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Kazakhstan – Retirement Reform Means New Employers' Charge, Calculation for Individuals' Pensions

by KPMG, Kazakhstan (a KPMG International member firm)

flash Alert

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Starting from 1 July 2017, the procedure for calculating the basic pension will change in Kazakhstan. How the pension entitlement and pay-out are determined will depend on the period during which the individual participated in the local pension system. Moreover, employers will have a new pension-related contribution to pay starting in January 2018.

Why This Matters

The new pension rules will affect how much an individual contributes to the Kazakh pension system and the amount of pay-out he or she qualifies for upon retirement. Rather than the current system whereby a retired individual receives from the state a fixed amount of the retirement social allowances, from 1 July 2017, the state will pay to retired individuals basic pensions that will depend on the period during which the individuals participated in the Kazakhstan pension system.

Most Kazakh citizens on international assignments will be affected by these changes in the pension system.

This will not affect foreign assignees working in Kazakhstan who do not participate in the Kazakh pension system.

Employers will see their employment-related costs rise from 2018 with the imposition of a new 5-percent employer's obligatory pension contribution (EOPC) to the Unified Accumulative Pension Fund. The rate is applied to gross employment income.

Background

Pension payments in Kazakhstan consist of two parts – guaranteed payments from the state budget and payments from the Unified Accumulative Pension Fund. The government establishes the minimal level of the basic pension assigned to participating Kazakh citizens on their retirement. Pay-outs from the Unified Accumulative Pension Fund depend on the contributions that an individual made to the fund before his/her retirement.

Currently a retired individual receives from the state a guaranteed fixed amount of the retirement social allowance that slightly exceeds 50 percent of the value of the subsistence level per month. In addition, the individual receives monthly pay-outs from the Unified Accumulative Pension Fund, provided that he/she made contributions to the fund before his/her retirement.

New Changes in Basic Pensions

Starting from 1 July 2017, the procedure for calculating the basic pension will change.¹ A basic pension will be granted to an individual upon his/her retirement and will depend on the period during which the individual participated in the Kazakhstan pension system.

If an individual participated in the pension system 10 years or less, the basic pension will be 50 percent of the subsistence level² established for a respective financial year. Each full year of participation in the pension system in excess of 10 years will increase the basic pension by 2 percent of the subsistence level.

The basic pension is capped at the value of the subsistence level. The maximum basic pension equal to the subsistence level will be assigned to individuals with 35 or more years of participation in the pension system. Due to the introduction of the basic pension, statutory amendments cancel the retirement social allowances.

Example:

Let us consider a person with the following personal fact pattern:

- Number of full years of participation in the pension system: 22
- Monthly pay-outs from the Unified Accumulative Pension Fund (depend on contributions): 40,000 tenge.

The person's pension under the current system:

- Monthly retirement social allowance: 11,182 tenge
- Total monthly pension = 40,000 + 11,182 = 51,182 tenge

The person's pension after 1 July 2017:

- Subsistence level for 2015 = 21,364 tenge
- Basic pension = $((22-10)*2+50)*21,364/100 = 15,809$ tenge
- Total pension = 40,000 + 15,809 = 55,809 tenge.

New Employer Component of the Accumulative Pensions System

Starting from 1 January 2018, employers in Kazakhstan must pay a new component of the accumulative pension system – employer's obligatory pension contributions (EOPC) – to the Unified Accumulative Pension Fund.³ The EOPC rate is 5 percent of gross employment income. The EOPC will be borne entirely by Kazakhstan-based employers. The Unified Accumulative Pension Fund will record EOPC on nominal pension accounts opened for each employee. In contrast to pension contributions withheld from salaries or paid by individuals for themselves, EOPC will not represent the property of individuals for whom they are paid; rather, it will generate a common pool of funds held by the Unified Accumulative Pension Fund. An excess of EOPC remitted to the fund for an individual over the person's pension payments from EOPC remaining in the fund after the person's death will stay with the fund and will not be inherited by the person's heirs.

Pension payments from EOPC will be assigned to retired individuals and persons with a continuing disability of the first or second categories, as defined by law, provided that the EOPC for them had been paid for at least 60 months in total. Pension payments from the EOPC funds will be paid throughout the individual's post-retirement lifetime. The maximum monthly pension payment from the EOPC will be capped at two times the subsistence level established for the respective financial year.

Footnotes:

1 Law No.342-V of the Republic of Kazakhstan on Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan Related to Pension Benefits, dated 2 August 2015.

2 The value of the subsistence level for 2015 is 21,364 tenge (approximately USD 70 at the exchange rate effective on 20 November 2015).

3 See footnote 1.

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KZT 1 = USD 0.00264 | EUR 0.00243 | GBP 0.00184 | RUB 0.20644

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