

## **International cooperation of Russia and Members of Commonwealth of Independent States (CIS) in the Area of Social Security**

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**Interstate cooperation of CIS countries in the area of social insurance is of critical importance in the framework of the Customs Union. In terms of Common Economic Space (CES) member states' integration the disclosure of common and distinctive features of social security systems is of the highest priority for both the countries. The article covers the "social insurance" phenomenon with detailed analysis of international legislation, legislation of the Russian Federation and the Republic of Kazakhstan in the area of social security and insurance.**

**Key terms:** Social insurance, Social security, Socio-economic rights, Migrant workers, Health insurance, Retirement insurance, Industrial injury insurance, Unemployment insurance, Financial defined contributions, Pay-as-you-go pension system, Social pension, Social safety nets.

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Social insurance is a social security system protecting the employees' social rights in terms of market economy worldwide. In its broad sense the term covers all the insurance types, whether it be pension, health coverage, industrial injury, occupational disease, temporary disability or maternity.

The term under consideration is closely associated with the term 'social security', which also gives grounds for broad interpretation. Thus, from the financial point of view the key term of social insurance is 'insurance contribution', while

for social security it is 'budget financing'. In this context it is expedient to analyze some international and CIS legislation in the area of social insurance.

The Article 22 of the Universal Declaration of Human Rights, adopted 10 December 1948, stipulates that 'as a member of society, everyone has the right to social security', with this right further interpreted in a number of international regulations and documents. The international standards in the area of social insurance and security are set forth in the Conventions and Recommendations of International Labour Organization. Thus the Convention No 102 "On Minimal Social security Standards" as from 1952 stipulates the underlying pension coverage principles and the Convention of International Labor Organization No 103 "On Maternity

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Protection", 1952, Convention of International Labor Organization No 121 "On Industrial injuries allowances", Convention of International Labor Organization No 118 "On Legal equality in the area of Social security", 1962, stipulate basic humanistic principles of social security<sup>1</sup>.

The International Social Security Association (ISSA) is responsible for the integration of the system of unified social welfare principles, international legislation and development of the world social security schemes.

The international agreements of CIS member states are of utmost importance. Thus, Art. 16 of the Convention "On Human rights and Fundamental freedoms" (1995) stipulates that any person lacking sufficient means and unable to obtain such means through his own efforts or from other sources, particularly in the form of benefits under a social security system, has the right to benefit from state aid. Model law "On State Social Insurance" (1997) determines major directions in further development of legislation on state social insurance of CIS countries. The Agreement "On Health care delivery to the Citizens of the Member states of Commonwealth of Independent States" (1997) imposes obligations on the host state as to emergency medical care to CIS citizens. The Agreement "On Protection of the rights of CIS member states' citizens in the area of pension coverage" (1992) unifies the retirement insurance legislation of CIS countries<sup>2</sup>.

The comparative analysis of social security systems of Russia and Kazakhstan may turn to be quite interesting. The Russian legislation has a number of laws, covering social insurance system, its nature and description<sup>3</sup>. In this context the social insurance in terms of legal status can be either obligatory (state), or voluntary (supplementary). The core objective of the aforementioned insurance is to counterbalance (or minimize) the consequences of changes in financial and (or) social status of employed citizens due to retirement on reaching age limit, disability, loss of breadwinner, disease, injury, industrial accident or occupational disease, maternity, delivery of a child (children), nursing of child (up to 1.5 years of age) and other events stipulated by the legislation of the Russian Federation on compulsory social insurance, through various legal, economical and organizational measures.

The legislation of Republic of Kazakhstan has a similar phenomenon. Thus the Law of the Republic of Kazakhstan dated 25.04.2003 No 405-II "On Compulsory Social Insurance"<sup>4</sup> interprets the 'compulsory social insurance' as a set of measures taken and controlled by the state with a view of compensating part of earnings due to loss of earning capacity and (or) loss of work, loss of breadwinner, maternity, adoption of a newborn (s) and nursing of child (as from 1 year of age). Evidently the list of insurance risks is extended as compared to the Russian legislation (for instance, job loss risk); a similar risk was also covered by the Russian legislation (however it has been excluded from the list with no unemployment insurance granted). Apart from that the Russian legislation has no social insurance category, related to adoption of a newborn (s) and therefore the types of social insurance are slightly different.

It is noteworthy that the stated law of the Republic of Kazakhstan comprises Article 7 "Security of Social contributions", stipulating a certain security mechanism. In RF legislation the stated mechanism as such relates only to pension contributions security.

The differences in the legislation of the countries analyzed relate only to certain types of social insurance, e.g. pension.

Initially the pension system of the Republic of Kazakhstan was based on the 'saving' principle, however, as is known, saving systems presuppose substantial risks, faced by Kazakhstan. In view of the above Kazakhstan had to transform its system into a three-level system, comprising the elements of saving and distribution systems (PAYG pension system (basic pensions); obligatory saving system, presupposing monthly contributions of 10% from the labor compensation fund and saving system, based on voluntary accumulative contributions), In 2000 Kazakhstan approved a three-level pension scheme with the solidary system for the employees retired as from 01.01.1998 and mixed system for the employees with their pensions awarded as from 01.01.1998 to the present day. Saving system is attributed to citizens without employment history (less than half year) as of 01.01.1998.

In terms of solidary system the pension, financed out of state budget, is awarded to women reaching 58 years with 20-years employment history

and men reaching 63 years with 25- years employment history. Furthermore men and women may retire at 55, if the pension accruals are sufficient to obtain minimum pension. All the above considered the pension within the solidary system depends on the employment history and is distinguished by the state base pension payment (paid to everyone in the same scope irrespective of the employment history).

Saving system stipulates 10% contributions of employees to their individual retirement accounts. The employees may make voluntary contributions, which will be further paid in the form of pension. Currently all the saving system funds are accumulated in the state-owned Unified Pension Savings Fund (UPSF). Active private pension funds (PPF) act as portfolio managers or voluntary pension savings fund.

Kazakhstan's problem related to retirement age raising should not go unmentioned. Currently its three years higher as compared to the retirement age of citizens of the Russian Federation or the Republic of Belarus, and further on (from 2018-2027) it will be further raised within 10 years by 0.5 years annually.

Initially RF Compulsory Pension Insurance System was based on distribution model; further on a savings element was added (in the insurance part of labour pension) followed by numerous challenges, associated with savings systems, namely low returns on investment of savings part of labour pension, market and other risks.

See below the Table with the rates as to the number of retired employee in the Republic of Kazakhstan and the Russian Federation<sup>5</sup>, data were compared with the position proposed by the authors<sup>6</sup>:

It is evident that the number of retired employees as per 1000 citizens in Russia is two times as high as the similar rate in Kazakhstan. Bearing in mind that the retirement age in Russia is the same as in the soviet times, namely 55 for women and 60 for men, this country is quite 'attractive' for migrant workers, who, having obtained the residence permit followed by the corresponding employment history, may count on old-age retirement pension.

Pension rates<sup>5</sup>, data were compared with the position proposed by the authors<sup>6</sup>:

**Table 1.** Number of retired employees as per 1000 citizens

	2000	2005	2010	2011	2012
Republic of Kazakhstan	173	156	147	148	146
Russian Federation	262	267	278	281	283

**Table 2.** Average pension rate, USD

	2000	2001	2003	2005	2007	2009	2011	2012
Kazakhstan	27.8	28	45.9	76.0	97.1	124.7	192.0	203.8
Russian Federation	29.2	37.8	59.3	88.2	149.3	204.3	257.1	301.6

**Table 3.** Insurance rates and social insurance types

	Retirement insurance		Social insurance		Health insurance
	employee	employer	employee	employer	employer
Kazakhstan	10%	5% (obligatory contributions to professional pension systems)	none	5,0% + man-datory indus-trial injury insurance contributions	none
Russia	none	22%	none	2.9%	5.1%

Comparing these rates in different time periods we cannot but notice that in 2000 the pension rate in Russia was higher than in Kazakhstan by 1.05 times; in 2005 – 1.16; in 2011 – 1.34; in 2012 - by 1.48. Pension growth dynamics in Russia is higher: within the period of 2000-2012 the pension rates increased by 10.33 times, in Kazakhstan - by 7.33 times, although the Republic of Kazakhstan is third in CIS as to the rate of pension after the Republic of Belarus and the Russian Federation. Apart from that the replacement rate of the earnings lost through pension payment in Kazakhstan exceeds 40% (around 43%), in Russia - around 30%, though it cannot be viewed as reporting value, as the average salary in Russia is higher than in Kazakhstan, therefore the replacement rate is lower.

The analysis showed that both the Russian and the Kazakhstan pension systems have some common challenges: financial stability, self-employed individuals, integrity and profitability of pension accruals, retirement age raising etc. However we cannot but notice some positive experience in both the countries, for instance accrued revenues calculation procedure in terms of pension accruals investments. Thus Kazakhstan preferred return method is quite flexible with the term used for return estimation making 5 years. It's worth mentioning that Kazakhstan has extensive local experience in assignment of various rates of return to different investment portfolio types, which is worth to be adopted by the Russian Federation.

Another type of social insurance - compulsory health insurance - is a common state-based phenomenon of the Russian Federation. The system operates based on the employer's contributions and various budgetary funds, any income related to placement of temporarily disposable funds. Any insured individual (both employed and unemployed) is entitled to free medical care within the framework of basic and territorial compulsory health insurance programs.

Kazakhstan has no compulsory health insurance system. According to Article 23 of the Code "On People's Health and Healthcare System"<sup>7</sup>, the following funds are viewed as healthcare system financial sources: budgetary funds; voluntary insurance funds; fee-based service funds and other sources, not conflicting with the

legislation of the Republic of Kazakhstan. The aforementioned Code covers the citizens of the Republic of Kazakhstan and oralmans. However the integration of compulsory health insurance system in Kazakhstan is under consideration (establishment of Compulsory Medical Insurance Fund (CMIF) is scheduled for 2015); it must be noted, that in late 1990-s such Fund existed in Kazakhstan, but was subsequently liquidated due to some adverse circumstances. Presumptively the insurance contributions will be made by the citizens (3-5% of salary<sup>8</sup>, before it was the employer who contributed 5% to CMIF and the state covered the unemployed population contributions, however the scope of budgetary funds for free medical care was curtailed drastically), but the employers' contributions can also be considered. Currently it is still not clear what medical insurance will be selected.

In a narrow sense of 'social insurance' term interpretation both in Russia and in Kazakhstan it covers various types of risks. According to Kazakhstan legislation the loss of breadwinner, job loss etc. refer to social insurance, while in Russia loss of breadwinner makes part of retirement insurance risks, and job loss is not considered at all. Any citizens of the aforementioned countries as well as foreign citizens and stateless persons are entitled to welfare payments. For instance in Kazakhstan any employee, self-employed individual, including foreign citizens and stateless persons, permanently residing in the territory of the Republic of Kazakhstan and engaged in any income generating activities in the territory of Kazakhstan, except for pension recipients from the Center, is subject to compulsory social insurance. The employers' social contributions make 5% from the social contributions estimation object as from 01.01.2010<sup>4</sup>.

The aforementioned analysis proves that there are certain common features in various social insurance systems in the Russian Federation and the Republic of Kazakhstan: a number of common societal risks covered by the systems, structure of social insurance systems (except for delivery of health care). Alongside with that there are certain differences: the structure of the pension system as such, insurance contributions payment vehicle, social security liability distribution between the state, employer and employee, particularly in terms

of insurance rates.

See the comparison of insurance rates in terms of different social insurances in Kazakhstan and Russia in the Table below (Table 3)<sup>4</sup>, data were compared with the position proposed by the authors<sup>6</sup>:

It is clear that in Kazakhstan the insurance load is distributed among the employer and the employee, while in Russia an employee makes no contributions to the mandatory social insurance system (though it's possible in terms of voluntary scheme, for instance in terms of Pension co-funding program).

Based on the above we can highlight certain perspective cooperation areas between the Russian Federation CIS countries and EurAsEC, namely:

- a) Close interaction in various areas of social life, including social sphere, which is already supported by a number of international agreements between these countries: Agreement on legal status of migrant workers and their family members, presupposing certain liberalization in terms of access of member states' citizens to the labor market of these countries, cancellation of quotas assignment and obligatory work permits for the migrant workers from member states; Cooperation agreement on countering illegal labor migration from third states. One way or another common economic space presupposes establishment of efficient social insurance model both for the citizens of these countries and for the migrants from the member states of the aforementioned Agreements. To a certain extent such kind of cooperation requires unification of social insurance models in these countries, which comes together with harmonization of the national legislation of the latter<sup>9</sup>.
- b) A line of cooperation, related to social insurance of migrant workers from CIS countries and Russia to the stated countries, aimed at complete protection of their social rights, which presupposes comprehensive information and experience exchange in the area of external labor

migration regulation, including illegal migration issues and conclusion of readmission agreements;

- c) Finally, we cannot but notice the participatory development of voluntary social insurance in the territory of Russia and CIS countries.

Summarizing we would like to note that integration in CIS and EurAsEC require not only establishment of brand new legal base, ensuring free movement of labour, but also development of a new unified social insurance model<sup>10</sup>.

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