

The adequacy of pension savings and the benefits of voluntary pension contributions

"Current questions about the UAPF"

1) *Please explain the concept of “adequacy of pension”*

In the context of a changing demographic structure, an aging population, and a transforming labor market, ensuring a dignified retirement is becoming a key objective of the state's social policy. Therefore, the issue of **pension adequacy** is becoming increasingly important in Kazakhstan, especially given the declining share of the pay-as-you-go component of pensions and the growing role of the funded pension system.

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. The International Labor Organization (ILO) recommends that the income replacement rate be at least 40%. The replacement rate is the ratio of pension benefits to pre-retirement earnings, i.e., the extent to which pension income replaces earned income. In Kazakhstan, this figure is currently around 41%.

2) *How can a person independently increase the adequacy of their retirement income?*

The adequacy of your pension income can be increased by:

- regular transfer of compulsory and **additional voluntary contributions**;
- transfer of pension funds to the management of a private investment portfolio manager (IPM) for more active and potentially profitable investing.

Furthermore, regular compulsory pension contributions not only positively impact the total amount of pension savings and subsequent pension benefits, but also influence the amount of the basic pension paid from the state budget, which depends on total work experience. Since 1998, work experience has been confirmed exclusively by these compulsory pension contributions. Currently, the minimum basic pension is 70% of the subsistence minimum (for a total work experience of 0 to 10 years), and the maximum is 110% of the subsistence minimum (for 30 years or more of work experience). By 2027, the maximum basic pension will be increased to 120% of the subsistence minimum.

All these measures not only ensure financial stability but also maintain a familiar level of consumption, leisure, and quality of life in retirement.

3) *Please tell me how I can make voluntary pension contributions? Can my employer do this?*

Voluntary pension contributions (VPC) can be made by both individuals and legal entities. Individuals make contributions for themselves and/or their dependents from their income, while legal entities make contributions for their employees and/or third parties.

VPCs can be transferred through second-tier banks or by submitting an application to the employer, which will transfer the contributions to the UAPF for the declared individual.

To sign an agreement and open an Individual Pension Savings Account (IPSA) for VPC, there is no need to visit a UAPF office. An IPSA for VPC is opened automatically upon receipt of the first contribution. Opening an IPSA for VPC is done without an application based on:

- lists of individuals submitted by agents to UAPF when transferring VPC;
- an initial contribution received by UAPF from an individual for their own benefit or for the benefit of a third party when transferring VPC.

4) *Please tell me how and when I can start receiving benefits through voluntary pension contributions?*

Pension benefits through VPC can be received before reaching retirement age, starting at age 50. They are also provided to individuals with disabilities, as well as foreigners and stateless persons who have permanently relocated outside the Republic of Kazakhstan, unless otherwise provided by the laws of the Republic of Kazakhstan and international treaties ratified by the Republic of Kazakhstan.

An application for benefits through voluntary pension contributions (VPC) can be submitted to the UAPF online in your personal account on the enpf.kz website or in the UAPF mobile app, as well as at any Fund branch.

You can easily monitor your pension savings from all types of contributions 24/7 in your personal account on the enpf.kz website.

UAPF JSC reminds you that a timely decision to make voluntary pension contributions (VPC) will help you significantly increase your pension capital and receive higher benefits in the future.

5) Are voluntary pension contributions inherited?

In the event of the death of an individual with pension savings, including those from voluntary pension contributions, they are inherited in accordance with the procedures established by Kazakhstani law. Specifically, pension savings are inherited by will or by law. In the absence of a will, or in the absence of a will, or in other cases, inheritance by law takes effect.

6) What are the benefits of voluntary pension contributions?

It's worth noting that citizens pay voluntary pension contributions (VPC) voluntarily, determining their amount and frequency. The beneficiary also determines the procedure for receiving pension benefits from VPC in accordance with the UAPF pension rules. This is one of the advantages of this type of contribution.

Employers who pay VPC for their employees receive tax advantages. VPC payments made by the employer to the employee are not considered personal income; for the employer, such expenses are deductible when calculating corporate income tax. This means the employer receives tax benefits.

7) Are voluntary pension contributions invested? Can they be transferred to investment portfolio managers?

Voluntary pension contributions, like all compulsory contributions, are invested and generate income for contributors. By default, pension assets are managed by the National Bank of the Republic of Kazakhstan. However, contributors have the right to transfer their pension savings to investment portfolio managers (IPMs), which offer various investment strategies with varying levels of return and risk. While compulsory and compulsory occupational pension savings can be transferred to IPMs up to 50%, voluntary pension savings can be transferred to IPMs for management in full.

The transfer of IPM savings occurs upon the contributor's application, which can be submitted electronically in their personal account on the fund's website or at any UAPF branch. Based on investment results, the management company can be changed, but not more than once a year. Thus, participation in pension asset management is another advantage of VPCs.