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Mr Andrey N. Pudov
Deputy Minister of Labour
and Social Protection
21, Ilyinka st., GSP-4
RU-127994 MOSCOW
Fédération de Russie

Dear Deputy Minister,

I refer to our recent correspondence, and am pleased to have received your letter of 18 June last, which has been forwarded to us, translated into English, from the ILO Office in Moscow.

Your letter is particularly helpful in setting out the framework of principles on which the ongoing reform of the national pension system in the Russian Federation should proceed. In that regard, it adds to the understanding gained by myself and Mr John Woodall during our very constructive mission to Moscow from 24 to 26 April this year, for discussions with yourself, officials of your Ministry, and also of the National Pension Fund.

We are particularly pleased to note that the document appended to your letter, the "Technical Description of the Mechanism for Assigning and Estimating Retirement Pension" (referred to below as the "technical description document"), contains strong observations regarding the basis of rights on which members' pensions should be provided, and the importance of achieving the widest possible scope for the inclusion of members, including those workers who are self-employed, the importance of indexation of pensions to preserve their real value over time, and the value of ensuring a degree of linkage between the contributions paid on behalf of an individual and the pension received, which should enhance the sense of "ownership" amongst scheme members.

At the time of our mission to Moscow, we had been provided with a set of documents illustrating the prospective operation of the national pension scheme, on the basis that a reformed scheme would combine the basic "flat-rate" element as already existing, together with the modified earnings-related component of the scheme. Our understanding at that time was that the reformed, earnings-related element of the system would operate on the basis of an allocation of pension "points" to members, and that the points would be evaluated by means of annual coefficients

which themselves would be assigned on the basis of the overall contribution receipts of the system. In the course of the mission, we opened discussion on a number of important aspects of principle and practice in relation to the operation of such a pension system, and the way in which those questions would be addressed within the broad framework of policy and Conventions followed by the ILO.

During our mission, we were asked to begin work on a document which would, on a comparative and analytical basis, relate the pension system of the Russian Federation to the specific requirements to be met in the case that any country wishes to ratify the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) (on the basis of acceptance of clauses including those relating to old-age benefits). Accordingly, immediately on our return from Moscow, officials of the Social Protection Department began work on the compilation of such a document.

We were of course aware of the need for an adequate understanding of the basis for the calculation of pensions under the reformed scheme, and had identified a number of points regarding which we should appreciate some clarification. Mr Arkady Soloviev was kind enough to offer to help in this regard, by way of a telephone discussion, with the help of a Russian-speaking colleague at the ILO. However, before we were able to take this work further, we were made aware of the likelihood of further adjustments being made to the technical basis of the scheme described in the reform proposal documents, and that it would be more practical to await further details. In that light, our receipt of your most recent letter is of course helpful and appreciated.

We note that a number of the issues addressed in the technical description document reflect specific features of the revision proposals as seen by ourselves in April; these include the retention of a 15-year contribution qualification period and an earnings "ceiling" for pension calculation purposes which may be set at 2.3 times the level of average wages. We are led, therefore, to think that at the present time it may be proposed to make limited adjustments to the "model" set out in the earlier reform proposal, rather than radical amendments; however, we are not able to tell definitively from the technical description document to what extent this interpretation is fully correct. Accordingly, we would ask for either confirmation that the general outline of the earlier proposal remains in place, or, if this is not so, to receive further (quantitative) details of the mechanism by which it is now proposed that pensions will be calculated.

As explained above, we had interrupted our analytical work on the earlier reform proposal, to await further information from your Ministry. In our analysis, however, we had already identified one particular issue of concern, namely the possibility that the mechanism of the yearly revision of coefficient values might lead in some circumstances to the actual reduction of pensions (at least in relation to the non-solidarity component). The technical description document refers to circumstances in which the "cost of (the) individual pension coefficient is corrected on the basis of actual performance in terms of PFR receipts from insurance contributions." We would be pleased to learn whether this is intended, most

importantly, to allow for pensions to reflect increases in the general level of the PFR operational finances, or to protect the financial situation of the PFR in case the receipts of the fund in fact decrease.

We would very much wish, therefore, to resume the analytical study, starting perhaps from the question raised in the previous paragraph. As before, we should be most happy to work on the basis of an ongoing and interactive discussion with officials of your Ministry and/or of PFR. It is appreciated that language issues mean that this process tends to be a little slow, but we are confident that we shall be able to mobilise Russian-speaking colleagues to provide the necessary help.

I remain at your service, and look forward to hearing from you again.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Alejandro Bonilla Garcia', written over a large, stylized blue ink flourish.

Alejandro Bonilla Garcia
Director, a.i.
Social Protection Department