



March 2009

Armenia Pension Reform Update

1. Summary

The pension reform process in Armenia has taken many years; reformers have considered many international examples. The current pension system is unsustainable. The reformed system will include:

- A minimal safety net for those who do not contribute, indexed to CPI
- A basic pension based on years of contributions, indexed to CPI and
- A funded pension component reflecting individual contributions that is invested and paid in the form of annuities

GOAM has designed pension reform to maximize use of private sector entities and existing state agencies. In addition to pension reform, the GOAM is changing the income tax structure and centralizing collections, consolidating the functions of the social agency and the tax agency.

USAID has supported the pension reform process because of its relevance to US strategic objectives in Armenia. USAID support is now shifting from support of pension policy design to support for pension reform implementation.

Broad reach The pension system touches all Armenians--elderly who get adequate pensions and elderly who do not, as well as firms and employees who contribute and those who do not.

Long-term impact The decisions taken in pension reform will affect the welfare of pensioners, the burden on workers and employers, and the fiscal sustainability of the state budget for many decades.

Democracy & governance The SPSS pension component, like all Project components, promotes good governance in the social sector, working to improve the extent to which government programs such as pensions serve the people, and increasing transparency and accountability in order to reduce corruption in governance structures. This is an important aspect of grassroots and local-level democracy promotion.

Anti-financial crisis measures The current worldwide financial crisis also affects Armenia. The SPSS pensions and other components are working to strengthen social programs that are even more important during crisis times, in this case providing an important income source for the vulnerable elderly.

The rest of this document is arranged as follows: Part two discusses the pension reform process. Part three summarizes the pension reform proposal, while Part four summarizes our current technical assistance; Part five lists technical assistance required for continued successful implementation of pension reform.

2. Pension Reform Process

The Government of Armenia (GOAM) has been developing a pension reform proposal for many years. At the inception of the SPSS project, policymakers were already familiar with international pension reform models, and some consensus had formed regarding the broad outline of reform. Armenia inherited a financially unsustainable pension burden (see attachment A, memo on the current pension system) and explored various international solutions. GOAM decided that the unfunded PAYG pension system is to be replaced by a multi-pillar system providing a social safety net for the vulnerable regardless of past contributions (Zero Pillar), a basic pension for those who contribute with some differentiation based on years of service (First Pillar), and a mandatory funded individual savings account for current workers that will be invested (Second Pillar). See attachment B, a chart showing the multi-pillar model and terminology. This reform program reflected the proposal of the Central Bank (CBA) and in particular the vision of one of its experts who now heads the Ministry of Economy (MoE).

An inter-agency Pension Reform Working Group (PWG) appointed by the GOAM finalized a pension reform White Paper. Participants included the CBA, the Prime Minister's Office, the Ministry of Labor and Social Issues (MLSI), the State Social Security Service (SSSS, now a subdivision of MLSI), the MoE and the Ministry of Finance (MoF). It was often chaired by the former head of the CBA, now the Prime Minister. Once the PWG delivered a White Paper to the GOAM, it was formally disbanded. While there were two different perspectives in the PWG, with the MLSI opposing a funded pension system, once the final decision was made, the Prime Minister designated the MLSI as the agency responsible for implementation.

A Pension Reform Implementation Working Group (PRIWG) was formed, with active participation by the State Revenue Committee (SRC), the MoF, and the MoE. CBA experts working on pension reform have been moved to MLSI as advisors to the Minister. Four pension laws implementing the program have already been drafted and presented to the GOAM by the PRIWG.

To make the reform successful, further work is needed: parameters must be set so the reform is fiscally sustainable, the allocation of resources among and within generations is equitable, and labor market incentives are improved; administrative arrangements must efficiently perform complex tasks of collecting and tracking contributions; and governance structures must safeguard investment of pension assets. In the reform proposal, the State Revenue Committee (SRC) has been given the task of reconciling contributions to individual accounts—a critical and very difficult responsibility. In addition, the current income tax and social tax will be combined into a unified tax. For the SRC to take on any pension administration functions, considerable resources must be allocated to a new information process.

Recent developments include:

- Legal drafting is advanced and four laws (on the unified tax, personified recordkeeping, PAYG pensions and funded pensions) have been presented by the PRIWG to GOAM;
- The Prime Minister has conducted a discussion of the proposal January 23;
- SPSS delivered a business process maps for the entire system to the PRIWG, with emphasis on the processes within the SRC, but also including other agencies;
- SPSS is providing project management support to the PRIWG, including maintenance of a detailed Gantt chart showing implementation steps and development of forms for needs assessment for each agency;
- Public information planning is ongoing, especially by the CBA staff moved to MLSI;
- The development of terms of reference for an IT system within the SRC is underway with intense SPSS support.

3. Pension Reform Proposal

Reform Proposal: The final PWG proposal provides as follows:

- For those with at least 10 years of social tax payment, some of which are prior to the effective date of the reform, an Employment Pension (First Pillar) financed by a unified tax of 26% of wages; the First Pillar consists of two parts: 1) a flat Basic Pension, this pension is the basis for all other benefits; and 2) an amount reflecting years of contributions prior to the reform;
- For those whose years of social tax payment are entirely after the effective date of reform, only the Basic Pension is to be paid to those with 10 years of social tax payment;
- A social pension (Zero Pillar) for those without 10 years of social tax payment, set to be 80% of the Basic Pension;
- Automatic indexation of Zero and First Pillar pensions;
- Individual funded pension accounts (Second Pillar) financed by contributions of 10% of wage, 5% paid by workers and 5% by the state, up to a ceiling; when the ceiling is reached high income workers will pay more than 5% in order to reach the full 10%; the employer share is part of the 26% unified tax, meaning the labor burden now will be $26\% + 5\% = 31\%$ -- a five percentage point increase on current obligations;
- A new unified tax, collected by the SRC, will replace the income tax and social contribution tax; SRC responsibility will also include collection of personified data for the second pillar replacing the PARNAS system established at SSSS;
- The data collection will be electronic;
- Transfer of Second Pillar savings to a centralized depository that will serve as a clearinghouse and storage of individual data, as well as a custodian, transmitting assets on the individual accounts of workers to asset managers chosen by workers;
- Investment by licensed asset managers chosen by individuals; and
- Third Pillar voluntary individual pension system.

The GOAM has identified NASDAQ OMX as the appropriate entity to provide the centralized depository service. NASDAQ OMX has recently purchased the securities exchange of Armenia and performs similar functions in several other countries. For additional detail, see the “Short Description of Pension Reform Proposal” prepared by SPSS in November 2008 as a preliminary draft of a public information document for use by MLSI.

The broad concepts of the reform are sound and follow a number of recent international reform examples. The reform provides a social safety net for the vulnerable and incentives for higher income individuals to remain in the formal sector by establishing a Second (funded) Pillar. Automatic indexation will protect the vulnerable. Armenian pension amounts have not kept pace with GDP and wage growth. Increases were done sporadically on the election cycle. A summary of the reform has been prepared by the PRIWG and approved by the GOAM (it is still being translated).

Nevertheless, this proposal has risks. Capital markets in Armenia are extremely shallow and cannot readily absorb a funded pillar; investment would have to be on global markets through a limited number of asset managers. Management through domestic asset managers will be costly.

The PWG decided to abandon the personified recordkeeping system PARNAS developed within the SSSS for the current pension system, because it does not have state of the art technology and has not fulfilled its mission. SSSS was required to personify data since 2004 to have data for pension awards and was also required to report on a regular basis to employees. PARNAS has never been used for pension awards, and not a single report has been produced from that system.

The proposed collection infrastructure will require significant changes to the business process of the SRC and a new information management system. It has started the process of designing the system and will need additional resources. In a funded system with individual accounts, poor collection of contributions and information could be catastrophic. Introduction of funded program without adequate governance and infrastructure is a risk.

Implementation Activities and Planning The final White Paper proposes an effective date of 2010, not 2009, but this is still ambitious. No country has implemented pension reform as scheduled. Laws have been drafted, a business process design has been initiated and IT planning is in process. Public information efforts are underway. NASDAQ OMX has initiated its own study to identify what will be necessary for its role in Second Pillar implementation. There is however, no budget yet for implementation and no detailed implementation plan has been approved. The absence of a budget is the main shortcoming. Project management is has been initiated but some unrealistic deadlines remain. While a plan for the reformed system exists, there is no transition plan on how the government agencies will be transformed to achieve the change.

4. USAID SPSS Project’s Technical Assistance Activities to date

The SPSS Project has worked with multiple counterparts to advance pension reform. USAID/SPSS assistance has included the following: training and study tours to educate on pension reform issues and experiences; support in preparing the White Paper; modeling and

analysis; legislative drafting; analysis and planning of administrative processes and IT needs. SPSS assistance has shifted from being primarily policy analysis and development, to planning and executing implementation.

Support to Pension Reform Working Group SPSS has supported the PWG by modeling pension reform and drafting reform policy papers. In addition, SPSS presented seminars on a variety of pension reform issues and the multi-pillar model. SPSS staff provided draft documents to the PWG in response to specific requests. In addition, SPSS brought in experts from Lithuania and Estonia at the PWG's request to critique the White Paper. SPSS has also commented on several drafts of the White Paper, including the final version delivered to the GOAM. Its comments identify weaknesses and risk in the design.

Related Conferences and Study Tours A number of targeted study tour opportunities have also been organized for all of the project's counterparts. In light of the GOAM decision to develop a centralized funded Second Pillar for the pension system, study of countries with such reforms was critical. Before SPSS was started, USAID organized a study tour to Bulgaria and Croatia. Russia has been an important reference point due to problems in its Second Pillar funded pension reform. Estonia has been viewed as a model by Armenian reformers. Accordingly, the project organized attendance at a conference in Russia discussing problems in that system. A longer study tour was organized to the best-regarded recent pension reform with a centralized funded Second Pillar, Sweden, as well as to Estonia. There was a study tour to review Second Pillar reform implementation in two lower income countries, Kosovo and Macedonia. SPSS conducted a roundtable to discuss "lessons learned."

Modeling Pension System Finances The SPSS Project prepared an economic and demographic model in order to project the finances of the pension system (attachment C). MLSI used the model to review pension reform options. Additional scenario calculations using the SPSS Pension System Model were made upon MLSI requests throughout the reform discussion process. In addition, the SPSS model has been used for discussions of options with the PWG. MLSI employees were trained to use the model in 2007 and 2008 and ongoing additional work is underway to strengthen their capacity.

Business Process Analysis of Current System SPSS also worked with the State Social Security Service (SSSS) to provide a business process analysis of current operations. A detailed analysis of business process of 10 SSSS offices was delivered in September and forms the basis of further joint work.

Information Strategy Harmonizing social sector databases to cross-check eligibility and improve security is important. SPSS has been developing a strategy for social sector database management. The vision is to introduce Citizen-friendly e-services in all social protection state agencies and to promote the use of self-services by citizens and enterprises. GOAM is committed to advancing e-governance, and this initiative deserves support, even though the timetables proposed are at times unrealistic. The SPSS project was designed to coordinate with a World Bank effort to purchase systems for social protection. That project has not fully expended its resources and has been stopped by GOAM, apparently this is because the GOAM decided that it is not appropriate to purchase a corporate network for the social protection sector.

Legislative Drafting The current implementation plan calls for four laws: 1) on the unified tax; 2) on personified recordkeeping; 3) on the PAYG pension system and 4) on the funded pension system. SPSS staff drafted a complete text of the PAYG and funded pension laws for PRIWG teams, commented on the law on the unified tax, and proposed a replacement text for the law on personified recordkeeping.

Ongoing Assistance to PRIWG SPSS has produced a series of memos for PRIWG providing information in a number of areas. In particular, SPSS calculations of the cost of a proposed minimum wage deduction in the unified tax resulted in the PRIWG modifying the proposal.

Business Process Mapping with SRC, CDA and others An important new reform activity is the review of the business process and IT capacity of the SRC tax division, formerly the STS. As noted above, the White Paper assumes a central role for the SRC for collection of contributions, reconciliation and verification, and receipt and review of personified data. The SRC must engage in data collection that is personified to the level of the individual. SPSS has initiated work with the SRC to develop a detailed map of the necessary business process. Another very important agency will be OMX, the centralized depository, which will maintain individual accounts, serve as custodian, and transmit assets to asset managers. Other business process maps have also been done showing the flow of money and information.

Coordination with FSDP Project The Financial Sector Deepening Project has supported pension reform through participation in working groups and advice as to the draft investment fund law. In addition it has supported the GOAM in its arrangements with NASDAQ OMX. It is expected that FSDP will continue to assist with respect to issues addressing asset management, investment, and in particular licensing of asset managers for the Second Pillar, in order to assure that these processes are consistent with overall regulation of the financial investment sector.



Attachment A

Overview of the Current Pension System

The pension system provides old-age, privileged, disability and survivor benefits, on a pay as you go (PAYG) basis. Both employers and workers contribute. The pension age for men is 63. The pension age for women was 62 as of January 2009, increasing by 6 months each year until reaching 63 in 2011. The pension formula is based on length of service, without reflecting salary levels.

Recognizing the low level of pensions, the GOAM increased all pensions by 60% as of January 2008. Annual increases are scheduled to 2012 to reach the level of the minimum consumption basket by 2012. The IMF estimates that this could add up to 1.4% of GDP to total annual spending.¹ The current pension system cost is 2.6% of GDP. With the announced increases, costs were projected to rise to 3.8% of GDP in 2008, reaching 4.3% of GDP in 2012. According to GOAM, all combined pension expenditures should be 5.4% of GDP in 2021 and insurance pensions should be 4.5% of GDP. Nonetheless, pension increases have not kept pace with wage increase or inflation.

2008 Average monthly wage	91,331 AMD (\$299.44)
2008 Minimum monthly wage	25,000 AMD (\$81.96) 305 AMD/\$1
2008 Minimum social pension	6,800 AMD (\$22.29)
2008 (first half) Average Insurance pension	22,524 AMD (\$73.84)
2008 (first half) Average Old Age Insurance Pension	24, 246 AMD (\$79.49)

The minimum monthly wage for 2009 has been increased to 30,000AMD.

The inadequacy of pensions has a gender dimension. Women are the majority of pensioners. In every age group the pensions of men exceed those of women, due primarily to longer work history, on average.

While the current PAYG pension system was in financial balance in 2007, it had problems common to many countries: low and inadequate benefits, demographic problems, low pension ages, high tax evasion, lack of a strong relationship between contributions and benefits, too many privileged pensions, lack of reliable individual records, etc. Despite low pensions, under current demographic trends the SSSS is projected to go into deficit by 2025. A major factor is low coverage. Armenia has less than one worker for each pensioner.

¹ IMF Republic of Armenia, Staff Report for the 2008 Article IV Consultation, page 14.

Labor force (economically active population)	1,194,600 (source RA NSS)
Workers for whom contributions are made	481,987 (source RA SSSS)
Pensioners	522,662 ² (source RA SSSS)

The data developed above by NSS is based on statistics collected from large enterprises according to law, and differs from wage data reported by employers to the State Social Security Service (SSSS) for 2007. NSS data is not linked to contributions, while SSSS data is based on contributions. SSSS reports the following wage categories for 2007:³

Minimum wage earners	40,502
Earning under 100,000 AMD	338,764
Earning over 100,000 AMD	102,721
Sole entrepreneurs, self-employed	30,105
Total	481,987

The contribution rate to SSSS varies by income, and is regressive. The contribution by income tranche is:

Income Tranche	Employer Share	Employee Share
Income up to 20,000 AMD	7,000 AMD	3% of wage
From 20,000 to 100,000 AMD	7,000 AMD plus 15% over 20,000 AMD	3% of wage
100,000 AMD and more	19,000 AMD plus 5% of the amount over 100,000 AMD	3% of wage
Sole entrepreneurs, self-employed	5000 AMD per month	NA

The rationale for the regressive social contribution rate is explained in part by the progressive income tax rate and in part by the assumption that all employers understate the actual wage rate and therefore the lowest wage should be taxed most.

Collecting from the informal economy is difficult. Collections were moved from the SSSS to the State Tax Service, now State Revenue Committee (SRC) in 2004 and while the amounts collected increased, reflecting wage growth, the coverage rate has not grown. Not everyone in the formal sector contributes.

The agricultural sector, formally half of the economically active population, is by law no longer required to contribute to SSSS, is no longer accruing service and will increasingly receive only social pensions. According to the agreement reached by Armenia with WTO, the agricultural population is to start paying VAT in 2009, but this will not affect pension coverage.

² This includes 469,107 contribution based, 47,140 social and 12,009 military pensions; there are pensioners who receive two pensions, military and other pensions.

³ Source, SSSS; by law employers report the previous year's wage data to SSSS by April 1. Only 2007 data are available.

Official data consider all persons who own land and are not otherwise employed to be agricultural workers. This agricultural sector is the major source of labor migration to other countries, primarily Russia. According to estimates, fully 20% of Armenian households were involved in labor migration in 2002-2007, with an absolute number of labor migrants between 162,000 and 189,000. Labor migration is dominated by the rural population, 90% of labor migrants are men, and 96% of labor migrants go to Russia.⁴ As of 2008, a quarter of labor migrants returned permanently to Armenia.⁵ The economic crisis in Russia may lead to an increase in that category, as well as to a decrease in remittances.

⁴ Return Migration to Armenia 2002-2008 - A Study, 2008, Yerevan, Asoghik, funded by OSCE, pages 10-13.

⁵ *ibid*, page 19.

Short Description of Pension Reform Proposal

The government of Armenia is proposing a reform of Armenia's pension system. The goal of this reform is to establish a pension system which will ensure some type of income for each and every elderly person, from a minimum benefit exceeding the poverty line to replacing a substantial part of an individual's income before retirement. For this purpose, the Government of Armenia will introduce a new multi-pillar pension system financed from various sources.

This paper provides a summary of the work done by the Pension Working Group which has resulted in the reform being presented by the Government. There is an appendix which explains pension concepts in more detail. A complete discussion of these issues may be found in the Pension Working Group White Paper.

Why must Armenia reform the pension system now?

An analysis of the current socio-economic situation shows that the current pension program is not financially sustainable because of the structure of the current system and expected changes in the demographics of the population.

Currently, contributory resources cover the cost of insurance pensions. However, the level of pensions is very low and is not consistent with the government's policy that the basic pension should equal 100% of an individual's basic costs (the consumer market basket). With this policy, in future years there will be a growing gap between contributions and the costs of pensions.

In addition, many people participate in the informal economy rather than making social contributions. Calculations show that only 31.7% of the economically active population makes social contributions. In part, this is because the structure of system does not provide incentives for participation. In the current system:

- The insurance pension is quite small
- There is a narrowing gap between the amounts of insurance and social pensions
- There is no link between contributions and pensions

The composition of the population in Armenia is also changing so that there will be a higher percentage of retired persons in the population. This is a result of:

- Longer life expectancy
- A declining birthrate
- A negative migration balance (emigration is higher than immigration)

The current pension system in Armenia is a pay-as-you-go system, meaning that current pensions are paid from the contributions of current workers. For this reason, it is common to calculate

how many workers are paying for each pensioner, the ratio of pensioners to workers. In 2005, there were about 101 workers for 100 pensioners. It is estimated that by 2012, there will only be 75 workers for 100 pensioners. In order to pay adequate pensions, there would be a heavy burden on workers.

Radical reforms of the current pension system are needed, which must be planned seriously and implemented to achieve two important objectives:

- Ensure significant increase of pensions in the short term,
- Ensure the link between contributions made from individual's incomes and pensions in the long term.

The Government of Armenia has already taken the first step in this direction by increasing pensions by more than 60%. Starting in January 1, 2008, the amount of the basic pension increased from 4250 drams to 6800 drams, and the amount for each year of service increased from 230 drams to 395 drams.

What is the structure of the reformed pension system?

The proposed system will be made up of four parts, referred to as pillars, which work together to ensure adequate incomes for elderly people in Armenia.

Pillar 0: Social Pension

The "0" pillar will be used to pay a social pension, which aims to provide a minimum income to those individuals who are not eligible for pensions but who are elderly, disabled or the survivor of an individual without a pension. The social pension is paid as a flat amount to those who are left out of the other pillars of the system, persons who:

- Have never worked and/or have never accumulated contributions;
- Have worked in the informal sector of the economy or have failed to make mandatory contributions;
- Have made contributions to the funded component for less than 10 years. Currently, this requirement is 5 years. It will be raised from 5 to 10 years gradually between 2010 and 2015.

The size of the social pension will amount to 80% of the basic pension. This is intended to encourage people to join the formal employment sector.

Pillar 1: Employment Pension

The "1" pillar is the foundation for the multi-pillar system since it ensures social protection for pensioners and standards of living guaranteed by the State. It will be paid from the State budget. It is made of two parts: the basic pension and, in some cases, an insurance component related to length of service. Individuals are eligible who:

- Have 10 years of creditable service. Currently, this requirement is 5 years. It will be raised from 5 to 10 years gradually between 2010 and 2015.
- Have reached the age of 63
- Have become eligible for pension by legislation or in accordance with provisions defined by inter-state agreements.

The basic pension is a universal flat rate amount payable to everyone eligible for the “1” pillar. The size of the basic pension is defined by legislation and is indexed to the growth of the average salary in the country.

The insurance component is differentiated by length of service so it will be assigned to people who have reached the age of 63 with length of service equal to or above 10 years. This pension is intended to provide an incentive for participation in the formal economy.

Pillar 2: Mandatory Funded Pension

The “2” pillar, a completely new part of the pension system, is a mandatory funded pension which is intended to compensate individuals based on their contributions. Participation in this pillar will be mandatory for persons born on or after January 1, 1970 and/or those who are under 40 on their first entry into the labor market. Participation will be voluntary for others who do not meet this age restriction.

For mandatory participants, the amount of contributions will be 10% of the individual’s salary, 5 % from the individual and 5% from the State. The State contribution will not exceed 25,000 AMD per month, so individuals who earn more than 500,000 AMD per month will be required to contribute a higher amount. This will replace the insurance component of Pillar “1”.

Voluntary participants will contribute 5% of salary but will not receive the additional State contribution. However, they will still receive the insurance component of Pillar “1”. Once enrolled in Pillar “2”, an individual may not choose to withdraw.

Pillar “2” contributions will be taxed. Revenues from contributions and pension paid are tax exempt.

Contributions will be collected from employers by the State Revenue Committee (SRC) as part of collection of a new unified tax which replace the current income and social contribution taxes. The unified tax will be 26%, which is about the average rate currently paid for the two taxes. In addition, employees participating in the “2” pillar will contribute 5% of their wages which will be deposited in their individual pension accounts.

The SRC will also collect personified data to identify individual contribution amounts. After validation, these contributions will be credited to the individual’s pension account through the Central Depository of Armenia (CDA). The individual will also choose an asset manager and a portfolio in which his/her contributions will be invested. There will be information upon which to base such a choice. He/she may make a new selection once a year without charge. The

individual will receive a statement showing the status of the pension account once a year. There will also be electronic access during the year.

The Central Depository of Armenia will be responsible for acting as an intermediary between pension account holders and asset managers. Asset managers will not know the identity of pension account holders to ensure that they do not inappropriately influence account holder choices.

The government will not provide absolute or relative guarantees for pension asset investments. Through the Financial Market Supervision Service of Armenia, the government will ensure the safety of pension assets through strict supervision and regulatory mechanisms.

At retirement, the person is entitled to use his/her pension in one of the following ways:

- Programmed withdrawal: Receiving a monthly pension according to a specific scheme.
- Annuity: Accumulated amounts are transferred to an insurance company, which commits to pay a certain amount monthly for the person's lifetime.
- Lump-sum Payment: In specific cases, the person has a right to withdraw all of the accumulated fund in a single payment.

Pillar 3: Voluntary Funded Pension

The "3" Pillar will allow any Armenian resident to make voluntary contributions to generate revenues available upon retirement. These contributions will be tax deductible for an amount up to 5% of declared income. Revenues from the contributions will not be taxed as they are earned, but pensions paid will be tax exempt.

"3" Pillar contributions may be implemented in two ways:

- Through the mechanisms established for Pillar "2" using the services of the CDA, or
- By a private sector company which provides voluntary funded pension insurance. This company would be supervised by the Financial Markets Supervision Service.

What is the financial impact of the proposed reform?

One goal of the reform is to provide a pension system which will provide adequate retirement income for individuals within a sustainable budget for Armenia. The reform proposes to meet this goal by creating a multi-pillar system. The State managed pillars "0" and "1" will provide pensions from the State budget. The reform proposes to replace the current income tax and social contribution tax with a new unified tax. This is consistent with the proposal that pillars "0" and "1" will be paid from the State budget.

The privately managed pillars "2" and "3" will allow individuals to accumulate assets which will provide additional retirement income related to the wages they have earned. By requiring that individuals save for their retirement, those individuals will achieve a higher retirement income while reducing the demands on the State budget.

The tax provisions of the reform are designed to make investment in private retirement accounts attractive. For the mandatory “2” pillar, revenues from the contributions and the eventual retirement amounts will be not taxed. For the voluntary “3” pillar, contributions up to 5% of wages will not be taxed and the revenues and retirements will also not be taxed.

The full financial impact of the proposed reforms will not be known until current young workers begin to retire and receive benefits from their accumulated contributions. Experts have made estimates based on sophisticated models which show that in the long term, the proposed reform will make the Armenian budget more sustainable because some of the costs of supporting retired persons will be met from their own accumulated resources.

Which parts of the Government of Armenia are responsible for pension reform?

Under the proposed reform, the Government is directly responsible for managing Pillars “0” and “1”. For Pillar “2” the government is responsible for collecting contributions and delivering them to the Central Depository of Armenia. After deposit, Pillar “2” is managed by private entities. Pillar “3” is managed by private entities.

In this process, many parts of the government have important responsibilities.

- The Ministry of Labor and Social Issues (MLSI) is responsible for state pension security and for implementation and supervision of pension policy. Agencies within the MLSI have specific responsibilities.
 - The Social Security State Service (SSSS, previously the State Social Insurance Fund) is responsible for administration of the “1” pillar.
 - The Labor Inspectorate will perform authenticity checks of documents submitted for assignment and payment of pensions.
- The State Revenue Committee (SRC, previously the State Tax Service) is responsible for collection of taxes and of personified information on the unified tax and mandatory/voluntary funded contributions.
- The Ministry of Finance and Ministry of Economy will ensure development of financial, economic and fiscal policies and funding of state pensions.
- The Central Depository of Armenia will be responsible for centralized administration of the funded component of the reform. This includes maintaining information about individual accounts and acting as the intermediary between individuals and asset managers.
- The Financial Markets Supervision Service will regular, license, monitor and supervise the activities of financial systems of the pension system, such as asset managers, private pension insurance companies and the CDA.