OLD AGE MULTI-PILLAR PENSION REFORM IN ARMENIA

Central Bank of Armenia

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CHARACTERISTICS OF PENSIONS IN THE PAST

- Single pay-as-you-go (PAYG) pension system
- No funded pension contributions
- Low retirement benefit
- Low replacement ratio
NEW APPROACH TO A SOLUTION: MULTIPILLAR PENSION SYSTEM

- The Government has launched an one-time and far-reaching pension reform with a material influence on future pension entitlements.
- Moving from “Solidarity pensions” to Defined Contributions (DC) mandatory funding and voluntary (complementary) pension funding.
NEW APPROACH TO A SOLUTION: MULTIPILLAR PENSION SYSTEM (cont.)

- Maintain first pillar benefits
- Introduce mandatory DC second pillar
- Encourage voluntary third pillar
## COMPONENTS OF ARMENIAN MULTIPILLAR PENSION SYSTEM

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Social pension</th>
<th>Basic Pension</th>
<th>Social pension</th>
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<tbody>
<tr>
<td>O Pillar</td>
<td>I Pillar</td>
<td>II Pillar (mandatory)</td>
<td>II Pillar (voluntary)</td>
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<td>Funded (mandatory) pension</td>
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<td>Pension for years of service</td>
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</tbody>
</table>

- **I Pillar**: Funded (voluntary) pension
- **II Pillar**: Funded (mandatory) pension
- **III Pillar**: Social pension

- **Social pension**: Paid by the government and based on缴费 (voluntary) or (mandatory) contributions.
- **Basic Pension**: Paid by the government and based on缴费 (mandatory) contributions.

- **Pension for years of service**: Paid by the government and based on缴费 (mandatory) contributions.
CONTRIBUTIONS IN 2\textsuperscript{nd} PILLAR

**Mandatory participation**

- 5\% of salary (not more than AMD 25000) is paid by state
- 10\% of salary is transferred to participant’s pension account

**Voluntary participation**

- 5\% of basic income of voluntary participant
- 5\% of basic income is transferred to participant’s pension account
DISTRIBUTION OF INCOME TAX AND PENSION CONTRIBUTION

Employee

- Salary – 5% - 24.4% (26%) income tax

Self-employed, sole proprietor etc.

- 5% pension contribution + 24.4% (26%) income tax

State Revenue Committee

- Payment Order

Bridge account with Treasury

- 5% pension contribution, not more than AMD 25,000

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- 10% pension contribution

State

- 5% pension contribution

Employer (Tax agent)

- 5% pension contribution + 24.4% (26%) income tax

Central depositary
CHALLENGES AHEAD

- Low financial literacy
- Possibility of miss-selling
- Variable investment performance
- Risk of fraud or mismanagement
- Shortage of appropriate investment products
- Participants are directly faced by the risks of bad investment performance
Reform in progress

Income tax incentives are set:
- Voluntary contributions: 0%
- Capital gain: 0%
- Voluntary pension benefits: 10%

Profit tax incentives are set:
- Employer’s contributions for their employees pension plans are exempt from profit tax: 150%
THANK YOU FOR YOUR ATTENTION!

WE WELCOME ANY COMMENT

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