

# Social Security in Russia: Institution-Historical and Financial Aspects

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## Abstract

The article is about the development history of social insurance institution in Russia from 17 century up to the present time. Development stages and peculiarities of material support organization to disabled people in a form of social insurance, social assistance and social aid are defined. Modern problems of social security organization are researched in Russia. Institutional forms of population social security in Russian Federation are introduced according to the kinds of social risks.

**Keywords:** social security institute, social insurance, social assistance, social aid, historical stages of social safety development in Russia, social risks, organization structures of population social safety in the Russian Federation

## 1. Introduction

Conception of social safety appeared on the basis of stable economic growth, which is typical for industrially-developed countries in 50-60th of 20th century. The system of social security which was formed in the industrial countries allowed overcoming market system fiasco consequences connected with unequal and unfair income distribution and infused feeling of safety and confidence into people. Social security is in broad context of social policy and includes social assistance and social insurance and non material forms of social warranties provided as a result of law-making process.

Concept of (social welfare) originated from more limited definition of social insurance (social insurance), appeared at the beginning of the century and in terms of it entitlement was closely connected with exact employment conditions and contributions remittal by the insured person, consequently these systems field was more limited and the volume of paid benefits wasn't large. Given conditions gradually lose its severeness as social security systems became original programs of social assistance.

Specialists of International Labor Agency consider the concept "social security" in a broad and narrow sense. In a broad sense social security suggests legislative regulation of working hours, organization and labor maintenance, labor security and working environment, labor conditions, salary etc. it means all life activity in the labor process. We should agree with the definition of social security as social economic category by V. D Roik "Social security comprises relations complex, essential connection and social subjects interests (employers and employees), social organizations and government connected with factors influence minimizing, reducing life quality (including)". Relations arising in the process of governmental protection from financial loss, as a result of income loss, this is social security in a narrow sense.

The object of this research is the financial aspect of social security in a narrow sense as relations connected with minimizing losses in case of salary loss in a form of social insurance, social welfare and social aid. As a financial category the following definition of social security is suggested: population social security finance is a money relations system of distributing character in the process of which decentralized and centralized financial resources are formed by means of taxes and payment fees which are used in a fund form in a process of social welfare and social insurance of community members and support them with social aid.

## 2. Methods

Let's try to consider social security and forms of its financial welfare in terms of institutionally—evolutional theory.

Government guarantees contractual practice in general but it has right to do this only if it provides complete and

in time liabilities' realization—social contracts. Realizing his right to social safety organization, government makes special contract with economic subjects. This contract can be referred to the implicit type, when there is no clear definition of interaction conditions but parties rely on their specification. Such contracts have long-lasting character: social security will be provided to the citizens until it is more profitable to delegate the right of control to the government than use it themselves.

Fulfilling this social contract, government as an institutional structure with powerful authorities forms social security institute in other words special macrocategory defining the limits of subjects interaction in general and has features of net public goods. In accordance with basic institutional guidelines—target rational activity (specifies utilitarianism) and freedom (person's activities are freer when its environment is more different and so he understands and predicts it better)—social security institute is represented in forms of social insurance, social welfare and social aid institutions.

Social security carrying out is possible by means of the only organization—the government legally represented by the executive authorities, but it's not effective because of falling extreme management effectiveness. Government failure is possible because of the following:

Budget deficit and consequently financial impossibility to fulfill social contract;

High probability of results achievement different from stated objectives, in relation to information, monitoring and control costs growth. .

Unequal resources distribution: standard of justice in terms of social security contract is Hicks—Kaldor optimum so there will always be such social stratas which consider themselves unprivileged. In this case developed social market government passes part of its authorities according to the social contract to other institutional structures-companies. In modern conditions such organizations are municipalities, social-insurance funds and insurance companies.

So giving priority to this or that instructional social security organization form (government-firm), we should choose not between two ideal situation: distribution on the basis of market exchange functioning without charges with particular warranties of contracts fulfillment on the one hand, and distribution control passing to the government which represents contract parties on the other hand, but between two imperfect alternatives “Choice between market and government is only the choice between the systems of imperfections. So to provide high level of social security it's necessary not only to develop social welfare and social insurance but also to carry out institutional support of appropriate governmental and private structures taking into consideration exact historical and social-economic conditions of country development.

### **3. Results**

#### *3.1 Retrospective Analysis*

Social security institute research in evolution context is essential as in the result informal requirements slowing down the development or vice versa historical institutional examples, deserving consideration nowadays. “Yesterday institutional frames remain important and limit alternatives now and in the future”.

In the development history of social security in Russia as social institute we can define 4 main stages. The first stage is patriarchal, it continued from the end of 18th century and up to mid of 19th century. There were no formal forms regulating the process of material support to poor and unemployed people. Peter the Great made a decree regulating social relations. He made decrees prohibiting poverty and private charity (the decree in 1691 about prohibiting poverty, the poor punishment, necessity to forced-labor camps, and the decree in 1718 about prohibiting alms to professional beggars in the volume of 5-10 rubles). County councils and monasteries were held in assistance at that time. The poor assistance was managed by the Patriarchal order in Peter the Great times, since 1701—the Monastery Order, since 1721—The Holiest Synod and since 1724—the Chamber-office.

Peter's table of ranks, Sea statue was the ground for not only estates system and rank system but also pension benefits of civil servants. Pension benefits were part of the wages they had to the retired ranks and their families. If the provision is defined by owning the estate then after the death of merited civil servant all estate or its part was passed to the temporary or timeless ownership to the heritors that don't have enough subsistence sources. Since 1827 pensions to civil servants were paid in accordance with Pension Statue. Pensions were paid by means of Exchequer Chamber in accordance with civil servant taken position and his length of service.

Systematization beginning in the organization of public assistance was 7th November 1775 by the decree “About institution for government management”.

The organization of public assistance legislative execution was in “Decree about public assistance”. It's

characteristic that this decree together with the decree about public supplies and Doctor's decree was placed into the 18th volume of Code of laws (1835), which was called "Deanery rules". Deanery as juridical term appeared in 18th century and meant legislation about measures providing security. Consequently, assistance was considered as police measure providing order.

Except bodies, officially performing the functions of public assistance in Russia there were semi-governmental and semi-private organizations and charity organizations. In particular there were such organizations as Institutions Administration of The Empress Maria established in 1797, Imperial Philanthropic Assembly, established in 1802.

The beginning of social insurance institute structural construction in Russian Empire was considered to be the first pension box office at Sea Administration in 1858. The box office got the name of emerytalny. Governmental emerytalny box offices paid pensions to the civil servants in addition to those ones fixed in Governmental Exchequer Chamber. Such box offices were made at the Sea, Postal Telegraph Administration, justice ministries, communication lines and etc. Such boxes' incomes were formed by means of participants contributions whom afterwards life-time pension was fixed. It turned out that emerytalny box offices were financially unstable as insurance bonuses didn't conform to the insured risks.

So, by the beginning of 19 century in Russia two institutional forms of social security were set up—public assistance and charity (governmental and private), which were social-political institutions and the organizations corresponding to them. Besides normative laws were laid for future social welfare institutions' development (emerytalny pension box offices) in other words social safety financial institutions.

Formed by the beginning of 18 century formal and informal norms and institutes of social security haven't been changed up to Great Reforms, the fulfillment of which was the ground for the second development stage of social security in Russia—capitalist continuing to the revolution of 1917.

In 1861-1870 in the process of Great Reforms in public assistance there were definite changes. As a result of serfdom law, zemsky reform and city management reform public assistance was passed to county councils and city councils. In county governor management was carried out by zemsky meetings, in the cities—by city duma. The general observance was carried out by governor zemsky meetings. Invalids, the wounded, soldiers, low reserve ranks were assisted by governor zemsky control. Governor zemsky control annually gave benefits to the poor, orphans and widowers. Governor zemstvo annually assigned exact sums of money to deal with plagues, first medical aid groups' organization. However, public assistance continued to be estate as previous laws weren't abolished or even accorded with zemsky and city statements. As it was believed in this period, the government role in the field of public assistance and charity has to be limited mainly by legislation regulation and administrative measures, conforming to institutions activities which give charitable help (Charity in Russia, 1907).

In the second half of the XIX century social insurance institute development is carried out in the directions with the following risks: old age, labor accident, illness. Pension insurance in Russia was structured in the form of pension cash desks according to laws of 1861 (auxiliary savings banks of mining associations at state mountain plants), 1883 (emeritalny cash desks for the serving zemskyl institutions), 1888 (pension cash desks for private railways employees), 1894 (pension cash desks on state railroads employees), 1897 (emeritalny and insurance cash desks for private credit institutions employees, commerce, industry enterprises and insurance companies employees), 1900 (insurance pension cash desks for zemsky institutions employees, drinkable production employees, national teachers, etc.). Besides, the government founded emeritalny pension cash desks for government officials: mining engineers (1860), railroads engineers (1860), sea department (1971), etc.

The main source of money in all mentioned types of pension cash desks was:

- 1) Participants contributions determined by known percent from the received contents; 2) payments from that institution at which this pension cash desk is organized (treasury, private society, a zemstvo, etc.). By the end of the XIX century it is possible to judge financial operations volumes of pension cash desks by the following parameters: capital stock of pension cash desks by January 1, 1897 makes 95.5% of zemsky and city budgets size for education and health care, 629.4% of state treasury expenses for the education and 8.7% of total amount of treasury and local budgets expenses (Pogrebensky, 1968).

Labor accident insurance and medical insurance developed in parallel. Their institutional development happened on the basis of laws of 1861 (pensions payment in case of death or a mutilation to state mountain plants workers, and also temporary disability benefits), 1866 (obliging to create hospitals at plants - 1 bed for 100 people), 1903. "About citizens remuneration, accident victims, workers, employees, and also their family members at the

enterprises of the factory and mining industry” (pensions and benefits only in case of disability from accident), 1901. “About benefits to sick and crippled workers at the expense of penal capitals” (in 1913 benefit was received by 150 thousand people, for each about 5.5 rub) (Dansky, 1926), the law of 1882 which approved factory medical inspection. The appeared factory medicine was the addition to city and zemsky medicine, but taking into account that, and insurance expenses comprised only 20% of workers (2% of the population), medical attendance was unsatisfactory (Lyubimov, 1923).

The 3rd State Duma adopts on June 13, 1912 the Law on workers insurance in case of illness and accidents (the law of 1903 became invalid), and it was influenced by labor movement and socialist parties. For the first time in the Russian legislation there is an obligatory insurance institute against social risk-disability. Insurance extended on agricultural industry and construction workers, trade employees, servants, external navigation workers, civil servants, and railroads workers. Enterprise numbering less than 20 workplaces which had mechanization and less than 30 places if there was no mechanization were excluded from insurance. 1/4 total number of workers was subject to insurance, but 1/6 part (Reshetnikov, 1998) was actually captured.

Thus, in recent years of the Russian Empire the main social population protection institutions continue to remain public assistance and charity. Routine informal institutions remained in the previous form. Pension, contributory sickness funds and insurance associations as financial institution structures of social insurance covered no more than 2-3% of the population. Pensions provision extended only on the government and military officials.

The third—Soviet—social protection development stage began at the end of 1917 with revolutionary institutional changes, then (since 1929) evolutionary period comes as a result in which up to the middle of the 80th of the XX century the Soviet (“sobesovsky”) system of social protection of the population is finally formed.

New political leaders aspiration to ensure a wide social base caused appearance insurance rules appearance: Declarations of National Work Commissariat November 12, 1917 about full social insurance introduction in Russia and the government decree December 22, 1917. “About insurance against illness case”. Insurance against temporary and continuous disability, unemployment and death was introduced into new rules. Insurance premiums were assigned to the enterprises and institutions and were established as a percentage to compensation fund, and differentially on industries (depending on working conditions from 16 to 22%). At the expense of contributions four funds were formed (some kind of primogenitors of modern Russian funds): on temporary disability and by additional types of help; disability; on unemployment; medical care.

Industrialization and collectivization development, strengthening economy centralization influenced changes in social protection institution. In 1929 by governmental decree it was decided to create uniform budget of social insurance in the USSR under the authority of Labor People’s Commissariat, which organizational structures were the central social insurance management, republican, territorial and industrial insurance cash desks, pay organizations and enterprises points. In 1933 social insurance was transferred to the All-Union Central Council of Trade Unions and its regional bodies. Insurance cash desks were liquidated. The government resolution of February 13, 1930 approved “The statement about pensions and benefits” according to which USSR citizens who were hired had the right for pension (on disability, an old age, on the occasion of a breadwinner loss), benefits (on temporary disability, on the occasion of a child’s birth, on burial, on unemployment—till the third quarter of 1930). The resolution of People’s Commissars Council, March 23, 1937 stopped health care financing and pensions to unemployed pensioners from social insurance budget. This burden completely laid down on the governmental budget. In 1938 by the solution of USSR Supreme Council second session social insurance budget was consolidated with the government budget. This year should be considered as time of institutional formation completion of the Soviet system social protection of and its financial institutions.

Financial stability of the Soviet social welfare entirely depended on an economic “founder” creditworthiness, i.e. the state: the government budget covered 63.7% of pension expenses and 47.8% of other social transfers expenses (Chekhutova & Mitkin, 1986). The subsequent institutional development of social population security and its financial support happened in an evolutionary way up to 1970 under the influence of economic, military-political and ideological factors. In general evolution is in rules’ modification regulating institutional structures’ activity.

So, Soviet social security institutions’ system was constructed using the principle which communists put forward at the beginning of the century—insurance without contributions. Necessary financial means were scooped from the payments which are carried out by the enterprises or/and from the government budget.

### *3.2 Social Security Institution Development in Russian Federation*

The economic difficulties connected with contradictions of national economy transition to the market relations,

which began in the 1990th, closely intertwined with an problems aggravation in social security. They were caused by financing sources conditions, and also by the efficiency of financial resources' use. The choice of solutions to these problems was considerably connected with changes of social security financing mechanisms in the conditions of market economy development.

The transitional economy brought such social risk as an involuntary unemployment. According to calculations not less than 20% of workers who were occupied in the production sphere were excessive (Scherbakov, 1991). Research testifies considerable direct influence of an individual employment status on disability risk (the unemployed, a full employment, temporary employment) (Ervasyi et al., 2014). So there was social risks interference.

Revolutionary nature of the happening transformations did not leave time for deep conceptual justifications of necessary changes in structure of institutes of social protection. That institutional transformation did not lead to accident, it was expedient to use in a transition period part of former formal norms as “anchor” in the unstable environment. At the same time the Russian Federation Government started formation of new financial institutions and organizational structures of social protection—the state off-budget funds (Table 1).

In 1999 the law “About the State Public Assistance” which together with the laws “About a Subsistence Minimum in the Russian Federation” (1997) and “About a consumer basket in general across the Russian Federation” (1999) is basic norms of the third institutional form of social security—the public assistance is adopted.

However, financial security in full provided by laws of payments appeared it is impossible since their estimated volume by 1.5 times surpassed the income of the consolidated budget of territorial subjects of the Russian Federation. Thus, now there are two perspective institutes of financial security of social protection of the population of the Russian Federation is a social assistance and social insurance.

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However, financial security in full according to payments laws appeared to be impossible since their estimated volume surpassed the consolidated budget income of Russian Federation territorial subjects by 1.5 times (Scherbakov, 1991). So at present time there are two perspective institutions of social security financial support in Russian Federation: social support and social insurance.

Table 1. Financial support institutions at the modern stage

<i>Social risks</i>	<i>Financial support institutions</i>	<i>Institutional norms</i>	<i>Organizations</i>	<i>Incomes</i>	<i>Costs</i>
1	2	3	4	5	6
Disability, old age, breadwinner loss	Social support	Law governmental support in RF”	Government pension	Current incomes of Federal Budget	- long service pension; - old age pension; - disability pension; - survivor’s pension; - social pension.
	Social insurance	Laws: “About obligatory pension insurance in RF” “About non-contributory pension” “About funded pension”	RF Pension fund	Employer contributions (tariff 22% to a salary) Self-employed population’s contributions (tariff 26% to twelvefold minimum	Labor pensions: - old age; - disability; - loss of a breadwinner.

		“About state retirement pensions in RF”		living wage)	
Temporary disability, motherhood	Social insurance	Laws: - “About obligatory social insurance on the occasion of temporary disability and motherhood”; - “About welfare payments to the citizens who have children”.	Social insurance fund in RF	Employer contributions (tariff 2,9% to a salary)	Benefits: - on temporary disability; - on pregnancy and childbirth; - a lump sum at the child’s birth; - registered in the early term of pregnancy; - on child’s care before it achieves the age of 1,5 years;
	Social aid	Law “About Welfare Payments to the Citizens who Have Children”.	Territorial authorities of population social security.	Current Federal Budget incomes	monthly allowance on children aged till 16 years (Valiyeva, 2013)
Labor accident, occupational disease	Social insurance	Law “About Obligatory Insurance upon Labor Accidents and Occupational Diseases”	RF Social insurance fund	Employer contributions on the differential tariffs (0,2-8,5%) to a salary	Temporary disability benefit. Payments: - single; - monthly. Payment: - the additional expenses connected with medical, social and professional resettlement; - sanatorium treatment; - vocational education.
Needs in medical care	Social support	State guarantees program of rendering to citizens of the Russian Federation free special help.  Order of Ministry of Health and Social Development of Russian Federation No. 259, Russian Academy of Medical Science No. 19 of 06.04.2005 (edition of 30.10.2007).  “About rendering the expensive (high-paid) medical care at the expense of means of the Federal budget in the improving specialized medical institutions subordinated to Federal health care and social development agency, Federal Medical Biological Agency of	Government	Current federal budget income and budgets of federation’s subjects	Treatment Payment of social diseases and expensive medical care.

		Russian academy of medical sciences”.			
		The law about obligatory medical insurance in the Russian Federation”			
		Compulsory health insurance basic program			
	Social insurance	Law about obligatory medical insurance in RF”	Federal and compulsory health insurances territorial funds, medical insurance companies	Strazovy employer contributions (a tariff of 5.1% to a salary) and public authorities of Russian Federation territorial subjects (for unemployed population) on the differential tariffs	Medical services payment of health insurances territorial programs in Russian Federation territorial subjects.
		Compulsory health insurance basic program			
<b>Unemployment</b>	Social support	Law “About population employment in RF”	Federal population employment service	Current Federal Budget’s incomes	Benefits: - on unemployment; - on temporary disability.  Scholarship during training in the field of employment service.

Creation of social off-budget funds was a step towards social insurance. However it was impossible to realize the advantages of social security financial support organizations in the conditions of stagflation. Financial instability of many insurers, tariff-imposed base understating, and financial market immaturity excluded the possibility insurance reserves development, and also the capitalization process implementation of temporarily available funds. From the middle of the 2000th years in RF budgets of the government off-budget funds are scarce and are dated from the federal budget and federal government’s reserve funds.

The subsequent development of social security finance happened from social assistance to social insurance by the principle “a step forward—two steps backwards”.

As a result Budgetary and Tax codes’ coming into effect (2000), and also consolidation of Population Employment Fund in the federal budget social support institution of RF became, certainly, dominating in social security system not only from financial (as it was in the mid-nineties), but also from legal point of view by the beginning of a new century. Actually it turns out that reform of social security financing according to the social market state principles wasn’t implemented.

The reasons for this phenomenon should be looked for in the field of informal institutional norms which were formed in the society, and also in the field of politics, as the concentrated expression of economy. In the years of the Soviet power the idea of social protection in indissoluble communication with comprehensive patronage and guardianship from the state was created. Similar valuable orientations remained so far.

Salary’s low level in the majority of economic sectors did not allow to realize the most important principle of social insurance—personal participation in social insurance funds formation (the principle of self-responsibility). In the majority of the states with the developed capitalist economy, and also with the transformational and developing economy this principle is realized to some extent.

So, in socialist China according to the law on social insurance (2010) contributions tariffs to social insurance are differentiated on provinces and fluctuate about 33% for employers and 10% for employees (Rickhe, 2012). Similar approach introduction in the Russian Federation could increase financial stability of obligatory pension and medical insurance.

Unresolved problem of social security institution in the Russian Federation is a low efficiency of social payments. According to Rosstat in the I quarter 2014 the average pension about the country makes 10.8 thousand rubles, an average salary of 31.5 thousand rubles, i.e. the coefficient of replacement is equal 24.5% that is below

the indicator recommended by ILO for developing states. The Russians satisfaction with health care quality by data “Levada—the center” in 2012 did not exceed 20%. In this situation RF Parliament cannot approve 102 Convention of the ILO (1952) which at present time is ratified by 46 countries, including the 31st European state (Holzmann).

#### 4. Conclusion

The strategic objective of social security institutional construction is to be social risks ensuring compensation in the form of payments at the level which is not below a subsistence minimum, and also rendering free medical care in the guaranteed volume to all members of society who need it. Social security institution development has to be carried out on the principles of generality, solidarity, efficiency, historicism and the accounting of informal norms. The rational combination of all social security financial support institutions is necessary at primary social insurance development as institute which is the most effective in the market conditions. For strengthening financial stability of social insurance organizations it's necessary to provide participation in insurance funds formation, and also strengthening the principle of insurers social responsibility, including delegation a number of powers under the social contract by the state.

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