

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

				Funded (voluntary) pension
		Funded (mandatory) pension		
			Funded (mandatory) pension	
	Pension for years of service	Pension for years of service		
Social pension	Basic Pension			Social pension
O Pillar	I Pillar	II Pillar (mandatory)	II Pillar (voluntary)	III Pillar

CONTRIBUTIONS IN 2nd PILLAR

Mandatory participation

5 % of salary
(not more than AMD
25000) is paid
by state

the rest of
10 % of
salary is
paid by
participant

10 % of salary is
transferred to participant's
pension account

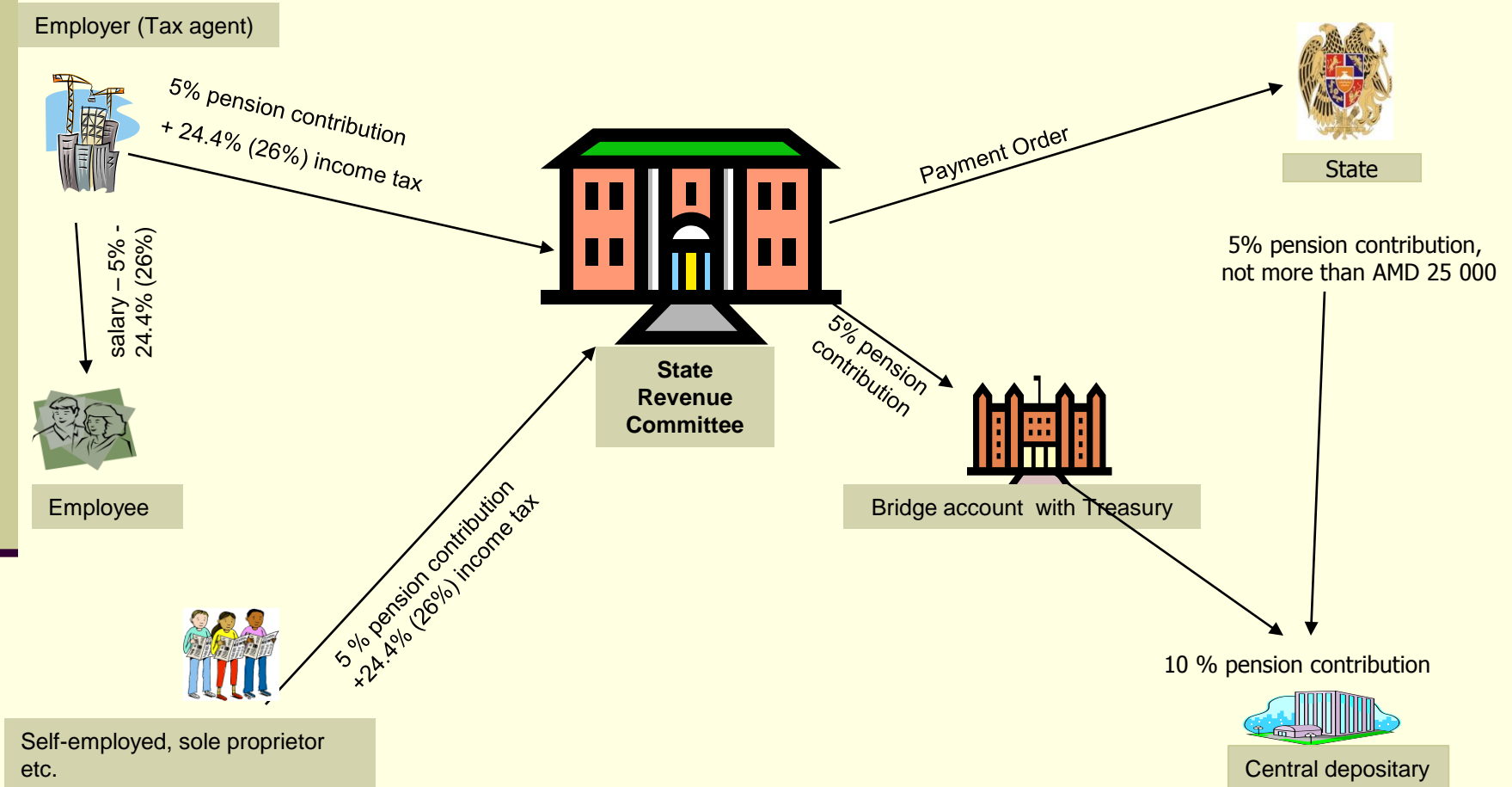
Voluntary participation

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



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



VOLUNTARY PRIVATE PENSIONS

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 tax150%



THANK YOU FOR YOUR ATTENTION!

WE WELCOME ANY COMMENT



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