

Reforming Extra-Budgetary Funds in the Russian Federation

Reforma de los fondos extrapresupuestarios en la Federación de Rusia

Tatiana VEINBENDER [1](#)

Recibido: 05/07/2017 • Aprobado: 28/06/2017

Content

[1. Introduction](#)

[2. Methodology](#)

[3. Results](#)

[4. Conclusions](#)

[Bibliographic references](#)

ABSTRACT:

Providing socially unprotected layers of population with a decent standard of living is an important objective for the government of each state. In this regard, there were created the extra-budgetary funds providing the necessary social protection and solving social difficulties.. We have used complementary research methods relevant to the problem: abstract-logical, analytical, economic-statistical. We have also considered the legislative acts of the Russian Federation concerning extra-budgetary policy of the state. As a result, we have considered the major extra-budgetary funds and their complete characteristics. A new system of social insurance was considered, which is now being tested in a number of Russian regions.

key words Extra-budgetary fund, social protection, reforming social transfers, legislative changes

RESUMEN:

Proporcionar capas de población socialmente desprotegidas con un nivel de vida decente es un objetivo importante para el gobierno de cada Estado. A este respecto, se crearon los fondos extrapresupuestarios que proporcionaban la necesaria protección social y resolvieron las dificultades sociales. Hemos utilizado métodos de investigación complementarios relevantes para el problema: abstracto-lógico, analítico, económico-estadístico. También hemos examinado los actos legislativos de la Federación de Rusia sobre la política extrapresupuestaria del estado. Como resultado, hemos considerado los principales fondos extrapresupuestarios y sus características completas. Se consideró un nuevo sistema de seguro social, que ahora se está probando en varias regiones rusas.

Palabras clave fondo extrapresupuestario, protección social, reforma de las transferencias sociales, cambios legislativos

1. Introduction

The general purpose extra-budgetary funds, the aggregate of financial resources at the disposal of federal, regional or local government bodies, are an important link in the financial system

(Brean, 2013; Baker, 2015; Ding et al., 2014).

Russian extra-budgetary funds are based on the following basic principles (Extra-budgetary funds, no date):

- state standards for social protection of insured people, namely – social insurance funds are accountable and under the control of public authorities;
- state regulations on the amount of insurance contributions and payments, namely – funds should carry out an actuarial justification of the amount of insurance contributions and payments when preparing draft budgets;
- transferred legal responsibility for social protection of workers (in terms of paying insurance premiums) from employers to funds that are subjects of claims to insured employees.

The activity of the Pension Fund (PFR) and the Social Insurance Fund is coordinated by the Ministry of Labor and Social Protection of the Russian Federation; activity the Federal Compulsory Medical Insurance Fund is coordinated by the Ministry of Healthcare of the Russian Federation The structure of the federal bodies of executive power, 2015).

Extra-budgetary funds fulfill an important financial security function (Reishmann, 2016):

- social protection of population under production decline, rising unemployment, inflation, budget deficit, growth of domestic and external public debt (Shebzukhova & Bondarenko, 2014);
- targeted use of funds (Brean , 2013);
- resolving social problems through extra-budgetary funds available to the executive authorities (Barrientos & Hulme, 2016);
- new methods for redistributing funds in the context of transition to a market economy (Shebzukhova & Bondarenko, 2014);
- local financing (Chirkov, 2014).

Therefore, their failure brings the risk of additional budgetary expenses to cover all costs of financial support for socially unprotected people.

In terms of Russia, as in terms of other post-Soviet states, transition to a market economy has entailed a need to create extra-budgetary funds. However, they have a number of shortcomings, in particular (Kachanova, 2011; Extra-budgetary funds, no date):

- dissemination of public funds,
- weak state financial control over the expenditures,
- multiple payment complications.

Thus, they have to be reformed. In this regard, purpose of this article is to consider the process of reforming the extra-budgetary funds of the Russian Federation.

2. Methodology

Theoretical and methodological basis of the research involves the provisions of sustainable economy development under a variety of business forms and integration processes of enterprise development. It also involves works of domestic and foreign specialists.

To achieve this goal, complementary research methods were used: abstract-logical, analytical, economic-statistical and Russian legislation analysis.

3. Results

In order to create an efficient and fair social security system, there was adopted the Federal Law (July 24, 2009) No. 212-FZ On Insurance contributions to the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund; the Federal Law (July 24, 2009) No. 213-FZ On the Amendments to Individual Legislative Acts of the Russian Federation and Invalidation of Individual Provisions of Legislative Acts of the Russian Federation was adopted after the Federal Law "On Insurance contributions to the Pension Fund of the Russian Federation, the Social Insurance Fund of the

Russian Federation, the Federal Compulsory Medical Insurance Fund” and because of it.

These laws No. 212-FZ and 213-FZ are making fundamental changes in the structure of social payments, as well as in their calculation and administration mechanisms:

- The Unified Social Tax was canceled in January 1, 2010 (abolished Paragraph 24 "Unified Social Tax" of the Tax Code).
- The following system of social insurance contributions was introduced:
- insurance contributions to the Pension Fund of the Russian Federation (PFR) for mandatory pension insurance;
- insurance contributions to the Social Insurance Fund (SIF) for mandatory social insurance in case of temporary incapacity to work and maternity;
- insurance contributions to the Federal Compulsory Medical Insurance Fund (FCMIF);
- Control over the accuracy of insurance premium accrual and payment to state extra-budgetary funds is transferred to the:
- PFR in terms of premiums for mandatory pension insurance and mandatory medical insurance;
- SIF in terms of premiums for mandatory social insurance in case of temporary disability and maternity, and for compulsory social insurance in case of industrial accidents and occupational diseases.
- The regressive tax rate was replaced by a proportional one, introduced up to a certain level of payments (limit value of insurance contribution), and by a zero rate for payments exceeding these standards.
- The pension structure and its financing procedure are being changed: insurance part, divided into individual, joint and accumulative parts of pension.
- There are consolidated tariffs established to calculate the insurance contributions (Table 1).

Table 1. Insurance tariffs in 2010-2014

Insurance contributions	Insurance tariffs, %				
	2010	2011	2012	2013	2014
1	2	3	4	5	6
Limit value of contribution base, RUB	415000	463000	512000	568000	624000
Contributions to the SIF	2.9	2.9	2.9	2.9	2.9
Contributions to the FCMIF	1.1	3.1	5.1	5.1	5.1
Contributions to the TCMIF	2.0	2.0	-	-	-
PFR: accumulated part for persons born in 1967 and later	6.0	6.0	6.0	6.0	-
PFR: insurance part for persons born in 1967 and later	14.0	20.0	16.0	16.0	22.0
PFR: insurance part for persons born in 1966 and earlier	20.00	26.00	22.00	22.00	22.00
Aggregate tariff	26.0	34.0	30.0	30.0	30.0

Thus, social insurance funds are isolated special purpose funds formed on the basis of

compulsory insurance contributions of citizens and business entities with financial state support. They are intended to provide financial assistance to insured persons in accordance with the legislation. The each extra-budgetary fund is focused on resolving a certain range of problems.

The PFR is one of the largest state institutions in the federal system of rendering public services in the field of social insurance and pension maintenance. The Pension Fund of the Russian Federation was formed on December 22, 1990, by the Resolution of the RSFSR Supreme Soviet No. 442-1 "On the organization of the Pension Fund of the RSFSR".

Its creation solved two major problems. Firstly, pension funds were pulled from the state budget to form a sphere of independent budgetary process. Therefore, Pension Fund acquired a status of an independent state social insurance fund. Fund's special purpose was defined so that non-related withdrawals could not be possible. Secondly, insurance contributions made by employers and employees became the major source of financing.

The PFR has its divisions in all republican and regional centers, cities and in the majority of Russian federal subjects. Currently, there are 84 branches and 2.500 offices. The PFR and its subordinate bodies form a single centralized multi-level system:

- federal level – Pension Fund of the Russian Federation (board, executive office);
- federal district level – offices in federal districts;
- federal subject level – local branches in relative regions;
- local/city/district level – branch offices (divisions) in cities (districts) (Federal law, 2001).

Currently, PFR has a number of significant functions:

- administering the insurance contributions for mandatory pension and mandatory medical insurance;
- pension accrual and payment, including occupational pensions (old age pension, disablement pension, survivor's pension), state-provided pensions, pensions for servicemen and their families, social pensions and pensions for civil servants. The PFR provides 41.1 million of Russian pensioners with pensions;
- pension accrual and payment, including social transfers to certain categories of citizens: veterans, disabled people, people disabled as a result of war injuries, Heroes of the Soviet Union, Heroes of the Russian Federation, etc.
- personalized accounting of participants in the mandatory pension insurance system. The system takes into account the insurance pension payments of 63 million Russians;
- providing maternity (family) capital certificates and paying the maternity capital;
- pension fund management, including the control over the accumulated part of occupational pension, carried out by means of a state management company (Vnesheconombank) and private management companies;
- implementing the state pension co-financing programme.
- interstate and international cooperation on matters falling within the competence of the SIF; participation in developing and implementing the interstate and international treaties and agreements on pensions and benefits;
- outreach activity among the population and legal entities on issues related to the SIF, etc.

Therefore, qualitative and effective performance has always been, is and will be the Fund's priority. Successful performance has an impact on the social stability and the level of people's trust in state authority (Kachanova, 2011).

The Fund's budget and the report on its implementation are approved by the State Duma every year (Report on the Pension Fund, no date). Figure 1 represents the PFR budget implementation for 2010-2014.

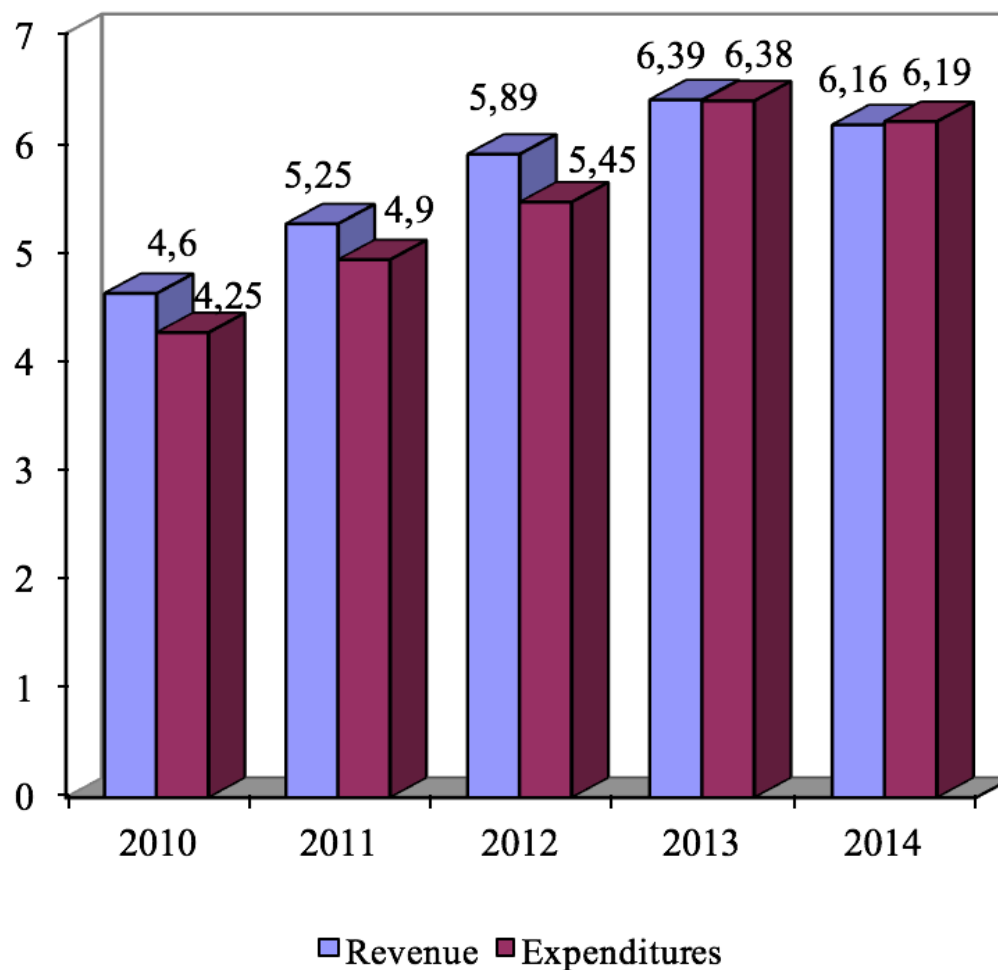


Figure 1. Implementation dynamics of PFR budget (RUB trillion)

The study of PFR budget implementation dynamics shows that the revenue and expenditures were almost equal in 2013-2014. This situation was caused by external economic and demographic factors that had an impact on the pension fund: shadow employment, hidden wages, increased demographic burden in terms of changed ratio of insured persons, paying the insurance contributions, and recipients of pensions, as well as high mortality rate among the working-age population.

The issues of pension fund improvement are under great attention. Thus, retirement pension (as part of non-contributory and accumulated parts of state pension) has been replaced by an old-age insurance pension and a funded pension since January 1, 2015. The size of non-contributory pension depends on the appeal data (delayed retirement after reaching the retirement age), the pension insurance record, the amount of accrued and paid insurance premiums; the size of the funded pension – on the amount of contributions made to the accumulated part of the state pension and the expected payoff period.

The long-term pension fund development (by 2020) has the following major areas:

- tariff and budgetary policy improvement (establishing a single insurance rate for all categories of employers);
- transforming a system of early retirement pensions (establishing additional insurance rates for employers providing jobs with unfavorable labor conditions, introducing a special assessment of labor conditions, gradual increase in required labor experience);
- encouraging the voluntary formation of pension savings by citizens and promoting the voluntary (corporate and private) pension fund development.

The state policy in the field of mandatory medical insurance is implemented by the Federal Compulsory Medical Insurance Fund (FCMIF) and by 86 local health insurance funds.

The FCMIF was established on the basis of the Resolution of the Supreme Council of the Russian Federation (February 24, 1993) No. 4543-1 "On the Procedure of Financing Mandatory Medical Insurance of Citizens for 1993". This Regulation also approved the Regulations on the Federal and Territorial Compulsory Medical Insurance Funds, on the procedure of insurance premium

payment.

Compulsory medical insurance (CMI) system is the first level of insurance, represented by the FCMIF. This Fund implements the general regulatory and organizational management of the CMI system.

The main tasks of the FCMIF include:

- financial support for citizens' rights to medical care;
- ensuring the financial stability of the CMI system and creating conditions for equalizing the volume and quality of medical care provided within the framework of the basic CMI program;
- accumulating financial resources to ensure the financial stability of the CMI system;
- developing the size of insurance premiums, controlling the promptitude and amount of payment;
- appropriating to the territorial compulsory medical insurance funds (TCMIF) for territorial programs of compulsory medical insurance;
- targeted use of financial resources;
- drafting federal laws on the FCMIF budget for the relevant year (approval, implementation), etc.

The Fund budget and the report on its implementation are approved by the State Duma every year. The buffer stock is being formed as part of the budget. The amount and purpose of using its funds are established by the federal law on the FCMIF budget for the next financial year and for the planning period.

The receipt and expenditure levels of the FCMIF for 2010-2014 (Report on the Pension Fund, no date) are presented in Table 2.

Table 2. Receipt and Expenditure levels of the FCMIF for 2010-2014, RUB, B.

	2010	2011	2012	2013	2014
1	2	3	4	5	6
Revenue, total	101.84	348.44	966.54	1101.35	1250.55
Contributions	91.03	326.63	914.10	1073.12	1218.44
Intergovernmental transfers from the federal budget	4.73	21.14	51.81	25.78	28.55
Other sources of revenue	6.08	0.67	0.63	2.45	3.56
Expenditures, total	109.12	310.43	932.16	1048.72	1268.66
Subsidies to TCMIF budget	86.17	95.95	640.56	1025.41	1173.92
Transfers to SIF budget	17.50	18.00	17.64	17.79	17.98
Other expenditure	5.45	196.48	273.96	5.52	76.76
Deficit(-)/Proficit(+)	-7.28	+38.01	+34.38	+52.63	-18.11

Based on the data, we can conclude that a great part of income (94.76% an average) involves medical contributions. The increase in the amount of contributions by RUB 235.6 billion in 2011

in comparison with 2010 was based on the increased contribution tariffs for the FCMIF in 2.82 times – from 1.1% to 3.1%. In 2012, increase in the amount of contributions was based on the abolishment of contributions to territorial compulsory medical insurance funds. The contribution tariff for the Federal Fund has increased from 3.1% to 5.1%. This led to an increase in the amount of contributions by RUB 587.47 billion (in 2.8 times) in comparison with 2011. The great part of Federal Fund budget expenditures is for providing subsidies for the TCMIF, for fulfilling the expenditure obligations of the Russian Federation, arising while adopting regulatory-legal acts in the field of medical care, and for acting as a management body.

The second level of compulsory medical insurance is represented by the TCMIF, created by the executive authorities of the subject of Russian Federation. TCMIF carry out their activities in accordance with the legislation of the Russian Federation, the subject of the Russian Federation, and the Model Provision on the Territorial Compulsory Medical Insurance Fund, approved by the order of the Ministry of Healthcare and Social Development of Russia No. 15n on January 21, 2011.

Territorial funds occupy a central place in the system of compulsory medical insurance, as they accumulate and distribute financial resources (Official website of the Drug Control Service, no date). The main functions of TCMIF include:

- organizing the reception of citizens, consideration of their appeals;
- making agreements on financial support of CMI and insurance medical organizations;
- receiving information from insurance medical organizations about the insured person and about medical assistance rendered to him, about new insured persons, about changing data on previously insured persons;
- reporting on the use of medical insurance and other reporting;
- covering the medical assistance payment;
- insurance medical organization management;
- performing a contract on financial support of CMI system;
- participating in establishing the tariffs for payment of medical assistance etc.

The uncompensated receipts, transferred from the FCMIF, are a significant source of budget replenishment in the case of the TCMIF.

Budget expenditures of TCMIF are directed to implement the territorial compulsory medical insurance programs, to fulfill the expenditure obligations of the subjects of the Russian Federation arising in the field of medical care, to deal with insurance medical organizations, and to act as a management body. The buffer stock is being formed as part of the TCMIF budget. The amount and purpose of using its funds are established by the federal law on the Territorial Fund Budget in accordance with the procedure of drafting on funds, approved by the Federal Fund. The buffer stock funds can be used for additional financing of insurance medical organizations, for payments of medical assistance rendered to insured persons outside the territory of the subject of Russian Federation, in which the CMI policy is issued. The TCMIF budget and its report are approved by the law of the relevant subject of the Russian Federation.

The FCMIF and the TCMIFs interact with each other on the following items: information exchange; the Federal Fund issues an intradepartmental regulatory document register that are mandatory for execution by the Territorial Funds, aligns the financial conditions for their activity; the FCMIF controls the activity of Territorial Funds.

The Social Insurance Fund (SIF) was established on January 1, 1991 on the basis of the Resolution of the RSFSR Council of Ministers and the Federation of Independent Trade Unions of Russia from December 25, 1990, No. 600, "On Improving the Management and the Procedure of Financing Social Insurance Payment for Workers of the RSFSR".

The Social Insurance Fund of the Russian Federation includes the following executive bodies:

- regional branches that manage state social insurance funds on the territory of the subject of Russian Federation;
- central departments managing the state social insurance funds within the certain branches of the

economy;

- sub-offices of branches established by regional and central departments of the Fund in coordination with its chairman.

The main tasks of the SIF are:

- providing state-guaranteed benefits for temporary disability, pregnancy and childbirth, for women registered in early pregnancy, childbirth, childcare until the age of one and a half years, as well as social benefits for burial or reimbursement of the guaranteed list of ritual services, sanatorium-and-spa services for employees and their children;
- participating in developing and implementing the state medical care programs for employees and measures to improve social insurance;
- carrying out measures ensuring financial stability of the Fund;
- developing proposals on the amount of the contribution tariff for state social insurance;
- training and professional development of specialists for the state social insurance system, outreach activity among policyholders and the population on social insurance;
- cooperating with similar funds (services) of other states and international organizations on social insurance.

The Fund's budget and the report on its implementation are approved by the federal law; budgets of the regional and central departments of the Fund and reports on their implementation are approved by the chairman of the Fund after the Board considers them. Thus, recourse formation ends with a financial result

The SIF budget is shown in Table 3 (Report on the Pension Fund, no date).

Table 3. SIF fund, RUB, B

	2010	2011	2012	2013	2014
Revenue, total	463.78	558.59	630.78	603.50	569.82
Expenditures, total	491.20	497.57	531.22	566.23	546.18
Deficit(-)/Proficit(+)	-27.42	+61.02	+99.56	+32.27	+23.64

As before, a separate procedure has been established for the contributions for compulsory social insurance against occupational accidents and occupational diseases. They are paid independently due to the fact that contribution rates for compulsory social insurance against occupational accidents and occupational diseases are differentiated depending on the categories of occupational risk to which the payer's area of activity is related.

4. Conclusions

Specialists also propose to include social insurance funds in the state budget, namely – to transform them into targeted budget funds. This may help the Government of the Russian Federation to resolve current problems of the budget deficit and public debt, but consolidation of these funds in the state budget will not improve their financial situation. On the contrary, probability of creating a deficit and increasing the debt to the recipients of pensions and benefits will increase (Extra-budgetary funds, no date).

Since July 1, 2011, social insurance system began to reform. There was a proposal to replace the current "test" system (benefit payment by the employer to a person in account of insurance contributions to the Fund) by the system of direct payment to the Fund. The process of transition to a new system of insurance payments is a large-scale project, which, among other things, involves new technologies for receiving and processing data, personnel training, and creation of an appropriate working stock required to ensure uninterrupted payment process.

Simultaneous solution of set tasks in all the subjects of Russian Federation is under an unreasonably high risk. That is why test territories for the "pilot" project have been chosen. New payment system has been tested in the Nizhny Novgorod region and in the Karachaevo-Cherkess Republic since January 1, 2012. The six more subjects of the Russian Federation became participants in the pilot project: Astrakhan, Kurgan, Novgorod, Novosibirsk, Tambov regions and Khabarovsk Krai since July 1, 2012; the Republic of Crimea and the city of Sevastopol since January 1, 2015; the Republic of Tatarstan, Belgorod, Rostov and Samara regions since July 1, 2015. This project involves the following results:

- For insured citizens:
- ensuring that benefits were accounted properly;
- no dependence on the employer in benefit payment;
- independent choice of receiving benefits (bank account or mail order);
- less conflict situations with the employer.
- For policyholders:
- exemption from the calculating the benefits.
- For the SIF:
- ability to control all paid sick leave certificates;
- transition to an electronic version of sick leave certificates;
- reduction of insurance fraud cases;
- cost optimization.
- For medical institutions:
- introduction of sick leave certificates allowing computerizing a number of processes;
- transition to an electronic version of sick leave certificates;
- computer-controlled examination of temporary disability.

Thus, each social extra-budgetary fund is a specialized financial and credit institution affiliated to the Government of the Russian Federation that discharges the duties and functions assigned to it. Thus, Pension Fund of the Russian Federation was established to manage the financial resources of pension maintenance; Social Insurance Fund – to ensure the financing of state-guaranteed social benefits; Compulsory Medical Insurance Fund – to finance citizens' rights to medical care. The monetary means of funds are not included in the budgets of the corresponding levels, they are not subject to withdrawal and have strictly targeted financing system.

Bibliographic references

Baker J. (2015). The Rhizome State: Democratizing Indonesia's Off-Budget Economy. *Critical Asian Studies*, 47(2), 309-336.

Barrientos A., Hulme D. (2016). Social protection for the poor and poorest: Concepts, policies and politics. Springer.

Brean D. J. S. (2013). Taxation in modern China. Routledge.

Chirkov A. N. et al. (2014). Problems of optimization of administrative and managerial resources and social protection of the population in Stavropol krai. The Second International Congress on Social Sciences and Humanities Proceedings of the Congress. Vienna.

Ding C., Niu Y., Lichtenberg E. (2014). Spending preferences of local officials with off-budget land revenues of Chinese cities. *China Economic Review*, 31, 265-276.

Extra-budgetary funds. <http://center-yf.ru/data/Buhgalteru/Vnebyudzhetye-fondy.php>

Kachanova E.A. (2011). The financial basis of local government: theoretical and practical problems. Monograph. Ekaterinburg: IE UB RAS, 296.

On Mandatory Pension Insurance in the Russian Federation: Federal Law of December 15, 2001 № 167-FZ (2015). Coll. Russian legislation. 51. St. 4832

Reischmann M.J. et al. 2016 Empirical Studies on Public Debt and Fiscal Transfers. ifo Beiträge

zur Wirtschaftsforschung.

Shebzukhova T. A., Bondarenko N. G. (2014). Essence and the principles of social protection of the population in modern Russia. A state and an individual: historical and sociological issues of interaction ed. by K. Vítková. Vienna. 129-141.

The official website of the Office of Drug Control Service of Russia for Tyumen Region. URL: www.fskn72.ru.

The report on the budget of the Pension Fund of the Federal Mandatory Medical Insurance Fund, Social Insurance Fund of the Russian Federation for 2010-2014 [Electronic resource]. URL: <http://Kremlin.ru/events/president/news>

The structure of the federal bodies of executive power: Decree of the President of the Russian Federation dated May 21, 2012 № 636. (2015). Coll. Russian legislation. 57. St.2754

1. Tyumen Industrial University, 38 Volodarskogo Str., 625000 Tyumen, Russia Federation. Contact E-mail: leotat704@gmail.com

Revista ESPACIOS. ISSN 0798 1015
Vol. 38 (Nº 43) Año 2017
Indexada en Scopus, Google Scholar

[Índice]

[En caso de encontrar algún error en este website favor enviar email a webmaster]

©2017. revistaESPACIOS.com • Derechos Reservados