successfully completed the acceptance of all pension assets and liabilities as well as all historical information. As of October 1st, 2013, before commencement of acceptance and transfer process, there were 2.2 million of pension savings accounts and KZT 740 bn. of pension assets in SAPF. Upon completion of the process, as of April 1st, 2014, the number of pension savings accounts increased to 9.7 million and the pension assets totaled to KZT 3.96 trillion. But in nowadays total current value of accumulative pension fund of Republic of Kazakhstan for 1 February 2016 is 5.948 trillion [9].

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Ерболатқызы А.

Сұлейман Демирель атындағы университетінің магистранты, Қаскелең, Қазақстан
ҚАЗАҚСТАН РЕСПУБЛИКАСЫНЫҢ ЗЕЙНЕТАҚЫ ЖҮЙЕСІ ЖӘНЕ ОНЫҢ

ТАРИХИ ДАМУЫ

Андатпа. Қазақстан мемлекеті ТМД елдерінің ішінде бірінші болып зейнетақы реформасын жүргізді. Біздің мемлекетіміз Чили зейнетақы үлгісін қолданды.

Бұл зерттеу жұмысында, республикадағы орын алып отырған жас, бірақ өркендеп-өсіп келе жатқан бағдарлама институционалды инвестор- зейнетақы қорының активтерін тиімді қолдану жолдары туралы мәселе кеңінен талқыланады. Нәтижесінде, бұл жүйе оңтайлы даму жолында, тек инфляция, дағдарыс және жұмыссыздық сияқты макроэкономикалық проблемалар кері әсерін тигізуде. Өйткені, зейнетақы қорының салымшысы, салып отырған қаржысының ертенгі күні құнсыздыққа душар болмайтынына кепілдік алумен қатар көп те болмаса, тұрғылықты табыс көзіне айналдыру қалайды. Аталмыш жұмыстың негізгі мақсаты, Қазақстанның қазіргі таңдағы дүниежүзілік экономикалық дағдарысқа қарамастан экономикалық және әлеуметтік жағдайына сай туындаған зейнетақы қорларының басқарылуына байланысты өзекті мәселелері мен жетістіктерін талқылау болып табылады.

Кілт сөздер: зейнетақы жүйесі, жинақтаушы зейнетақы қорлары, бірінгі жинақтаушы зейнетақы қоры, зейнетақы активтерін инвестициялық басқару.

Ерболатқызы А.

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РЕСПУБЛИКЕ КАЗАХСТАН

Аннотация. Казахстан был первой страной в СНГ, которая провела пенсионные реформы новой накопительной модели пенсионного обеспечения. В нашей стране как опыт используется модель чилийского пенсионного обеспечения.

В данной работе были проанализированы системы менеджмента пенсионного фонда молодой страны, ее исторические совершенствования и продолжительные развития. Система находится на верном пути, но есть некоторые макроэкономические проблемы, такие как инфляция, кризис и безработица. Вкладчики пенсионных фондов хотели бы иметь какие-то гарантии, что их деньги будут сохранены от инфляции и они будут получать хоть и не большой, но стабильный доход. Основной целью работы является изучение достижений системы менеджмента пенсионного фонда в Казахстане при условиях глобального экономического кризиса.

Ключевые слова: пенсионная система, накопительные пенсионные фонды, единый накопительный пенсионный фонд, инвестиционное управление пенсионными активами.