# Russian government to freeze DC plan assets in 2014

By Kerry Pechter *Fri, Oct 18, 2013*

*"The money will be retained by the state pension fund, and... is supposed to become a sort of an air bag that will be activated in case an emergency breaking of the national economy occurs," the head of VTB Capital Investment Management told IPE.com.*

Pension reform in Russia, whose petroleum-dependent economy has "slowed alarmingly" is in a state of confusion following a reduction in the contribution rate of the country's mandatory "second pillar" defined contribution plan.

Until now, workers born on or after January 1, 1967, have had 6% their of gross salary paid to either a non-state pension fund (NSPF), the fund run by the state-owned Vnesheconombank (VEB), or have this portion put into the first-pillar Pension Fund of Russia (PFR) but have it administered by private asset managers.

The VEB fund is also the default option for the molchani ('silent ones') who failed to choose either an NSPF or an asset manager.

As of the end of June, the VEB managed RUB1.7trn ($64 bn), the NSPFs RUB887.6bn and the asset managers 34.3bn.

A law in December 2012, due to take effect at the start of 2014, cut the molchani contributions to 2%, with the remaining 4% moving to the pension fund run by the PFR.

This law is now to be ditched, with the molchani contribution slashed to 0% – on the reasoning that these passive investors have no interest in a funded system – although the decision deadline has been extended from the end of 2013 to 2015.

It has also been proposed to restrict the opportunity for workers to change their retirement fund from once every year to every five years.

More controversially, all second-pillar contributions in 2014 – some RUB244bn – will be frozen.

"The money will be retained by the state pension fund, and, judging by the finance minister's recent statement, is supposed to become a sort of an air bag that will be activated in case an emergency breaking of the national economy occurs," said Vladimir Potapov, chief executive and global head of portfolio management at VTB Capital Investment Management.

"But it is not certain at the moment. The retained saving can also be spent for social projects or can reduce the state transfer to the state pension fund budget in 2014."

According to the World Bank, Russia's GDP growth for 2013 is expected to fall to 1.8%, the slowest rate since the 2009 recession. This has put pressure on government revenues, with the consolidated budget set to fall to a deficit.

Meanwhile, all the NSPFs will have to convert from their existing status as non-profit organizations to joint-stock companies. The non-profit status lacked ownership transparency and was prone to many abuses including a major mis-selling scandal, and clients transferred on the basis of falsified documentation some 18 months ago.