

# Expected and Unexpected Consequences of Russian Pension Increase in 2010

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## ABSTRACT

The paper studies the consequences of a pension increase in Russia in 2010. The rise in pension in 2010 is of particular interest due to its unique magnitude, its relative independence from economic trends in Russia at that time, and its plausible exogeneity for pensioners. The study provides evidence that this jump in pension caused an approximately 5 pp increase in the number of people who chose to retire. The effect was stronger in Moscow and Saint-Petersburg. One out of four employed pensioners living in these cities left the labor force in 2010. In addition, the paper shows a relatively unexpected externality on younger individuals. The labor force participation decisions of younger people who lived with pensioners were influenced considerably. This change in pension also affected the family structure. The rate of pension receivers living with their children and grandchildren went up significantly. Thus, the research highlights the fact that any policies have impact not only on the target group of population, but on the relatives of this group as well.

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## INTRODUCTION

- The rise in pension in 2010 was of a unique magnitude.
- The pensioners were not able to influence the scale of a pension increase or the timing of this event; they also did not know about the pension rise in advance.
- The pension increase did not coincide with the boom in Russian economy. Throughout all years of observations (from 2005 to 2015) the real incomes of pensioners and non-pensioners followed the same trends except for that particular quarter when pensions were dramatically increased.
- What is the effect of a pension rise on the labor force participation of pensioners and people living with them?
- Are these effects geographically heterogeneous?
- What is the influence of a pension increase on the co-residence decisions?

## METHODS

- Identify the presence (and the absence) of discontinuities in 2010.
- Difference-in-differences technique. Consider non-seniors adults living with pensioners as a treatment group and those living without pensioners as a control group.

## DISCUSSION & CONCLUSIONS

- The evidence from the 2010 pension increase speaks against the substitution between older and younger workers. The pension rise caused a drop in the labor force participation among older workers. In contradiction with the idea of substitution in 2010 there was no jump in the labor force participation among younger employees. On the contrary, there was even a drop in the labor force participation among some particular group of younger workers.
- Throughout all years of observations (from 2005 to 2015) Russian pensioners got more and more employed except for that particular quarter when pensions were significantly increased. This can signal the presence of reference point in pensioners' minds.

## RESULTS

- Figure 1 shows the trends for the real income of two types of HHs. Retired HHs are the HHs with pension as a major source of income. HHs w/o old do not have members who can get pension due to age.
- Figure 3 demonstrates the 2010 pension increase effect on the retirement decisions.
- Figure 5 presents the evidence of the 2010 pension increase effect on the labor force participation of pensioners' cohabitants.
- Figure 2 illustrates a jump in the real income of retired HHs.
- Figure 4 displays the heterogeneity of the pension increase effects on the retirement.
- Figure 6 shows that people absorbed all additional money given by the government by changing their co-residence decisions.
- All figures are based on HHBS (ОБДХ) which is collected by FSSR (Росстат) and RLMS-HSE.

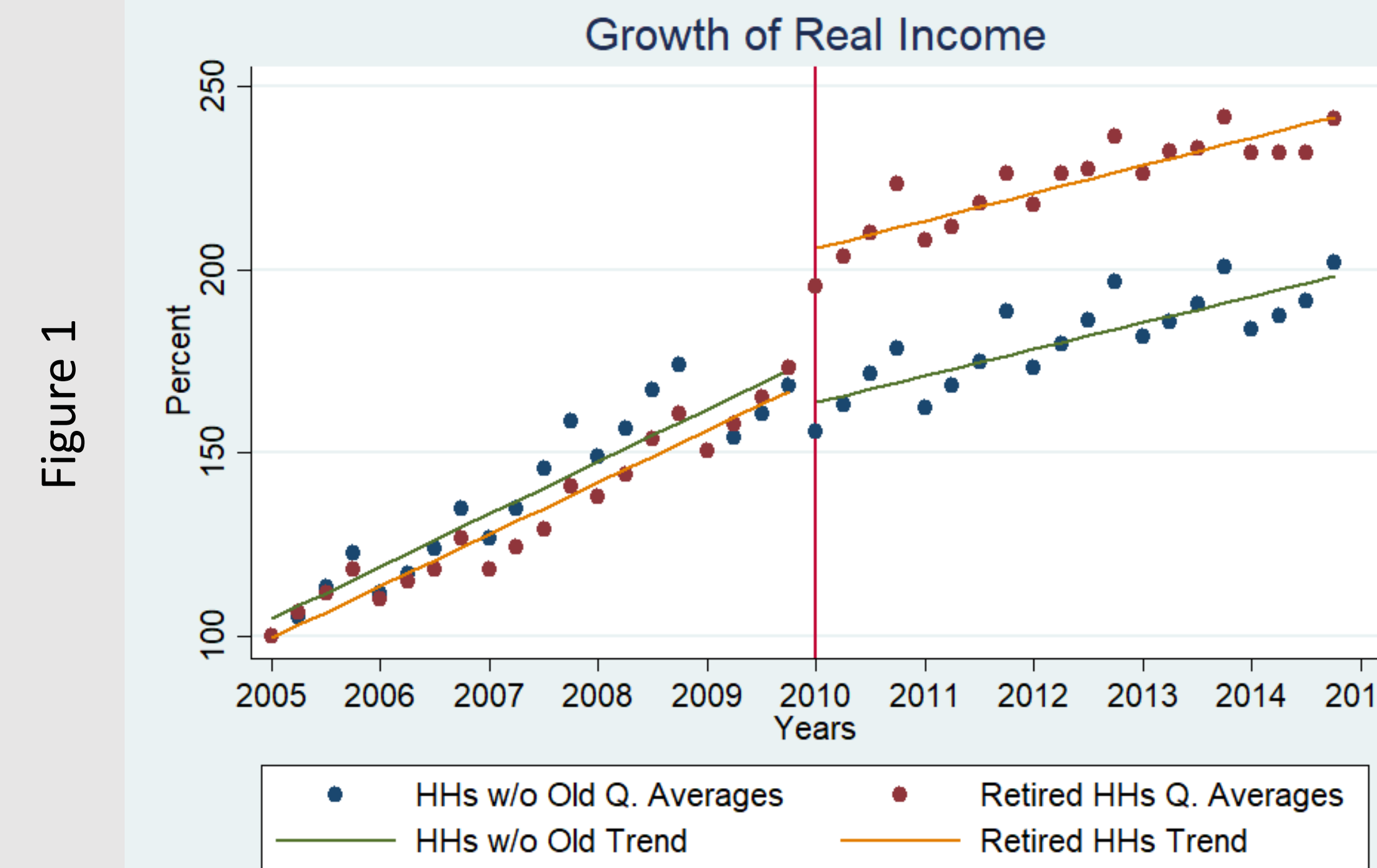


Figure 1

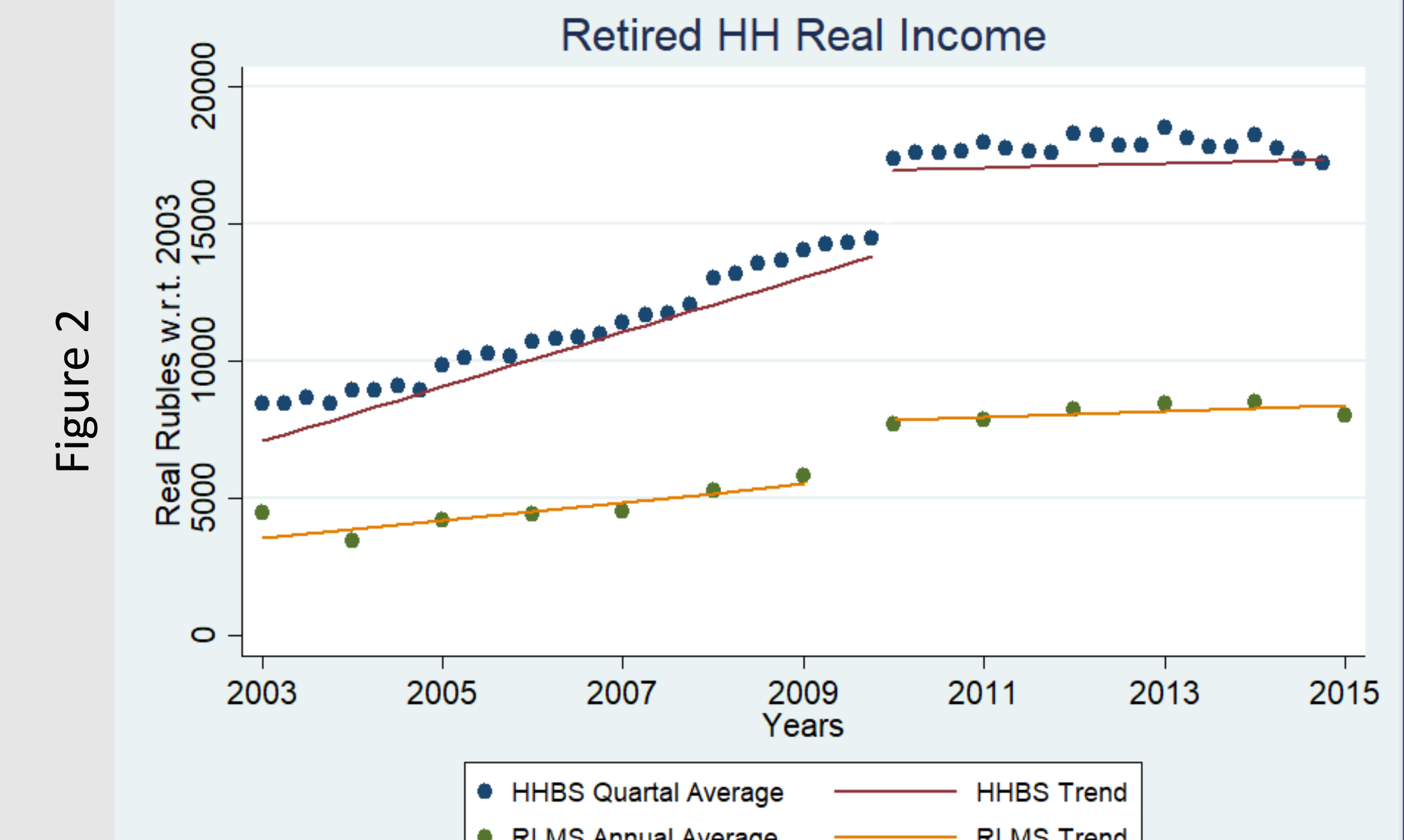


Figure 2

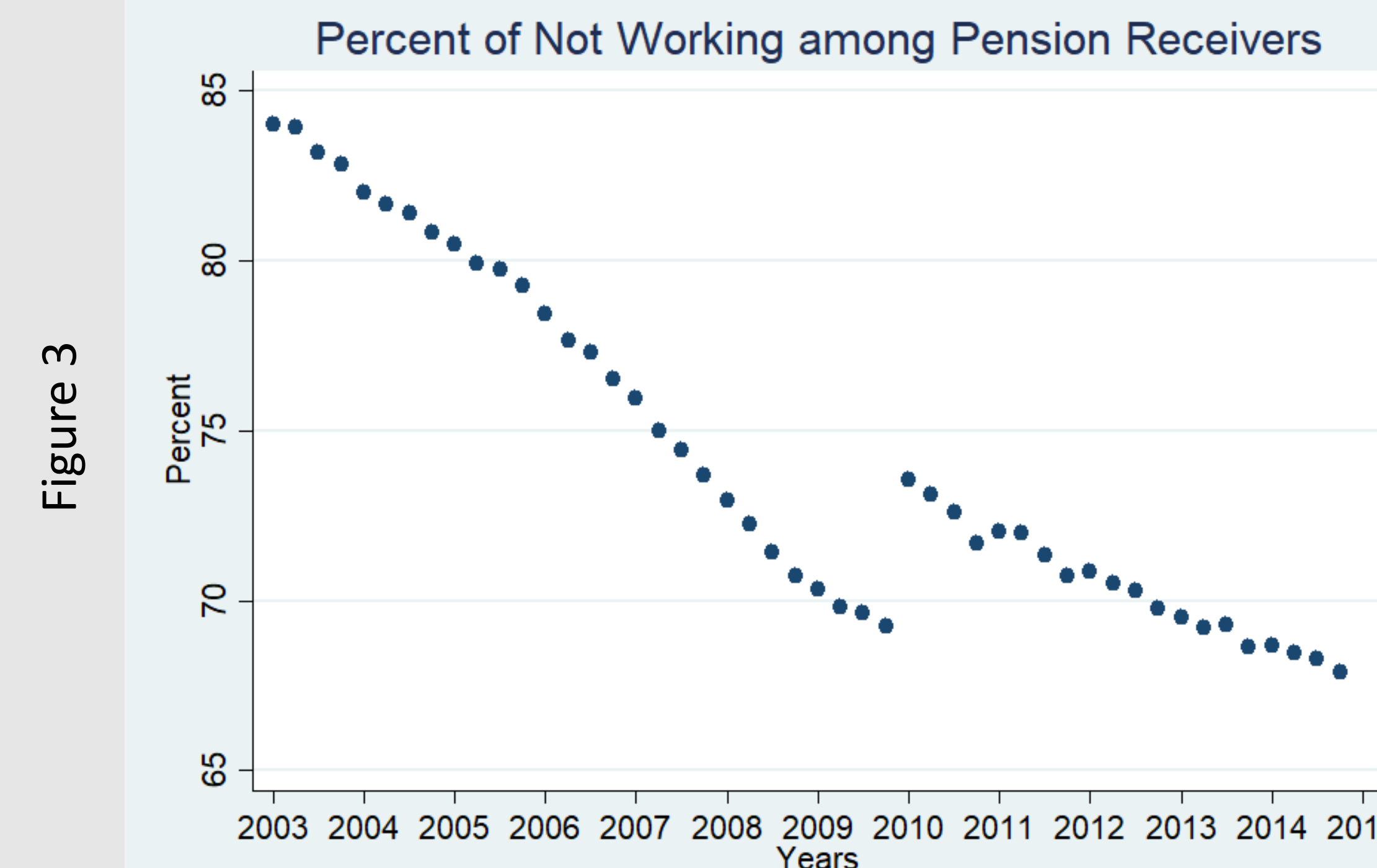


Figure 3

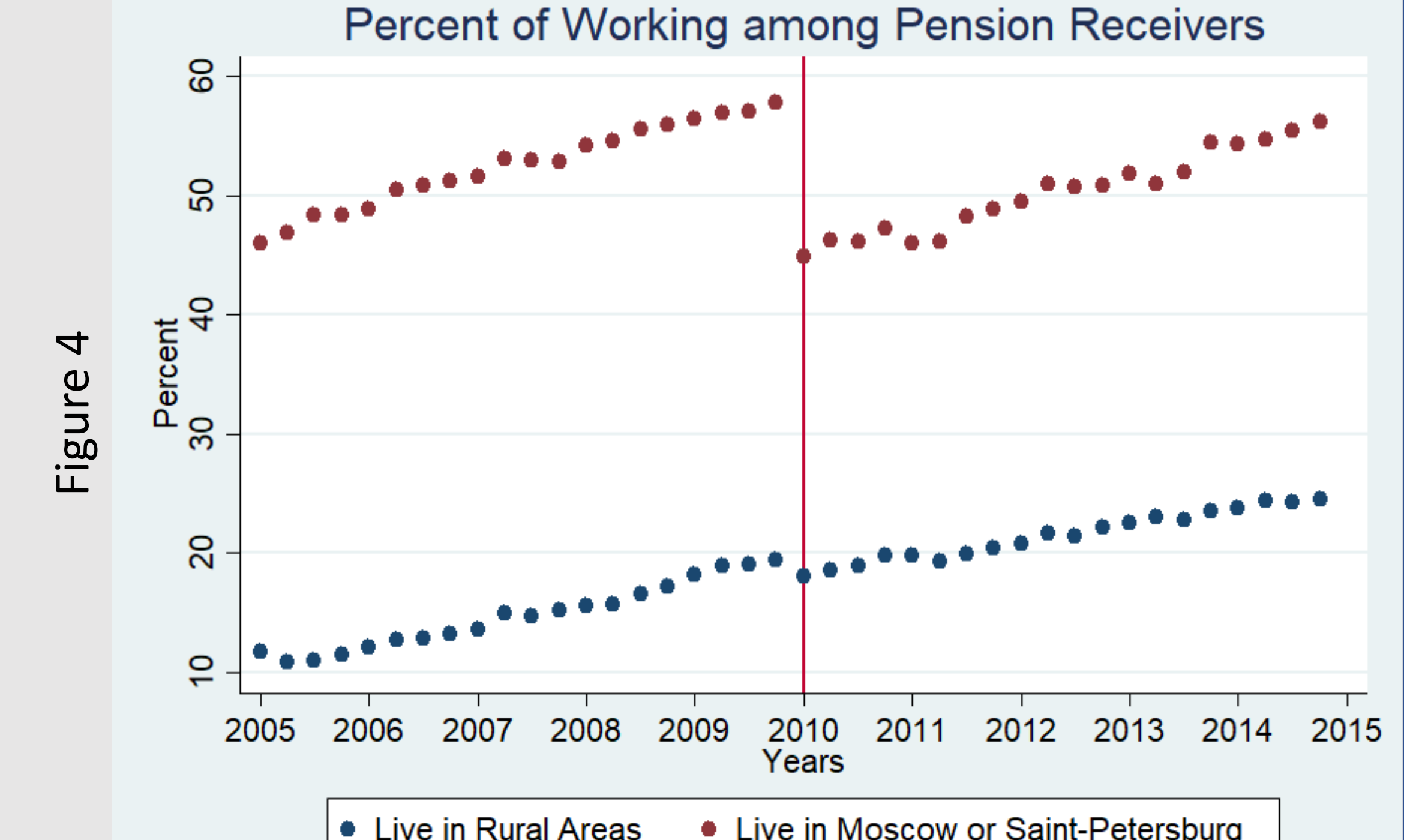


Figure 4

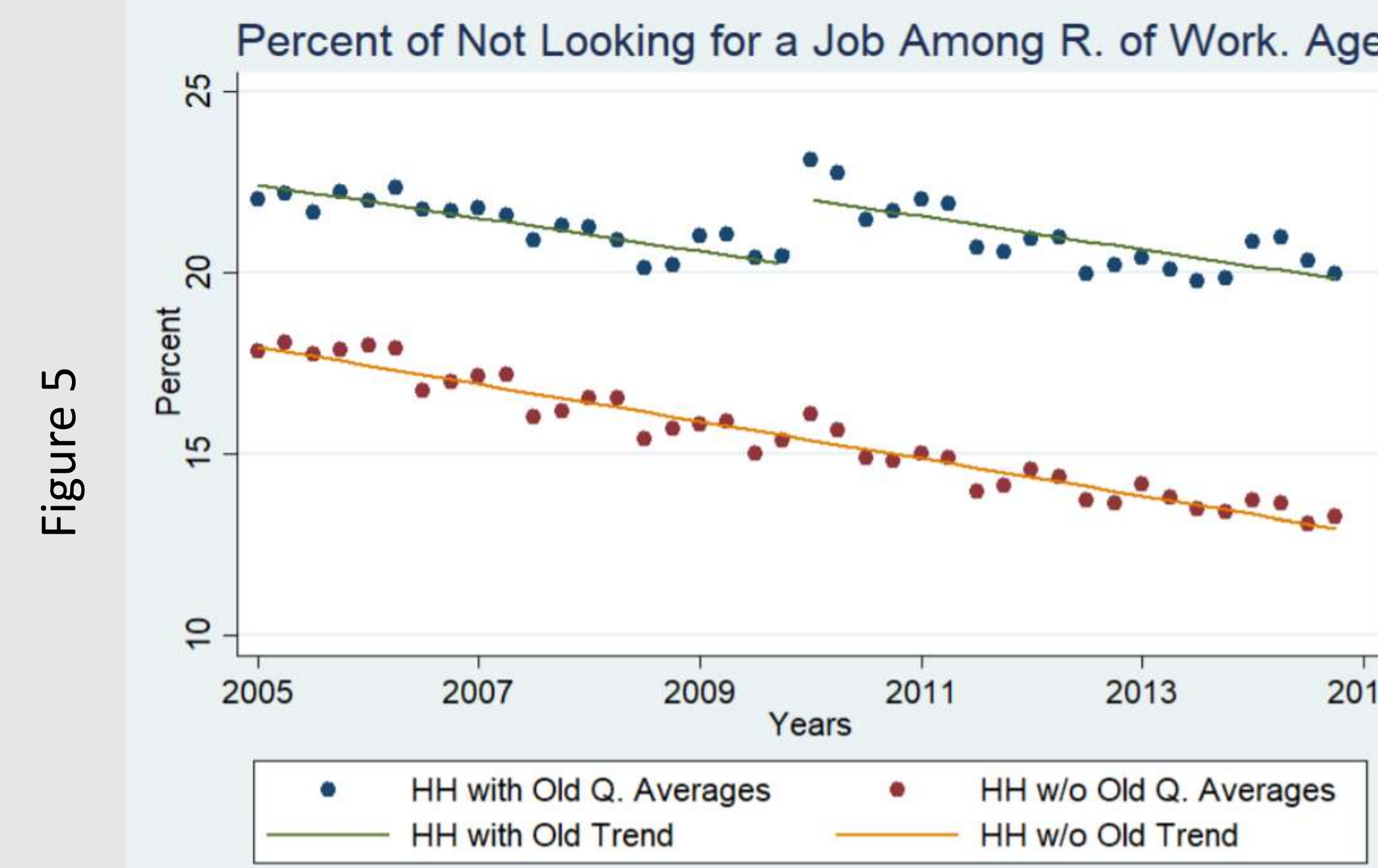


Figure 5

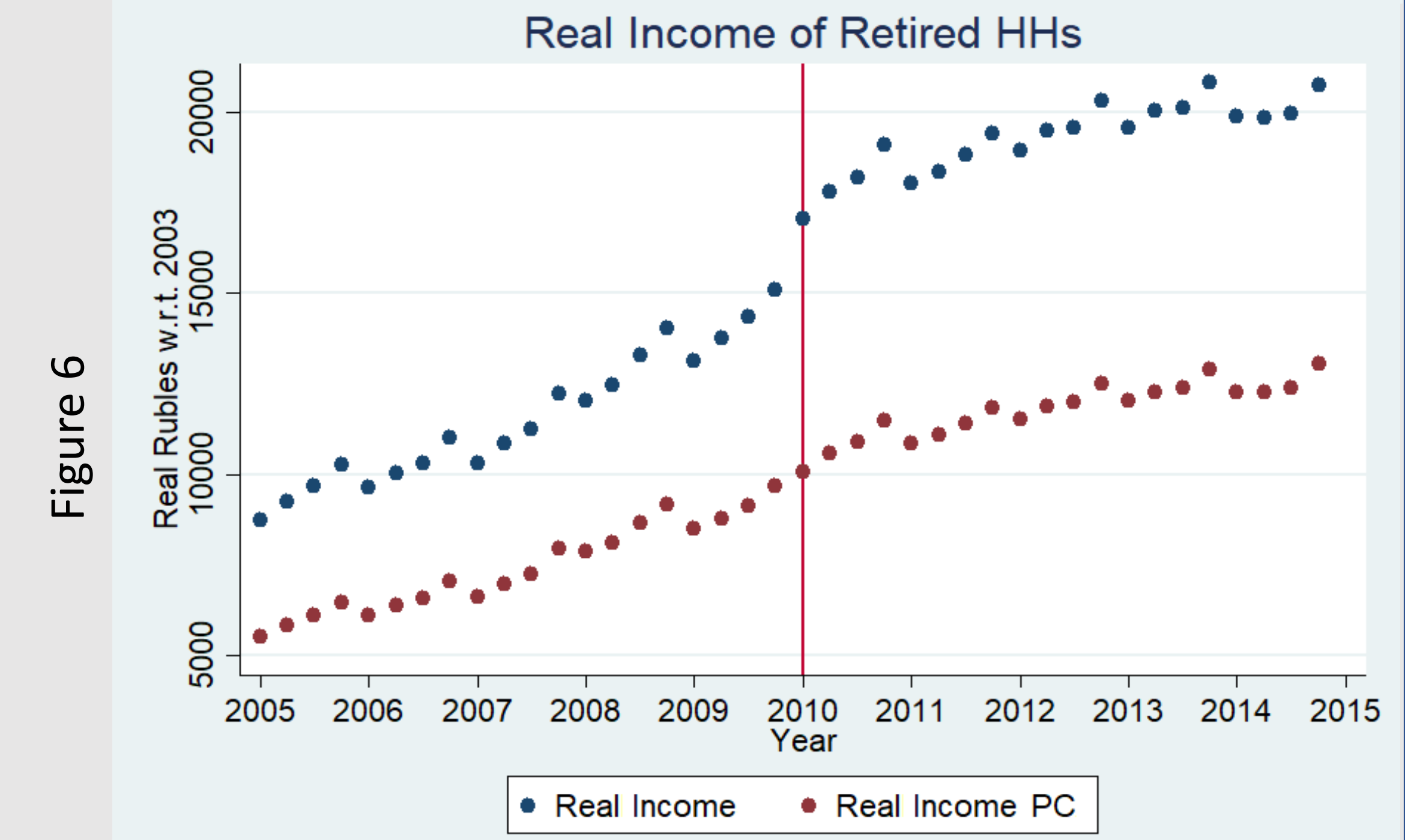


Figure 6