

Current questions about the UAPF

1. What is the purpose of revising and adopting new minimum adequacy thresholds?

The purpose of the revised MAT calculation 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 income replacement ratio of contributors through pension benefits at retirement age, taking into account minimum international standards. As a reminder, according to the minimum requirements of the International Labor Organization (ILO), the income replacement ratio (IRR) must be at least 40%.

It is expected that the MAT calculation under the new methodology will be more closely aligned with real conditions and target parameters of pension provision and will reduce the risk of an individual having insufficient savings by the time of retirement.

2. How will the minimum adequacy thresholds be determined? What factors will be taken into account?

According to the amendments, MAT amounts will be determined based on target indicators for future pension payments and calculated for each contributor's age using a standard formula for calculating the present value of monthly payments.

This formula takes into account long-term demographic (national demographic tables) and financial (interest rates and indexation of payments) factors to ensure stability and predictability of future benefit amounts for citizens.

The application of the present value formula for benefits is based on international practice for calculating the savings required for target payments, and the calculation results are expected to be less susceptible to change during ongoing revisions of the macroeconomic forecast.

Minimum pension benefit requirements are based on socioeconomic indicators: the minimum old-age pension and the minimum wage, determined annually by the law on the national budget.

It should be noted that when considering the possibility of withdrawing funds (for housing and medical treatment), an assessment will be made of whether the pension account has sufficient funds to cover future pension benefits.

3. How will the adopted changes affect future pension benefits?

According to the current Methodology for Determining the MAT, if pension savings are withdrawn above the threshold, the contributor will expect to receive payments of approximately 50,000 tenge upon retirement, which corresponds only to the current subsistence minimum (SM). The current Methodology assumes that after withdrawing their savings to the threshold, the contributor will continue to regularly pay compulsory pension contributions (CPC) until reaching retirement age. However, in reality, if new contributions are paid irregularly or are not made at all, the current MAT levels will not provide the expected minimum payments. Therefore, the contributor's future benefit will be lower than the SM. Furthermore, even if contributions are paid regularly and minimum savings are maintained at the current MAT level, upon reaching retirement age, the funded pension of 50,000 tenge will provide less than 15% of the current median salary.

For reference: Median wage is one of the criteria used to analyze a country's income, allowing for salary calculations for the entire country as well as for individual regions and localities. Median wage is an indicator that divides all salaries into two equal parts: half of the workers earn more than the median, and the other half earn less. It provides a more accurate picture of income. However, it should be kept in mind that it can change due to various factors, such as economic growth, inflation, labor market conditions, and political decisions.

According to **the adopted Methodology** for determining the MAT, if pension savings are withdrawn above the threshold, the contributor will receive benefits upon retirement with a minimum amount approaching 40% of the median salary. Moreover, under the adopted Methodology, the thresholds will no longer depend on future contributions or on 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 (Organization for Economic Co-operation and Development) countries.

According to the changes, the thresholds will depend on the contributor's age. The older the contributor and the closer they are to retirement age, the higher the requirements for the future pension payment, so that upon reaching retirement age, citizens can receive an income close to international standards.

Thus, the new model makes the MAT calculation closer to real conditions and target parameters of pension provision and reduces the risk that a citizen will have insufficient savings by the time of retirement.

5. How will the changes affect the ability to use pension savings for housing and medical treatment? Will access to withdrawals become more limited?

Given the increase in MAT amounts, the amount of savings available for withdrawal may decrease, as the minimum amount required to remain in a pension account increases.

At the same time:

- Current mechanisms for using pension savings for housing improvements and medical treatment remain in place;
- Only savings exceeding the MAT are available for withdrawal;
- MAT restrictions are intended to ensure sufficient levels of pension savings and benefits in the future.