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# The health implications of social security failure: evidence from the Russian pension crisis

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## Abstract

We explore whether health is vulnerable to income shocks, focusing on a recent crisis in Russia during which many pensioners were not paid for an extended period of time. Using panel data spanning the crisis, we find that among affected pensioners, poverty rates doubled, and the intake of calories and protein and the use of health services and medications declined significantly. These pensioners were also 5 percent more likely to die in the two years following the crisis. However, households responded in ways that mitigated the impact of the crisis, replacing one-fifth of lost pension income through increased labor supply and asset sales.

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## 1. Introduction

Throughout the world, households face income risks and volatility, for example due to job loss and unemployment, or unanticipated health shocks. There has been a great deal of research on the ability to smooth consumption in the face of income fluctuations, and the

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mechanisms through which this is accomplished.<sup>1</sup> An equally important concern is whether there are health consequences associated with imperfect consumption smoothing and incomplete insurance (see [Strauss and Thomas, 1995](#), for a review). Understanding the health consequences is important not only because health is as important an indicator of well-being as consumption, but also because of the potential for ‘vicious cycles,’ wherein economic shocks leads to worse health, which in turn lead to diminished earnings capacity or even another income shock, such as job loss.

Ironically, in many parts of the world, public social insurance programs themselves are increasingly becoming sources of volatility at the household level. For example, many countries face concerns over the stability of their pension systems, especially due to population aging, system financing or management. Further, there have recently been several cases of pension crises (for example, Argentina, China, Poland and Russia), resulting either in extended periods of non-payment of benefits, or the erosion of entitlements to below subsistence levels. This instability can be expected to directly affect the well-being of the elderly, who are typically highly dependent on pensions as their largest, or only, source of income. In this paper, we focus on the welfare and health consequences of the failure of the Russian pension system in 1996, and what strategies households employed to cope with the loss of income.

Prior to 1996, Russia’s generous state pension system was fairly stable; pension fund revenues, collected primarily through payroll taxes, were broadly sufficient to cover outlays. However, poor economic performance, weakened tax enforcement and a wave of tax amnesties and exemptions leading up to the Presidential elections in 1996 resulted in a sharp decline in payroll tax collection, compromising the financial stability of the fund. As a result, approximately 14 million of the 39 million pensioners underwent a sudden, prolonged period during which they did not receive any payments (‘in arrears’).

Our interest focuses around two major themes. The first is whether the loss of the pension adversely affected health. Given the great dependency of the elderly on the pension system, one might expect that a pension failure would lead to worsened health, especially because of the diminished ability to purchase the inputs into health (for example, nutrition, medication and the use of medical services). In this spirit, our work adds to the growing literature concerned with the impacts of socioeconomic status on health.<sup>2</sup> An advantage over previous studies is that we exploit an exogenous income shock, so the direction of causality is clear, and directly examine the use of specific health inputs which could lead to changes in health outcomes. Other studies have found positive benefits of exogenous increases in income; for example, in a ‘reverse experiment’ of the present case, [Case \(2001\)](#) and [Duflo \(2000a\)](#) find that increases in pensions in South Africa lead to improvements in health. For Russia specifically, this study also provides an important link for understanding the dramatic decline in health that followed economic transition and the subsequent economic decline. Russia in the 1990s experienced one of the largest peacetime (non-epidemic) declines in health in human history ([McKee, 1999](#); [Brainerd and Varavikova, 2001](#)). This paper fills an important gap, because while the health and economic crises have separately received considerable attention from researchers, the links between the two are less well explored.

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<sup>1</sup> See [Besley \(1995\)](#) and [Morduch \(1999\)](#) for summaries of this literature.

<sup>2</sup> For example, [Fuchs \(1993\)](#), [Marmot \(1994\)](#), [McIntyre \(1997\)](#) and [Smith and Kington \(1997\)](#).

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