

ANNOUNCEMENT

Kazakhstan is ahead of its CIS neighbors in the ranking of countries with the best pension systems

The world leader among insurance companies and asset managers Allianz has released a new edition of its Global Pensions Report (API), according to which Kazakhstan's pension system has been assigned an API rating of 3.5 points as a result of an analysis of 75 pension systems around the world. Kazakhstan is ahead of its neighbors in the CIS, as well as Spain, Chile, Singapore, the United Arab Emirates and other countries. These results imply that Kazakhstan's pension system is slightly above average in terms of pension sustainability and adequacy compared to other countries analyzed by Allianz.

The report is based on current data as of March 2023. The Allianz Pension Index (API) is designed to comprehensively assess the sustainability and adequacy of pension systems. It consists of three sub-indices and takes into account 40 parameters, evaluated on a scale from 1 to 7, where 1 means the best result.

According to the report, the average score for all pension systems studied was 3.6. This is marginally better than previous years given the limited capacity in most countries following the COVID-19 pandemic, followed by unprecedented global hyperinflation, fueled by the energy crisis and rising food prices due to global political events. Despite the need for pension reforms, few countries have made significant improvements. Denmark, Sweden and the Netherlands are at the top of the index with a total score of up to 3, as their pension systems legally provide for automatic adjustment of the official retirement age based on changes in life expectancy, and have strong professional and private funded pension components.

The country with the best pension system according to Allianz was Denmark with a score of 2.2, followed by the Netherlands and Sweden with 2.6 points each, then New Zealand with 2.8 points, the USA, Taiwan and Israel with 2.9 points each, Belgium and Australia - 3.0 points each. South Korea closes the top ten with a score of 3.1 points. The lowest positions in the ranking are occupied by the pension systems of Morocco, Lebanon and the United Arab Emirates. These countries are characterized by problems of low retirement age, low coverage of the population by the pension system and rapid population aging. One factor contributing to low enrollment is the prevalence of informal employment in many developing countries, highlighting the need for reform of labor markets along with reforms of the pension system.

The Allianz report focuses on the issue of population aging, as these demographic processes are one of the main challenges to pension systems in the world. According to forecasts, by 2050, about 1.6 billion people worldwide will reach 65 years of age or more, of which about 1 billion will be in Asia (mostly in India and China). Life expectancy will increase from a global average of 73.4 years in 2023 to 77.2 years by 2050.

Therefore, it is critical to prepare pension systems for demographic change in order to ensure long-term financial sustainability and avoid overburdening future generations. Allianz emphasizes the need to strike a balance between sustainability and adequacy, which may require cuts in government benefits in industrialized countries and additional pension provision (professional and private pension plans) to achieve a decent standard of living for older people.

Over the past year, several countries have taken steps to improve the long-term sustainability and adequacy of their pension systems, including raising the retirement age in some countries (France), introducing compulsory pension contributions for all private sector workers (Cambodia), and introducing incentives for additional private provision funded by capital account (pension savings). However, according to statistics, retirement age in many countries does not reflect changes in life expectancy: only eight out of 75 countries have established by law automatic linkage of retirement age to changes in life expectancy. 33 countries are planning to raise the retirement age by 2050.

As Allianz notes, the adequacy of pension systems is determined not only by financial stability, but also by the level of benefits, as well as the income replacement rate. The replacement rate for pensions of the first pillar of the pension system should be between 40% and 60% of the average wage in accordance with the standards of the International Labor Organization. The latest OECD statistics show that Brazil has one of the most generous pension systems with an 89% replacement rate, while Kenya, Lebanon and South Africa have only 15% replacement rates. In Germany, the US and Japan, pension replacement rates range from 30% to just over 40%. The income replacement rate in Kazakhstan, taking into account the solidarity pension, in 2022 was about 46%.

In their report, Allianz experts note that building a sustainable and adequate pension system is an achievable task if a strong funded component is introduced.

Allianz recommends that reforming the pension system start with a transformation of the labor market: without increasing the share of formal employment in emerging economies and without involving older workers in the labor force in developed countries, even the most well-designed pension reforms will not bring results.

The UAPF was established on August 22, 2013 on the basis of GNPf APF JSC. The UAPF founder and shareholder 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. UAPF pension assets are managed by the National Bank of the Republic of Kazakhstan. From January 1, 2016, the functions for developing proposals to improve the management of pension assets were transferred to the National Fund Management Council. In accordance with the pension legislation, the UAPF attracts compulsory pension contributions, compulsory occupational pension contributions, voluntary pension contributions, pension benefits, individual accounting of pension accumulations and benefits, provides the contributor (beneficiary) with information on the status of his pension accumulations (for more information visit www.enpf.kz)