

Welfare System in Contemporary Russia and its Implication for Sakhalin Region

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Abstract

Since the beginning of the 1990s to the present Russian social security system evolved from a limited set of programs designed to help the most disadvantaged groups into a full-fledged system of social protection and social security of the population.

Due to the increase of revenues from oil and gas exports in the 2000s, the Russian government has been able to direct significant resources to creating welfare system, and for more than ten years social spending accounted for about 50 percent of the country's annual budget. Funding for social programs from 2008 to 2014 increased at a faster rate than in any other year since the collapse of the Soviet Union. However, in the past few years, the decline in oil and gas prices led to a decrease of Russian export revenues and reduced funding for some social programs.

Sakhalin region, which can serve as a classic example of export-dependent economy, has significantly expanded its social welfare programs in the 2010s. Many regional social welfare programs in the Sakhalin region are essentially supplements to federal programs; they provide recipients more financial aid than prescribed by federal standards that are often inadequate. However, gradual decline in revenues received by Sakhalin region from export of oil and gas poses a threat to funding for regional social programs in the future.

Key words social welfare, social spending, regional welfare system, Sakhalin region, Russia.

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1. Overview of the welfare system in Russian Federation

Social welfare generally refers to states' services designed to protect citizens from the economic risks and insecurities of life. Over the decades a general consensus is reached that states are responsible for protecting all those unable to care for themselves for whatever reasons. Financing of government social welfare programs basically comes from public revenue. In this regard, social welfare is one of the systems of transfer payments to bridge the gap between the poor and the rich. As the format and nature of social welfare programs becoming more comprehensive and diversified, covering increasingly more sectors of the society, the earlier version of social welfare has changed substantially in the modern era (Ferge & Kolberg, 1992).

The 1993 Russian Constitution declares the Russian Federation a welfare state: "The Russian Federation is a social state whose policy is aimed at creating conditions for a worthy life and a free development of man" (Article 7, § 1). According to the Constitution providing social benefits and securing well-being of the people of the Russian Federation is the responsibility of the state. The main government agency that deals with social welfare is the federal Ministry of Labor and Social Protection (MLSP). Parts of the funds for social programs are financed by the subjects of the Russian Federation – its regions (such as *olsast, krai, and republic*) – within their powers and social obligations. In a broader sense welfare programs in Russian Federation are those administered and financed by the following ministries and agencies:

Federal MLSP

Federal Ministry of Health

Federal Ministry of Education

Federal Social Security Fund

Federal Medical Insurance Fund

Pension Fund of Russian Federation

Regional Ministries of Social Protection (MSP) in the subjects of the Russian Federation

Regional Health ministries and Ministries of Education

Regional Labor departments.

Welfare system in Russia includes such social programs as:

1. State-funded pensions;
2. Compulsory medical insurance;
3. Compulsory labor insurance and provision of unemployment benefits;
4. Social services (e.g.: services provided by nursing homes, boarding schools, night stay homes, etc.);
5. Social security programs (e.g.: assistance and payments for low-income people, elderly, disabled people, etc.);

6. Protection of the family and children (monetary and in-kind support of families with children, young families, families with disabled children, etc.);
7. Other programs (financial and in-kind support of certain categories of people).

Social security and welfare programs provide support for the most vulnerable segments of Russia's population: elderly, pensioners, veterans, infants and children, expectant mothers, families with more than one child, and people with disabilities. Those programs are often inadequate, however, and a significant proportion of Russia's population lives on the threshold of poverty. Inflation, although easing in recent years, has a particularly deleterious effect on households that rely on social subsidies. However, from early 2000s to 2014 social spending was steadily increasing both in absolute terms and in relation to its share in the country's budget. By 2015 this tendency has been thwarted by plummeting oil and gas prices, and the share of social spending in the Russia's consolidated budget in 2015 has dropped for the first time since early 2000s. In 2016 share of social spending in the consolidated federal budget and regional budgets is expected to further decrease (World Bank, 2016).

In technical terms expenses for provision of pensions, medical insurance benefits and unemployment benefits are administered by special agencies that are not parts of the government – Pension Fund of Russian Federation, Federal Medical Insurance Fund, and Federal Social Security Fund respectively. Nevertheless, Russian Ministry of Finance includes those expenses in its budget statistics putting them in the “social policy” category. Within the period of the last 10 years expenditure on provision of pensions accounted for two thirds to four quarters of the consolidated budget for social spending depending on the year. Other

Table 1. Social spending as percentage of consolidated budget (federal and regional budgets combined), 2011-2015

Year	Social policy	Public health	Education
2011	32.9	10.2	11.1
2012	32.0	10.0	11.0
2013	34.8	9.3	10.8
2014	31.1	9.2	10.9
2015	27.3	7.1	10.7

(Source: HSE (2015))

Table 2. Social spending, expenditure on public education and public health as percentage of the Russian GDP, 2011-2015

Year	Social policy	Public health	Education	Total expenses
2011	12.5	3.5	4.0	20.0
2012	12.5	3.7	4.1	20.3
2013	13.3	3.5	4.4	21.2
2014	11.9	3.5	4.3	19.7

(Source: HSE (2015))

Table 3. Nominal size of an average retirement pension as of January 1st, 2011-2016, rubles per month

Year	Average retirement pension	Growth (year over year), per cent
2011	6,630	–
2012	8,876	33.9
2013	9,790	10.3
2014	10,716	9.5
2015	11,569	8.0
2016	12,830	10.9

(Source: Rosstat (2016a))

social expenses include financing social security and social services institutions, financial aid to low-income people, disabled persons and families with children, and implementation of other social programs such as provision of in-kind assistance and free services to low-income and disadvantaged people. There is also a significant “social” component in expenditures on both public education and public health. Financing of public health and education covers expenses related to functioning and maintenance of federal and regional public health and public education institutions, paying salaries to their employees as well as provision of free services to low-income persons and other eligible people. For the last five years social spending accounted for 11-13 percent of the Russian GDP with additional 4-4,5 percent of the GDP spent on public education and 3-3,5 percent on public health.

In recent years decline in oil and gas prices in the world market resulted in Russia’s diminishing export revenues that in turn negatively affected some welfare programs. For the first time in a decade the government undertook cuts of social expenditure in 2015 and 2016. In 2006-2014 nominal size of an average pension in Russia grew faster than the inflation rate, although in 2015 it has increased by only 10.9 percent – that is below the inflation rate of 12.9 percent.

2. Regional social benefit programs in Sakhalin

Sakhalin Island is one of Russia’s leading oil- and gas-producing regions. Expansion of oil and gas revenues in early 2010s hugely increased regional budget and contributed to

Table 4. GDP per capita in Sakhalin Region compared to Russia’s average GDP per capita, thousand rubles, 2013-2015

Year	GDP per capita, Sakhalin region	GDP per capita, Russian Federation
2013	1,715.7	377.0
2014	1,761.2	403.2
2015	1,754.1	462.8

(Source: Rosstat (2016b))

Table 5. Average retirement pension: Sakhalin Region compared to Russia's average, 2013-2016, rubles per month.

Year	Average size of a pension, Sakhalin region	Average size of a pension, Russian Federation
2012	12,402	8,273
2013	13,416	9,154
2014	14,757	10,030
2015	15,072	10,889
2016 (six months)	16,713	12,413

(Source: Rosstat (2016c))

considerable rise of social spending in 2010-2015. As of 2015 Sakhalin region is in the top 5 list of regions of Russia in terms of the size of GDP per capita, average monthly salary and average retirement pension.

As a federal state Russia not only carries out federal welfare programs, but also encourages its regions to develop and implement specific regional social programs. In Sakhalin region such regional social welfare programs have spread in the 2010s. Basically they are two types of them:

- a) Regional payments to recipients of social benefits as supplement to the federal benefits;
- b) Additional measures of social support not stipulated by the federal law.

Social benefits of the first type are as such: regional supplements to pensions, monthly monetary payment to veterans of labor of the Russian Federation; monthly payment to the WWII veterans, and so on. Social benefits of the second type include: regional maternal (family) capital at birth/adoption of the second and subsequent children; monthly allowance for families with children under 1,5 years of age; monthly monetary payment to veterans of labor of Sakhalin region and similar payment to citizens, who have work experience in the Far North of 40 or more years; monthly scholarship for students with disabilities enrolled in educational organizations of professional or higher education, etc. Average size of pensions and social benefits in Sakhalin region in many cases is significantly higher than the average size of those benefits in Russia in general.

Some social benefits that exist in Sakhalin region are not provided for by federal law. Table 6 demonstrates a comparison and differences between the nature of social benefits provided in Sakhalin region and social benefits stipulated by the federal legislation of Russia.

Table 6. Supplementary social benefits in Sakhalin Region

Social benefits and amount of payment as stipulated by the federal law	Supplementary regional social benefits in Sakhalin region and size of payment
<i>Support of families with children</i>	
Allowance for families with children under 1.5 years of age. Minimal care benefits: first child – 2,908 rubles per month; second and subsequent children - 5,817 rubles per month. Maximum care benefits - 11,634.5 rubles per month.	Annual financial aid for families with three or more children - 15,512 rubles.
Allowance for families with children over 1.5 years of age: 50 rubles per month per a child	Allowance for families with children over 1.5 years of age: 2,453 rubles per month
Federal maternal capital at birth/adoption of the second and subsequent children: 453,026 rubles.	Regional maternal capital at birth/adoption of the second or subsequent child: 196,407 rubles. A lump sum cash payment for giving birth to triplets or more children: 2,000,000 rubles. A one-time cash payment in the amount of 50 percent of the cost of purchased housing to families with three or more children: up to 2,000,000 rubles.
Federal payment for adoption of a disabled orphan over 7 years of age: 118,529 rubles.	A lump sum payment to a family upon adoption of a disabled orphan child: 1,055,000 rubles.
<i>Support of elderly people and veterans</i>	
Labor veterans benefits. Travel free of charge on any kind of municipal transport; 50% discount on the cost of utilities; free prosthetics treatment in municipal public health care institutions.	Monthly monetary payment to veterans of labor of the Russian Federation: 936 rubles. Monthly monetary payment to veterans of labor of Sakhalin region 1,782 rubles. Monthly monetary payment to citizens who have worked in the Far North for 40 or more years: 1,047 rubles per quarter.

<i>Support of disabled people.</i>	
Federal disability pensions: amount of payment depends on severity of the disability. As of 2016 average monthly disability pension is 8,453 rubles per month. Additional disability payment varies from 1,919 to 3,357 rubles per month.	Monthly payment of cash to pay for housing and communal services: amount is calculated on individual basis. Scholarship to disabled students enrolled in educational organizations of professional or higher education: 1,638 rubles per month.
<i>Support of youth and young professionals under the age of 30 years old</i>	
State-sponsored federal mortgage program with discounted interest rates for young families. Interest rates vary from 10% to 15% per annum.	Mortgage program for young families with discounted interest rates: - Families with two children - 3.5% per annum - Families with two children - 0% per annum
	One-time allowance for young professionals who have signed five-year labor contract with a municipal/public institution of education, culture, health care, sports, or social service: - Holders of secondary professional diplomas: 206,227 to 257,783 rubles; - Holders of higher education professional diplomas: 274,968 to 343,710 rubles.
50 percent student discount on municipal transport fares (subject to regional regulation).	50 per cent discount on air- and railway tickets for students.

(Source: Ministry of Social Protection of Sakhalin Region (2016))

Implementation and maintenance of additional social welfare programs in Sakhalin region were made possible thanks to significant increase in budget revenue from 2011 to 2016. However, beginning in 2017 it is expected that revenues received by Sakhalin region will begin to decline. This will occur because of dropping of oil and gas prices in the world market, as well as due to introducing of a new federal regulation that lowers the share of revenues from severance tax and tax on corporate profits coming into the regional budget.

These new circumstances require the Sakhalin regional government to consider a new strategy aimed at enabling more efficient use of available resources in order to ensure sustainability of the regional social welfare system as economic conditions begin to change.

3. Conclusion

With the beginning of market reforms in early 1990s the Russian welfare system has advanced from a set of limited programs to help the most deprived groups of population of 1990s into a full-fledged social protection and social security systems of 2000s.

Increasing funding in recent years predated further expansion of the Russian welfare system in 2010s. A marked focus on reforming the pension system, as well as system of compensations and benefits is that they have become substantial although not always sufficient source of income for pensioners, people with disabilities, families with three or more children, veterans and some other disadvantaged groups of population.

The main directions of social welfare reforms in the Russian Federation over the last 10 to 15 years were as follows:

- a) Increasing value of basic social benefits and bringing them to the subsistence level;
- b) Expanding the scope of targeted financial benefits and compensation beyond the subsistence level;
- c) Developing special federal and regional funds that accumulate money and administer specialized social welfare programs.

For over a decade social spending in Russia accounted for about 50 percent of the country's annual budget. In terms of real spending, adjusted for inflation, the funding of social programs between the years of 2005 to 2014 increased at a faster rate than in any other year since the collapse of the Soviet Union. However, due to the fall of the Russian budget revenues caused by the decline in world oil and gas prices, financing for social programs began to shrink.

Sakhalin region, which strongly relies on its export-dependent economy has significantly expanded its regional social welfare programs between 2010 and 2015. Today many of the regional social welfare programs in Sakhalin provide benefits that exceed federal standards or do not have parallels in the federal law. Introduction of such benefits was made possible largely due to the profit growth from export of oil and gas in the recent years. Today as exports revenues are down, Sakhalin region may face challenge of further funding its social security programs in the future. Therefore, the development of a new regional model of social security – a model that takes into account changing economic conditions – becomes crucial for the sustainability of the regional welfare system.

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