

ANNOUNCEMENT

The new MAT methodology is aimed at ensuring the adequacy of future funded pensions.

In Kazakhstan, to ensure the adequacy of future pensions for citizens and bring the pension system in line with international standards, changes are planned to the Methodology for Calculating Minimum Adequacy Thresholds (MAT).

The purpose of revising the MAT calculation method (Methodology) is to increase the requirements for the minimum amount of pension savings necessary to ensure the adequacy of future funded pensions and to gradually increase the labor income replacement rate (IRR) of contributors through pension benefits at retirement age (taking into account minimum international standards).

Why was there a need for change?

According to the current Methodology, the MAT amounts are set annually based on calculations taking into account approved socio-economic indicators, **projected calculations of future pension contributions** depending on the minimum wage and investment returns.

However, the current Methodology has a number of shortcomings:

- high dependence on long-term macroeconomic forecasts, resulting in **annual volatility in MAT amounts**;
- **no guarantee that the contributor will actually pay** future pension contributions;
- **deminished amounts of future pension benefits.**

According to the current Methodology for determining MAT, it is assumed that if a portion of pension savings is withdrawn, the contributor will continue to regularly make compulsory pension contributions (CPCs) until retirement. In this case, the future funded pension will be approximately **50,000** tenge, which corresponds to the current subsistence minimum (SM). However, in practice, contributions may be received irregularly or not at all. In this case, the current MAT amounts will not provide the expected minimum payments, and the amount of future pension benefits will be lower than the SM. Moreover, even with regular contributions and ensuring the accumulation volume at the level of the current MAT amounts, the funded pension at the level of about 50 thousand tenge will amount to **less than 15%** of the current median salary¹.

What does the new Methodology propose?

The proposed new Methodology for Determining the MAT aims to provide citizens with a higher and more predictable level of pension benefits. According to the new approach, after withdrawing savings above the MAT, the future funded pension will be equal to at least 40% of the median salary (according to the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, in the fourth quarter of 2025, it was 339,912 tenge).

Moreover, in the proposed Methodology, **threshold values will no longer depend on future contributions or annual projected changes in many macroeconomic indicators.** MAT values will be determined based on long-term factors, including demographic tables of Kazakhstan's population, regularly updated by the United Nations (UN), taking into account national statistics. Accordingly, future pension amounts will be **predictable for citizens and will gradually approach the target indicators of OECD countries.**

¹ The median salary is an indicator that divides all salaries into two equal parts: 50% of employees receive less than this amount, and 50% receive more.

The MAT amount, as currently, will depend on the contributor's age: the closer a person is to retirement age, the higher the MAT level must be to secure a future pension.

The classic **formula for calculating the present value of a future pension benefit will be used** to determine the MAT. In other words, the new formula determines the minimum savings amount, i.e., the MAT amount that must already be in the contributor's individual pension savings account (IPSA) to ensure the target pension. Furthermore, the impact of inflation and investment returns is taken into account when calculating future payments, meaning **future benefits will grow in real terms, taking inflation into account**.

Thus, the new Methodology for Determining MAT increases the requirements for the minimum amount of pension savings required to provide a future funded pension, ensuring an adequate replacement rate for a contributor's labor income through pension benefits. Furthermore, this Methodology will bring the MAT calculation system closer to international pension standards and reduce the risk of insufficient pension savings at retirement.

International Standards and Global Experience

As a reminder, according to Convention 102 of the International Labour Organization (ILO), the minimum acceptable level of pension provision is IRR of at **least 40%**. In European Union (EU) countries, the average minimum pension is **approximately 60%** of the minimum wage. In Organisation for Economic Co-operation and Development (OECD) countries, the average minimum wage is approximately **50%** of the median wage.

International experience shows that the option of early withdrawal of pension savings has been used in a number of countries as an anti-crisis measure in strictly limited amounts in exceptional situations related to economic upheaval and the need to support the population, including during the COVID-19 pandemic.

It should be emphasized, however, that pension savings are primarily intended to provide income for citizens in old age. Therefore, regular withdrawal of pension funds before retirement can lead to a critical decline in the amount of savings and, consequently, to a reduction in the amount of future pension benefits. In the long term, this increases the risk of insufficient retirement income in old age.

Therefore, the option of using a portion of pension savings for alternative purposes remains, but approaches to determining the amount of funds available for withdrawal are being refined, taking into account the need to ensure citizens have an adequate and stable level of pension benefits in the future.

The calculation of the MAT under the new Methodology in Kazakhstan will be adapted to real conditions and aims to bring it closer to the **pension provision practices of advanced countries**. The updated methodology will allow for the determination of the minimum level of pension savings required to be retained in the Individual Pension Savings Account (IPSA), so that, if a portion of the savings is withdrawn, the future funded pension will not be lower than the target indicators and will provide a stable pension income for citizens at retirement age.

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)