

PENSION SYSTEM OF THE REPUBLIC OF KAZAKHSTAN



Almaty 2020

MACROECONOMIC AND SOCIO-DEMOGRAPHIC INDICATORS 2019

| REAL GDP GROWTH | | | INFLATION | | | POPULATION | | | LABOUR FORCE (AGE 15 AND OLDER) | | RETIREMENT AGE | |
|----------------------------------|------|--------|--------------------------------------|--|--|---------------------------------|--|--|---|-------|-------------------------------------|------|
| 4,3% | | | 5,4% | | | 18,6 mln ppl | | | 9,2 mln ppl | 49,5% | female | male |
| LIFE EXPECTANCY AT BIRTH, YEARS* | | | TOTAL MORTALITY RATE* (per 1000 ppl) | | | TOTAL FERTILITY RATE* | | | 59,5 (in 2020) gradual increase to 63 by 2027 | | 63 | |
| BOTH SEXES | MALE | FEMALE | 7,1 | | | 2,84 | | | | | | |
| 73,2 | 68,8 | 77,2 | | | | | | | | | | |
| AVERAGE PAYG PENSION BENEFIT | | | MINIMUM PENSION BENEFIT | | | COST OF LIVING ALLOWANCE (COLA) | | | AVERAGE MONTHLY SALARY | | MONTHLY CALCULATION INDICATOR (MCI) | |
| \$ 152 | | | \$ 94 | | | \$ 76 | | | \$ 545 | | \$ 7 | |

Source: Statistics committee of the Ministry of National Economy of the Republic of Kazakhstan
 * 2018 (Latest data available)

OVERVIEW OF PENSION SYSTEM OF THE REPUBLIC OF KAZAKHSTAN

The World's Bank's Multi-Pillar Framework



PILLAR 4. Social support programs (cash or benefit in kind)

PILLAR 3. Voluntary fully-funded pension system

PILLAR 2. Mandatory fully-funded pension system

PILLAR 1. State mandatory PAYG system

PILLAR 0. Base or social pension for low-income

Kazakhstan's Multi-Pillar Pension Model

PILLAR 4. Benefits and privileges for retirees (medical services, transport, taxes, utilities)

PILLAR 3. Voluntary fully-funded system (**employee, employer**)

PILLAR 2. Mandatory fully-funded:
Since 1998 - **10% Mandatory contributions (employee)**
Since 2014 - **5% Mandatory occupational contributions (employer)**
Since 2023 - 5% Mandatory contributions (employer)

PILLAR 1. State PAYG pension (entitlement with service history prior to 01.01.1998, only)

PILLAR 0. Basic **state** pension for all retirees (54-100% COLA)

BASIC PENSION

Since **01.07.2018** the size of the basic pension depends on the length of service:

54% of COLA – 0 to 10 years of service

+2% of COLA – for every other year over 10 years of service

Maximum benefit size – 100% COLA with a length of service of 33 years or more



PAY-AS-YOU-GO (PAYG) PENSION

Paid if length of service is at least **6 months before 01.01.1998**

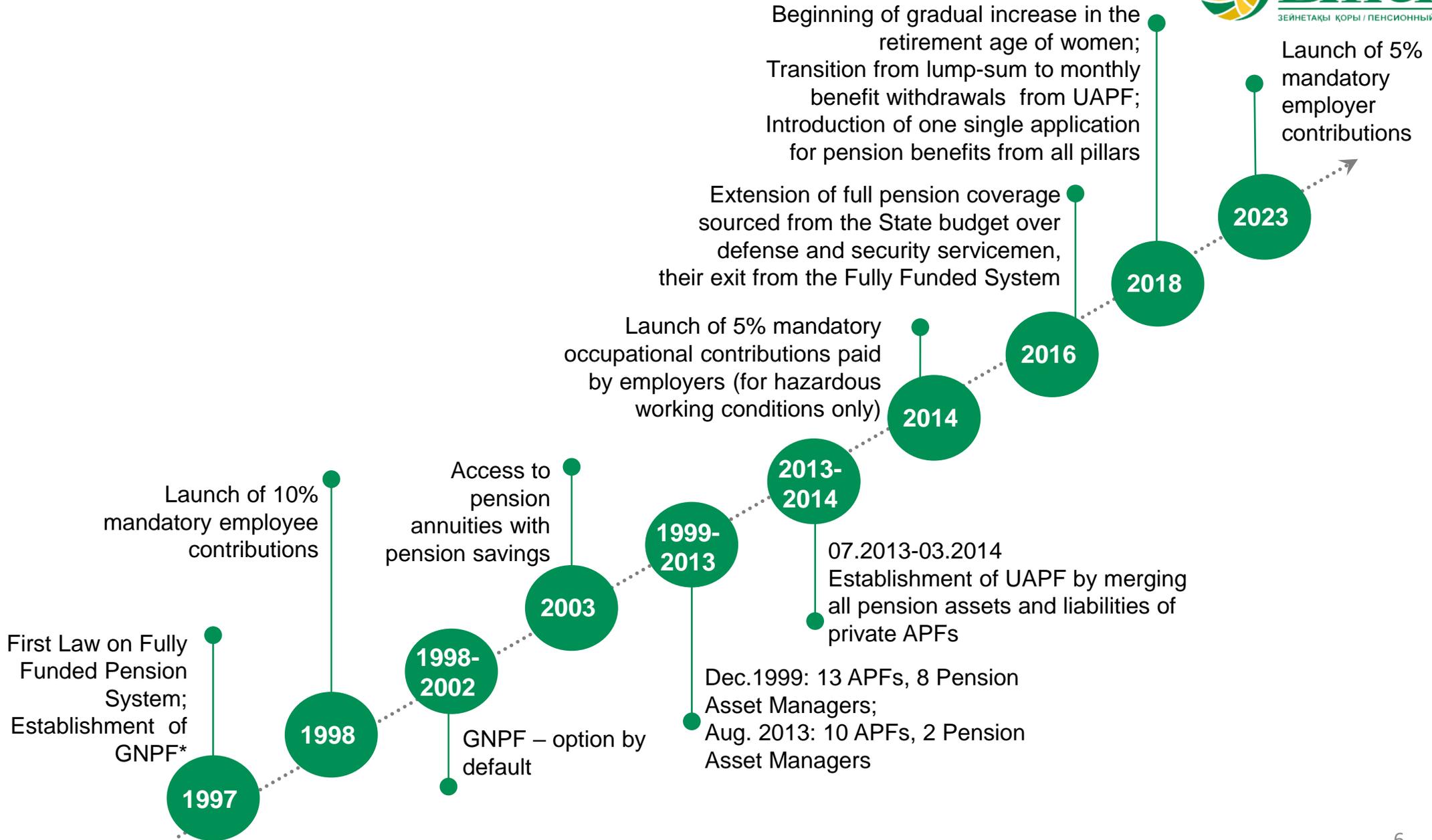
Length of service required for full-size benefit:



Full-size benefit: **60%** of the average monthly income for any **3 consecutive years (36 months) since 01.01.1995 to retirement**

46 MCI - the cap on income accepted for calculating PAYG benefit
monthly calculation indicator

DEVELOPMENT OF FULLY FUNDED PENSION SYSTEM



*Abbreviation for the State Accumulative Pension Fund

FULLY FUNDED PILLAR SCHEME



Since 1 January 1998, based on the Chilean pension system model:

- DC, with individual pension savings accounts



NBRK*:
 • CUSTODIAN
 • FIDUCIARY ASSET MANAGER

PENSION ASSET ALLOCATION
 INVESTMENT RETURN



PENSION ASSETS PORTFOLIO

UAPF:
 ▪ CUSTOMER SERVICE
 ▪ CENTRALISED RECORDS KEEPING



CONTRIBUTIONS
 INVESTMENT RETURN

- CONTRIBUTIONS
- ACCOUNT STATEMENTS
- BENEFITS DISTRIBUTION



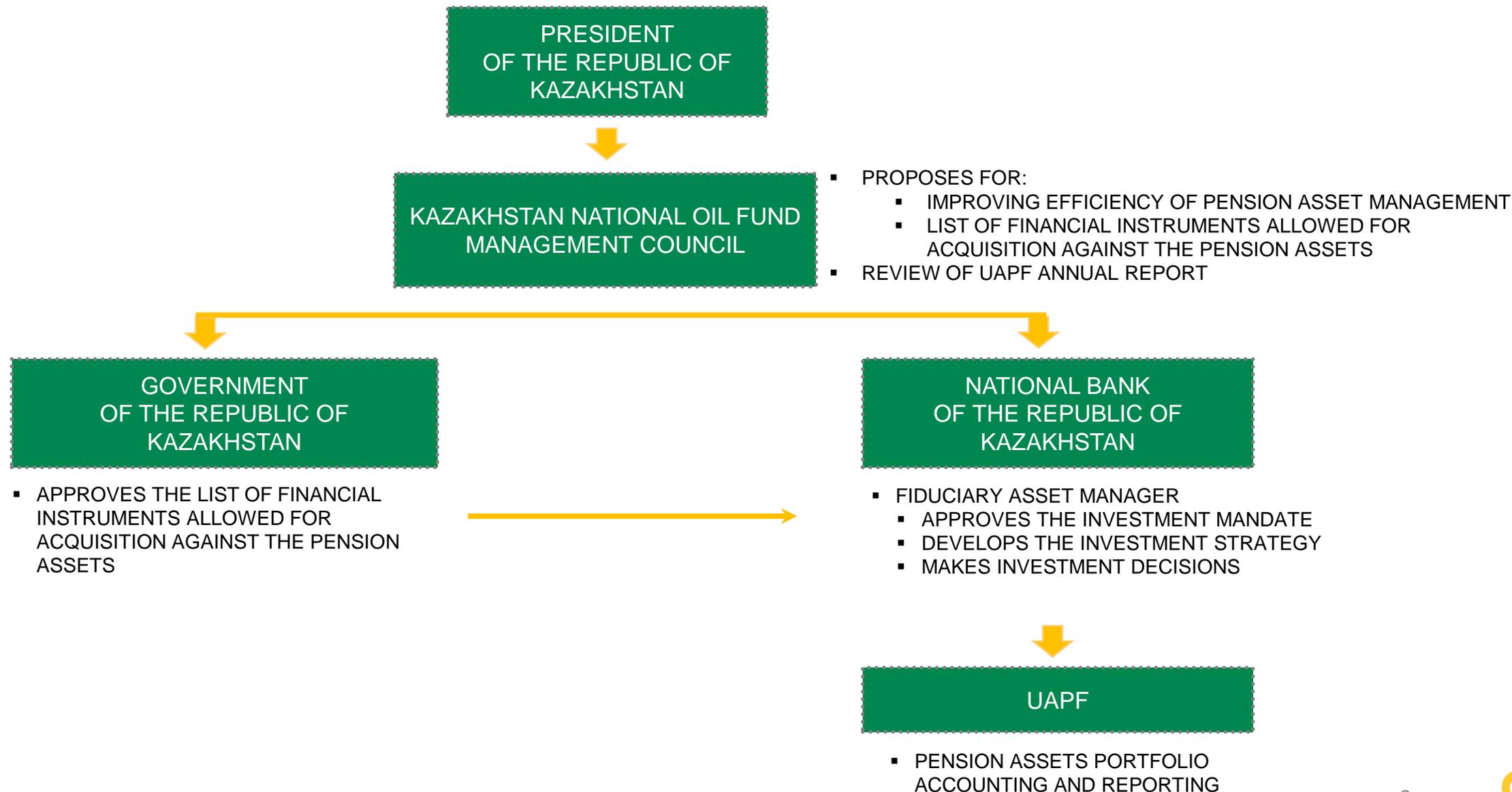
MEMBERS / BENEFICIARIES

State Guarantee on safety of pension savings at UAPF (real return 0)

Members' right of ownership on individual pension savings

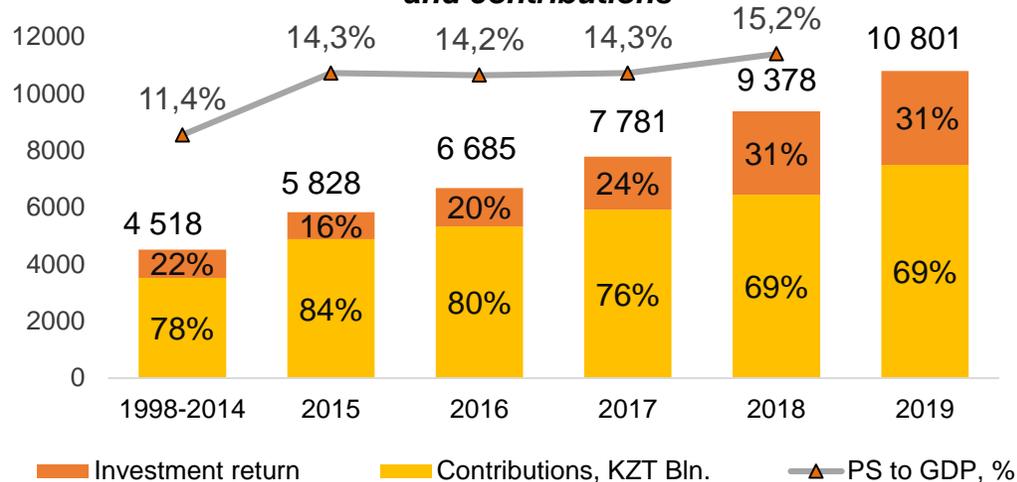
* Abbreviation for the National Bank of the Republic of Kazakhstan, being the Central Bank of Kazakhstan

DECISION MAKING ON PENSION ASSETS ALLOCATION



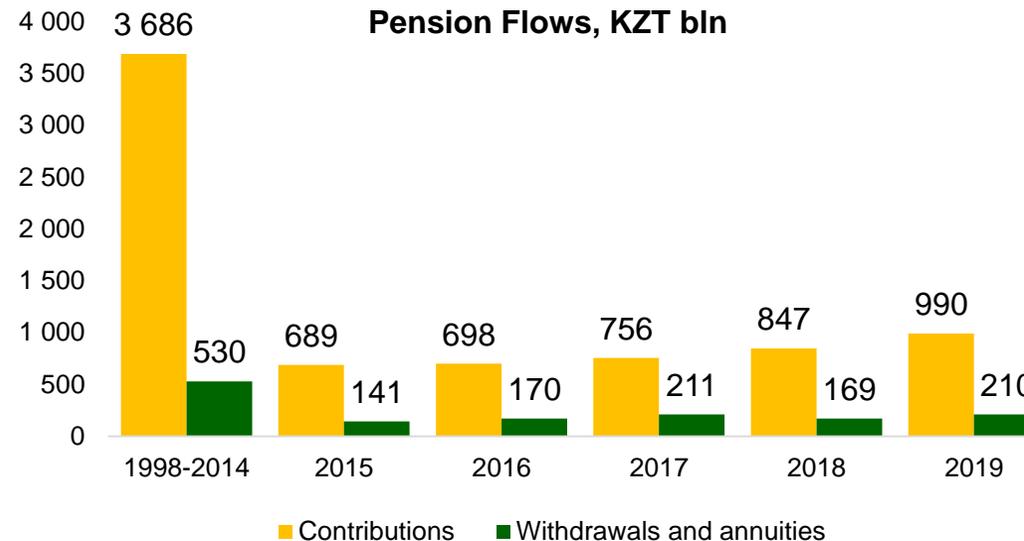
FULLY FUNDED PENSION SYSTEM: KEY INDICATORS

Pension savings as % of GDP, cumulative investment return and contributions*



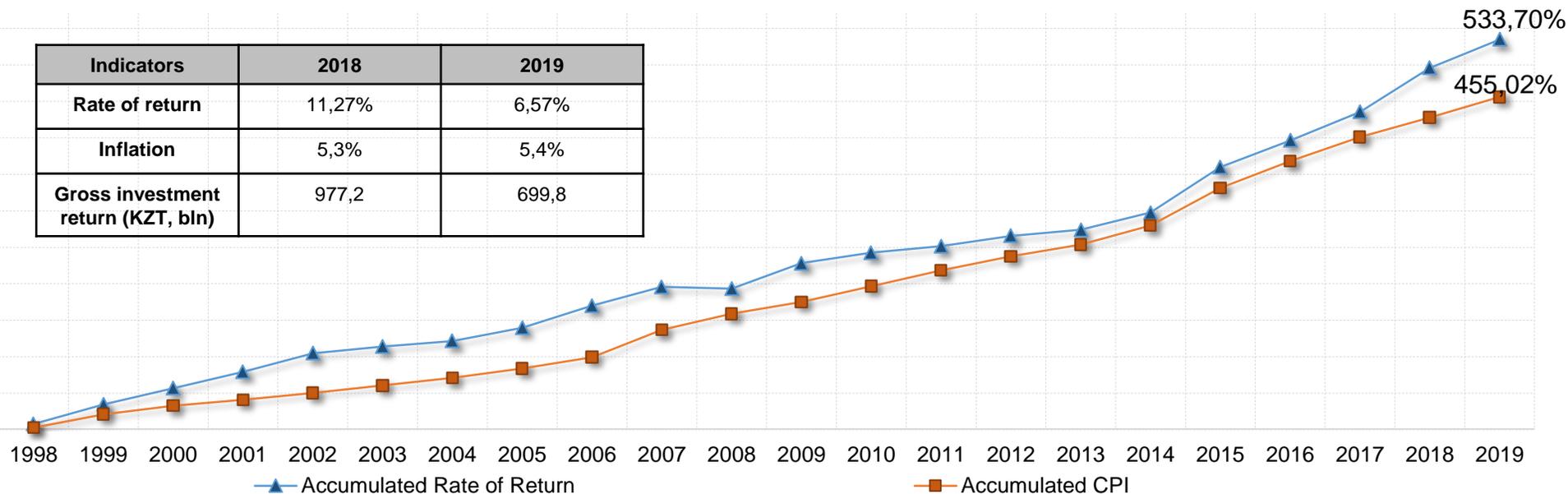
*Source: NBRK from 1998 to 2014, UAPF since 2015

Cash-in / Cash-out Pension Flows, KZT bln



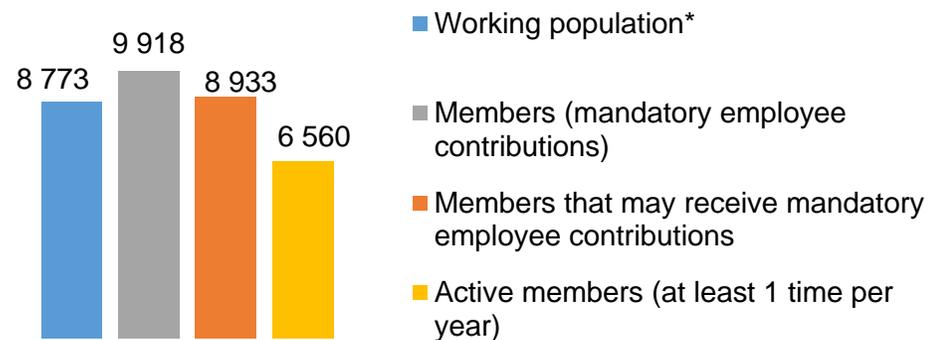
549%
499%
449%
399%
349%
299%
249%
199%
149%
99%
49%
-1%

| Indicators | 2018 | 2019 |
|------------------------------------|--------|-------|
| Rate of return | 11,27% | 6,57% |
| Inflation | 5,3% | 5,4% |
| Gross investment return (KZT, bln) | 977,2 | 699,8 |



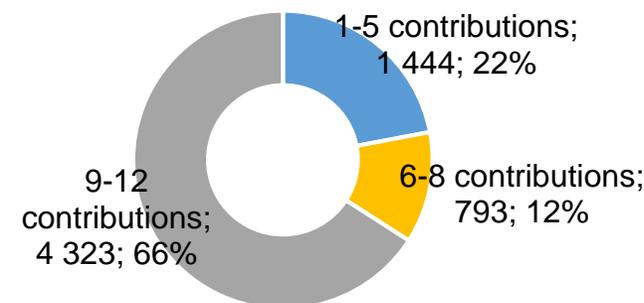
INDIVIDUAL PENSION SAVINGS ACCOUNTS (IPSA_s) STRUCTURE AS OF 1 JANUARY 2020

Working population, members, active members, thousand people

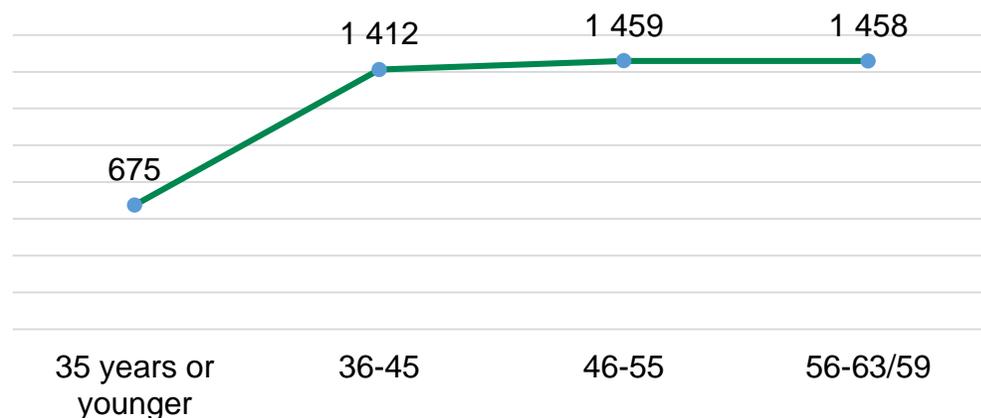


* according to Statistics Committee as of 01.10.2019

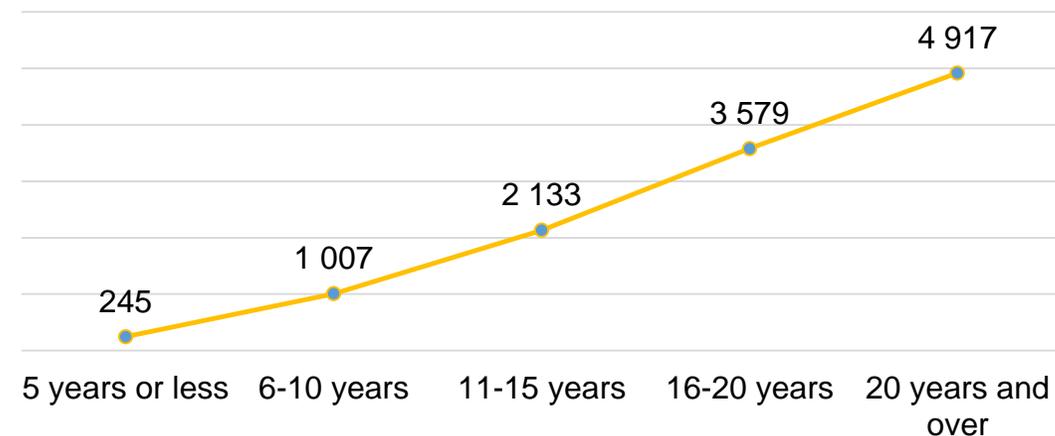
Density of mandatory contributions per year, thousand people



Average account balance by age, KZT thousand



Average account balance by service*, KZT thousand

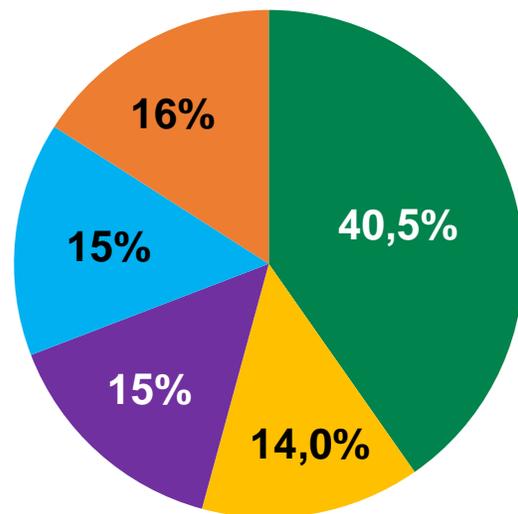


* 1 year of service = contributions for any 12 months

PENSION ASSETS PORTFOLIO STRUCTURE (AS OF 1 JANUARY 2020)

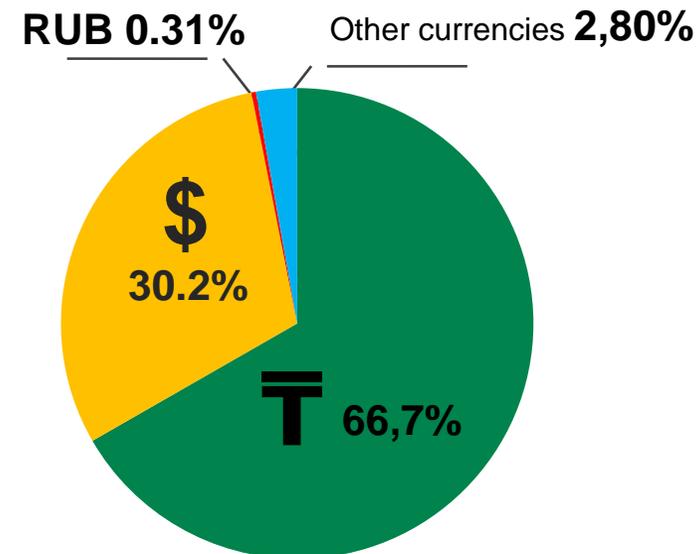


PENSION ASSETS PORTFOLIO, KZT bln
Type of instrument



- 40,5%** 4 368,01 Government securities of RK
- 14,0%** 1 543,37 Second tier banks of RK (Deposits, bonds and stocks)
- 15,0%** 1 596,76 Government securities of foreign states and IFO
- 15,0%** 1 604,96 Securities of quasi-state organizations of RK
- 16%** 1 685,22 Other

CURRENCY STRUCTURE OF PENSION ASSETS, KZT bln



- 66,7%** 7 201,0 KZT
- 30,20%** 3 261,36 USD
- 0,31%** 33,45 RUB
- 2,80%** 302,50 Other currencies

MANDATORY NOTIONAL DEFINED CONTRIBUTION SYSTEM



5%
Employer contribution

Beginning on 01.01.2023 a new notional defined contribution component of the pension system will be introduced – 5% mandatory employer pension contributions of employee's monthly income. Mandatory employer pension contributions are designed to provide increased levels of pension benefits by sharing responsibility for pension provision between **State, employee and employer**.

63
years

Pension rights entitlement conditioned by the minimum period of membership – contributions for any **60 periods (calendar months)**.

62-63
years

Pension benefits from notional defined contribution component will be monthly and life-long.

Disabled people of I and II groups with termless disability

Pension savings at notional defined contribution component cannot be inherited. No State Guarantee on safety of pension savings.

Pension liabilities will be formed depending on the size and number of contributions paid for each member taking into account investment income.

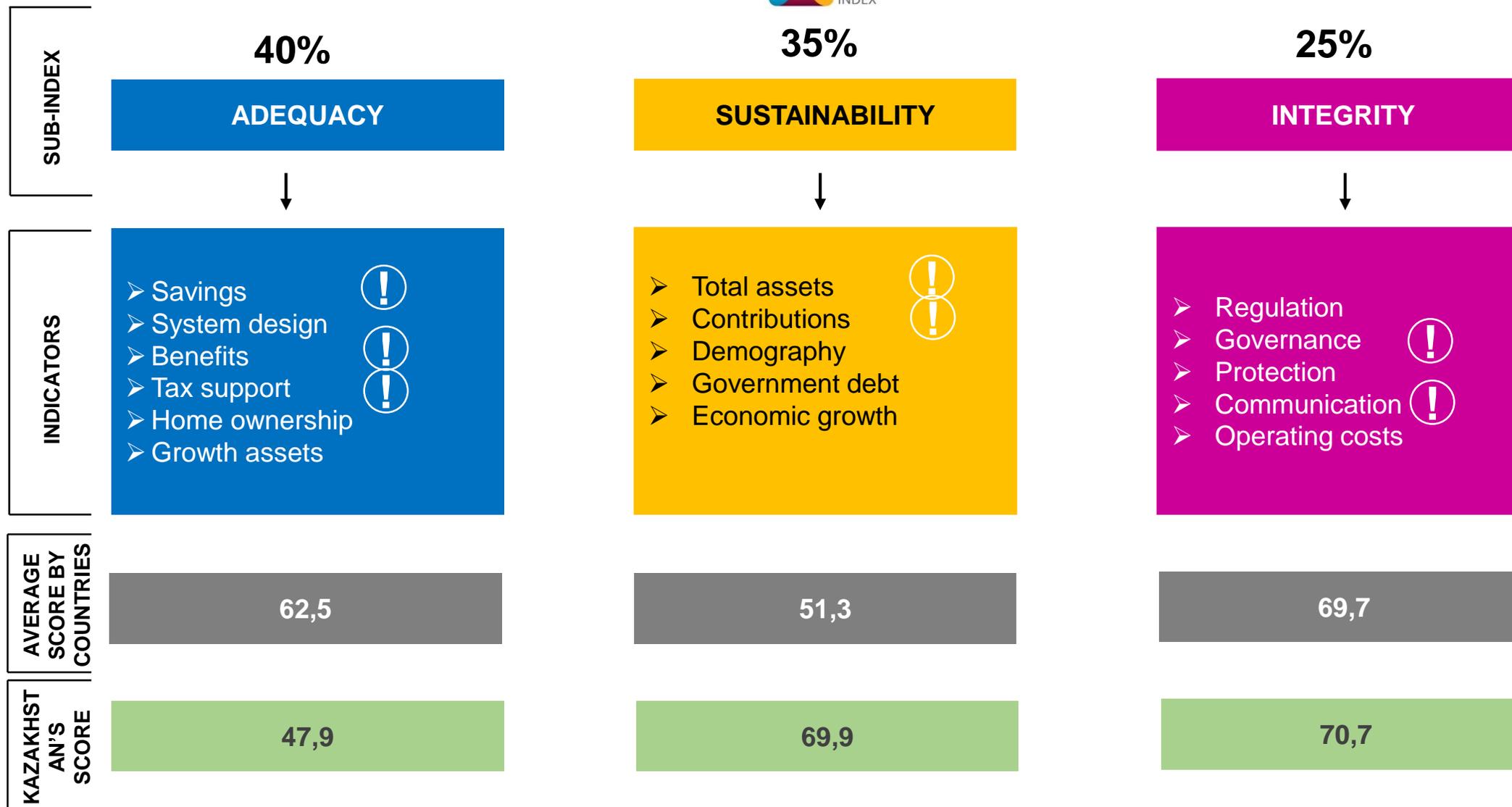
Upon retirement savings balance will be formed taking into account all contributions, investment income for the entire accumulation period and redistribution of savings from deceased and emigrants.

PROSPECTS FOR THE DEVELOPMENT OF THE PENSION SYSTEM IN THE REPUBLIC OF KAZAKHSTAN

- *The concept of further modernization of the pension system of the Republic of Kazakhstan until 2030, approved by presidential decree in 2014;*
- *Message from the President of the Republic of Kazakhstan dated November 30, 2015 on the transfer of pension assets management to private pension asset management companies;*
- *Message from the President of the Republic of Kazakhstan to the Nation dated September 2, 2019;*
- *Corporate Development Strategy of UAPF JSC for 2017-2021;*
- *World's best practice.*

INDEX STRUCTURE

Melbourne Mercer Global Pension Index



TRANSFER OF PENSION ASSETS MANAGEMENT TO PRIVATE PENSION ASSET MANAGEMENT COMPANIES



Member's right of choice



- Extended list of financial instruments
- Stock exchange development

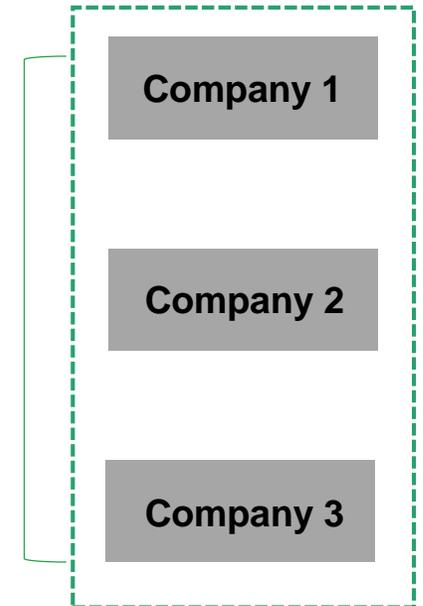


Selection of private pension asset management company (transfer of over sufficient mandatory pension contributions)



Centralized records keeping

Transfer of over sufficient pension savings



Investment management of over sufficient pension savings



Investment management of major share of pension assets

INTERNATIONAL BEST PRACTICE ON CREATING INCENTIVES FOR VOLUNTARY CONTRIBUTIONS



Overseas companies offer their employees collective voluntary pension savings schemes. Employees make voluntary contributions to pension scheme and receive a matching contribution from the employer.

Drivers of participation for employer: employers may be allowed to deduct the matching contributions from their corporate tax income; part of motivation program among workers.

Drivers of participation for employee: matching contributions from employer to increase future pension benefit.
(UK, US, Canada, New Zealand).



To encourage participation in individual voluntary schemes voluntary contributions of individuals are supplemented by subsidies from the State within established limits (Germany, Malaysia, Turkey).

Other incentives to increase participation at funded pension schemes



«Soft compulsion» - automatic enrollment to voluntary pension scheme
(UK, New Zealand, Italy, US, Canada (Quebec))



Tax incentives for legal entities and individuals (at contribution point and retirement)



Early withdrawal of voluntary savings
(UK, New Zealand, US, Canada (Quebec))



Incentives to enroll to fully funded pension system self-employed and low-income citizens



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