

ANNOUNCEMENT

The pension system of Kazakhstan is included for the first time in the Global Pension Rating of the Mercer CFA Institute

By what parameters did Kazakhstan outperform other countries?

In 2023, Kazakhstan's pension system was included for the first time in the international rating - the Global Pension Index of the Mercer CFA Institute (hereinafter - the Index), which is a joint research project of the CFA Institute and the international professional consulting company Mercer Consulting (Australia). According to the analysis and comprehensive assessment, Kazakhstan's pension system ranked 20th in this rating.

In total, 47 countries from around the world, representing 64% of the world's population, participated in the annual global pension rating, which is a comprehensive study of pension systems.

The Mercer Global Pension Index analyzes dozens of indicators of pension systems in advanced countries, grouped into three sub-indices: "adequacy," "sustainability," and "integrity," encompassing 50 different criteria. The MCGPI rating has been published since 2009, and in 2023, Kazakhstan, included in the rating, scored 64.9 points and received a "C+" grade, surpassing countries with the same grade such as Hong Kong, the United States, the UAE, Colombia, France, Spain, and Croatia in terms of points. According to the report, the pension systems of these countries have both strengths/qualities and some shortcomings that are recommended to be addressed for achieving long-term sustainability and efficiency.

Considering that each pension system was analyzed individually, the Mercer CFA Institute provided recommendations for further improvement of the Kazakhstani pension system:

- Increase the minimum level of support for the poorest elderly individuals/pensioners.
- Incentivize households to increase their level of pension savings.
- Reduce the outflow of savings in the pre-retirement period by restricting access to pension savings.
- Increase the participation rate of older individuals in the workforce as life expectancy rises.
- Introduce requirements for reflecting projected pension payouts in the annual statements of pension system participants.

The results show that the final assessment of Kazakhstan's pension system in the MCGPI Index was 64.9 points, obtained by summing the sub-index scores weighted by their respective shares:

- **46.9 points for the "adequacy" sub-index**, which considers the basic (or secure) income level provided by the pension system, as well as the net replacement rate at income levels ranging from 50% to 150% of the average wage. Six aspects related to pension accrual and payment are taken into account. "Adequacy" constitutes 40% of the total score: Kazakhstan outperformed countries like Malaysia, South Africa, and Turkey in this aspect. It is noteworthy that Kazakhstan has strong positions in criteria such as the availability of tax incentives for voluntary pension contributions, investment income, the preservation of contributors' rights to pension savings in case of termination, the preservation of their current value considering inflation, and investment of pension assets, etc. However, there is a relatively vulnerable position that needs strengthening, particularly in criteria such as the minimum basic pension amount, indexation, and the regularity of indexation of the basic pension, the level of population savings (including pension savings), population debt, the possibility of investing pension savings in growing assets, etc.

- **74.8 points for the "sustainability" sub-index**, which considers the long-term sustainability of the existing pension system (35% weight: Kazakhstan's index is higher than Singapore, Germany, the USA, and many other countries). Kazakhstan has strong positions in criteria related to the coverage of the population by the pension system and demographic indicators (life expectancy). The ability of older

workers to receive their pension savings while continuing their employment is positively evaluated. Areas with potential for improvement include increasing the level of citizens' savings, including the formation of larger pension savings, increasing the employment rate of the population among individuals over 55 years old, raising pension contribution rates, and more.

- **80.0 points for the "integrity" sub-index**, which considers the infrastructure integrity of the pension system with a focus on accumulation plans commonly used in the private sector (25% weight: countries ranked behind, for example, Sweden, Switzerland, China, and others). Kazakhstan has strong positions in the level of regulation, supervision, and management of pension funds, participant protection from various risks, and communication levels.

Thus, the sub-indices of sustainability (7th place in the overall ranking) and integrity (14th place) are rated quite high. The weakest position of the Kazakhstani pension system is noted in the adequacy sub-index (38th place out of 47).

It's worth noting that to conduct a comprehensive and objective assessment of pension systems based on these indicators, information from various international sources was used, including data from the OECD, World Bank, International Labour Organization, research and analytical units of the Economist Group, and others.

In the published annual Global Pension Index, it is emphasized that the majority of pension systems worldwide in 2023 are experiencing stress due to an aging population, increasing government debt, and high levels of inflation. These issues have impacted nearly all pension systems, requiring elderly individuals to take care of their well-being even after retirement. "We can no longer rely solely on social security or government pensions," said one of the report's authors, David Knox, a Senior Partner at Mercer (Melbourne, Australia).

It's also worth noting that the 2023 rating includes features that were absent in previous ratings, particularly regarding the impact of artificial intelligence on global pension systems. According to researchers, artificial intelligence has unlimited potential to transform and enhance pension systems, especially in the area of accumulation.

"The growing use of artificial intelligence contributes to more efficient and informed decision-making, potentially leading to an increase in the real return on investments," noted David Knox. He also served as an honorary guest at the high-level international roundtable "Mandatory Funded and Mixed Pension Schemes Development Prospects" (September 28, 2023), dedicated to the 25th anniversary of Kazakhstan's accumulative pension system. Knox delivered a presentation on the "Features of the best retirement income systems in the world and likely future developments."

Brian Lee-Archer, an independent expert from Canberra, Australia, extensively explored the topic of artificial intelligence in his report titled "Artificial Intelligence – Friend or Foe for Pension and Social Security Administration" during the mentioned roundtable. Building on his colleague's thoughts, he stated, "More advanced technologies, such as artificial intelligence, enable a much deeper analysis of multidimensional complex data covering all aspects of human life. This technology can and should be leveraged. Artificial intelligence provides the opportunity to shift our thinking into turbo mode, enhance the capabilities of experts and policymakers in the field of social policy, thoroughly explore existing issues, and then develop a whole range of initiatives to address them."

Watch the reportage 'Kazakhstan's Pension System Included in the Global Pension Rating by the Mercer CFA Institute' at the following link:

<https://youtu.be/eHrIe4LcONc>

Subscribe to the YouTube channel of UAPF for interesting and useful information about the accumulative pension system.

The Unified Accumulative Pension Fund (UAPF) was established on August 22, 2013, based on the Joint-Stock Company "NPF GNPF." The founder and shareholder of ENPF is the Government of the Republic of Kazakhstan, represented by the State Property and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan. The trust management of pension assets of UAPF is carried out by the National Bank of the Republic of Kazakhstan. Since January 1, 2016, the functions of

developing proposals to improve the efficiency of pension asset management have been transferred to the Council for the Management of the National Fund. In accordance with pension legislation, UAPF attracts mandatory pension contributions, mandatory professional pension contributions, voluntary pension contributions, manages pension payments, individual accounting of pension savings and payments, and provides depositors (recipients) with information about the state of their pension savings (for more information, visit www.enpf.kz).