

## ANNOUNCEMENT

### Adequacy of pension benefits: the importance of early formation of pension savings and regularity of pension contributions

#### *The concept of "pension adequacy"*

*An adequate pension income is the amount of benefits that allows a person to maintain their usual quality of life after retirement without experiencing significant financial constraints. One of the key indicators determining the adequacy of a pension system is the **income replacement ratio (IRR)**, which measures the proportion of their previous salary that a retiree receives as a pension. According to ILO recommendations, a pension is considered adequate if the IRR is at least 40% of the lost earned income. Currently, in Kazakhstan, this ratio averages approximately 41%.*

As a reminder, Kazakhstan currently operates a **multi-pillar pension system** consisting of a basic and solidarity pension (funded by the state), compulsory and voluntary pillars (funded by the contributor's personal pension savings and investment income, as well as employer contributions). At the same time, the state-funded solidarity pension, which only takes into account work experience up to January 1, 1998, is gradually being reduced. In the early 2040s, people without such work experience will begin to retire. These citizens will not receive a solidarity pension, meaning their pension amount will **directly depend on the size of their savings**.

To ensure an adequate pension, three factors are important:

- accumulation period;
- regularity of contributions;
- fullness of contributions.

Let's look at each step in order, using calculations.

#### **The period of accumulation formation**

The earlier a contributor joins the pension system, the longer their savings period, and the greater the amount they will accumulate and, consequently, the greater the benefits from the funded component.

The table below provides a comparative calculation showing how the final pension amount may vary depending on the number of years the contributor contributes. The average monthly salary was taken into account..

| <i>Participation in FPS</i> | <i>Amount of savings by retirement age, taking into account investment income (tenge)</i> | <i>Amount of monthly benefit from the UAPF in the first year of receiving a pension (tenge)</i> |
|-----------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>20 years</b>             | 17,687,113                                                                                | 95,805                                                                                          |
| <b>30 years</b>             | 34,087,138                                                                                | 184,638                                                                                         |
| <b>40 years</b>             | 57,422,226                                                                                | 311,037                                                                                         |

\* all amounts are given in 2026 prices.

## Regularity and completeness of pension contributions

Equally important is the regularity of pension contributions. With regular employee pension contributions (CPC) (12 times a year) and employer compulsory pension contributions (ECPC) throughout a person's working life, a contributor with an average income can expect total pension benefits that will provide an IRR of at least the ILO minimum standard (40%).

Calculations of **the total pension** (based on personal pension savings and the basic pension) show that the regularity of contributions directly impacts the size of the future pension: **the more frequently contributions are made, the higher the benefits and, consequently, the IRR.**

| <i>Frequency of pension contributions (number of months per year for which pension contributions are paid)</i> | <i>The amount of the first aggregate pension benefit, subject to payment of contributions from the average wage</i> | <i>Aggregate IRR, subject to payment of contributions from the average wage</i> |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 6                                                                                                              | 251,595                                                                                                             | 29%                                                                             |
| 8                                                                                                              | 318,509                                                                                                             | 32%                                                                             |
| 12                                                                                                             | 452,338                                                                                                             | 35%                                                                             |

*\* all amounts are given in 2026 prices.*

Thus, with monthly compulsory pension contributions based on average wages, the combined IRR from the funded and basic components will be at least 35%. Contributors who retire during this period will not receive the joint contribution. This component is expected to be replaced by benefits from employer's compulsory pension contributions (ECPC), **thereby achieving an IRR of at least 40%**, as required by global standards.

The accumulation period and regularity of contributions directly impact the amount of the basic pension component, which accrues upon reaching retirement age and depends on the length of service in the pension system. Beginning in 2023, over a five-year period, the minimum basic pension will be gradually increased annually to 70% of the subsistence minimum (for up to 10 years of service), the maximum to 118% of the subsistence minimum in 2026, and 120% of the subsistence minimum from 2027 (for a total service of  $\geq 34$  years). Service after 1998 is confirmed exclusively by regular mandatory pension contributions.

## What else influences the increase or decrease of a pension?

Investment income makes a significant contribution to the overall pension amount. As of January 1, 2026, the average accumulated investment income accounted for 41.4% of contributors' total pension savings. An analysis of international practice shows that with full participation in the funded pension system, the share of investment income in individual pension savings can reach 70–80% by the time of retirement.

The earlier a contributor joins the pension system and the more regularly and fully they contribute, the greater the impact they will receive from the accumulated investment income. They can also participate in the investment management of their assets. Today, UAPF contributors have the right to choose to transfer up to 50% of their compulsory and up to 100% of their voluntary pension savings to investment portfolio managers (IPMs).

Kazakhstanis can make a significant contribution to increasing their pension savings through voluntary pension contributions. You can pay the VPC not only for yourself but also for your immediate family, including minor children. Legal entities can pay the VPC for their employees, including this option in their benefits package. The law provides for VPC tax incentives, the right to transfer the entire amount to the individual entrepreneur's management, and the opportunity to receive benefits much earlier than retirement age—as early as age 50.

Early withdrawals of savings can significantly reduce the expected income in retirement. The minimum sufficiency threshold, which remains in the pension account after withdrawals, is the minimum amount of pension savings required to ensure a monthly pension benefit no less than the minimum pension. This assumes that compulsory contributions will be made regularly in the future. In other words, the minimum sufficiency threshold is the minimum required to ensure the contributor, upon reaching retirement age, receives benefits, taking into account the minimum basic benefit, no less than the minimum pension.

For the convenience of depositors, the UAPF offers the ability to forecast and plan their desired pension using the "pension calculator" and "personal pension plan" services, which allow them to calculate the level of future benefits and adjust their savings strategy. These services are available on the UAPF website and mobile app.

### *Conclusion*

Thus, retirement is long-term financial planning, and its effectiveness directly depends on the contributor's commitment and awareness. The sooner you begin actively increasing your pension assets, the higher your retirement income will be.

*UAPF was founded on August 22, 2013 on the basis of GNPf APF JSC. The founder and shareholder of the UAPF is the Government of the Republic of Kazakhstan represented by the State Institution Committee of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan. Trust management of UAPF pension assets is carried out by the National Bank of the Republic of Kazakhstan. In accordance with the pension legislation, the UAPF attracts compulsory pension contributions, employer's compulsory pension contributions, compulsory occupational pension contributions, voluntary pension contributions, as well as carries out enrollment and accounting of voluntary pension contributions formed at the expense of the unclaimed amount of guaranteed compensation for the guaranteed deposit, transferred by the organization carrying out mandatory guarantee of deposits, in accordance with the Law of the Republic of Kazakhstan "On mandatory guarantee of deposits placed in second-tier banks of the Republic of Kazakhstan", ensures the implementation of pension benefits. The Fund also carries out accounting of target assets and target requirements, accounting and crediting of target savings (TS) to target savings accounts, payments of TS to their recipients in bank accounts, accounting for returns of TS in the manner determined by the Government of the Republic of Kazakhstan within the framework of the National Fund for Children program (More details at [www.enpf.kz](http://www.enpf.kz))*

