

IOPS COUNTRY PROFILE: ARMENIA



DEMOGRAPHICS AND MACROECONOMICS

Total Population (000s)	2 963.3
Percentage 65 or older	12.58
Dependency Ratio (a)	48.8
Life Expectancy at Birth (years) for Men	68.4
Life Expectancy at Birth (years) for Women	78.6
Labour Force (000s)*	1286.7
Statutory Pensionable Age – Men	63.0
Statutory Pensionable Age – Women	63.0
GDP per capita (USD)	4269.0

Source: Statistical Committee of the Republic of Armenia, as of end of 2020

ARMENIA COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Pensions for particular public servants
- Public occupational (service-length based) pension scheme, covering public and private sector employees
- Military personnel pensions

Private pensions: personal (mandatory)

- Privately managed DC scheme, provided by the mandatory pension funds for public and private sector employees and self-employed, based on individual accounts

Private pensions: occupational/personal (voluntary)

- Pension deposit scheme offered by banks
- DB scheme offered by insurance companies
- DC scheme offered by voluntary pension funds

ARMENIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSIONS

Armenia has a multi-pillar pension system that includes the following components¹:

Labour pension: provides mainly universal types of pensions to all persons, satisfying specific requirements set forth by legislation (similar to service-length based pension of existing system). Public occupational (service-length based) pension (including disability pension and survivor pension) that is not earnings related benefit and depends only on the length of service.

This pension is given to everyone aged 63 and above. Some professional categories are entitled to this pension before 63. Minimum length of service gradually increased to reach 10 years in 2016.

The beneficiaries of this scheme are current pensioners.

MILITARY PENSION

Military pension is paid to the following beneficiaries:

- 1) Command and non-command staff (commissioned and non-commissioned officers, common staff) officers of the Republic of Armenia Defence Ministry, the Republic of Armenia Police, Republican Executive Authorities of National Security and Armenian Rescue Service,
- 2) Enlisted persons liable for military service and participants of military defence operations of the Republic of Armenia,
- 3) Compulsory Enforcement Officers and criminal enforcement officers of the Republic of Armenia Ministry of Justice.

PUBLIC OFFICERS' PENSION

According to the Republic of Armenia law "On Social Insurance of Former Public Officers", the following persons are entitled to public officers' pension:

- 1) Former President of the Republic of Armenia, except for the case of removal from the office,
- 2) Member of the Republic of Armenia Constitutional court in cases prescribed by the Republic of Armenia law on "Constitutional Court",
- 3) A judge, who has held the office for minimum 10 years in cases stipulated by the law,
- 4) A prosecutor, who has held the office for minimum 10 years in cases stipulated by the law,
- 5) An officer of Special Investigation Service of the Republic of Armenia who has held the **POSITION FOR MINIMUM 10 YEARS IN CASES STIPULATED BY THE LAW,**
- 6) A person who has held the office of an ombudsman for minimum 1 constitutional term after reaching 65 years of age,
- 7) A person, who has held the office of the deputy of the Republic of Armenia National Assembly for at least 1 constitutional term or a person who has held the office of the deputy of the Republic of Armenia Supreme Council after reaching 65 years of age,
- 8) Heads of foreign diplomatic services, as well as any eligible person, who have held the office for minimum 10 years according to the Republic of Armenia law on "Public Officers

¹Multi-pillar pension reform framework was adopted since late 2010. Funded pension types were launched gradually; in 2011 voluntary funded pension component was introduced, in 2014 mandatory funded component started from public sector employees, and later, from 2018 July, involved all eligible participants.

- Remuneration”, after reaching 65 years of age,
- 9) The Republic of Armenia president, the deputies of the National Assembly, the prime minister, members of the government, members of the constitutional court, ombudsman, president of the audit chamber of the Republic of Armenia, judges, prosecutors, officers of the Special Investigation Service due to disability caused during their employment.

Contributions

All types of public pensions are financed from the state budget.

Benefits

Social benefits

After 1 January 2014, according to the Republic of Armenia law on “State Allowances”, social pensions have been renamed old-age allowance, disability allowance, survival allowance.

The old-age pension is paid to a person attained 65 years of age and not entitled to any pension (has no minimum length of service).

Disability pension is paid to an adult, who is recognized as disabled, and who has not been entitled to a public pension (has no length of service as prescribed by age ladder), as well to a disabled child. In case of losing the sole provider, a survival pension is paid to the family member, who is not entitled to pension.

An old age social benefit is granted to individuals, who have reached the age of 65 and are not eligible for labour pension. The person entitled to an old age benefits may apply for a benefit any time at his or her own discretion. The old age social pension is granted for the lifetime.

A disabled person, not qualifying for a labour or military disability pension, as well as a person, who has been recognized as a child with disability, are granted a disability social benefits. The disability social benefits shall be granted for the entire period of disability.

A person, not qualifying for a labour or military survivor’s pension is granted a survivor’s social benefits.

In case of losing the benefactor, pension is granted for the whole period entitled to the survivor’s pension.

Private Pension Personal (Mandatory)

Private pensions

Those participants, who formed certain pension rights before joining the mandatory funded pension scheme, besides the basic pension, will also get the service-length based compensation for the years of employment before 2014. These beneficiaries will continue receiving basic pension and service-length based pension.

In the long term, the link to the length of service will gradually phase out, as mandatory funded pensions grow, but will continue to provide a minimum social pension guarantee from the state budget for those in the mandatory plans.

The beneficiaries of mandatory funded component are current contributors born on or after January 1, 1974.

Types of schemes

The mandatory pension schemes may be only DC plans. Private mandatory pension plans are being financed through pension funds only.

Management of the personified record-keeping database of the mandatory funded pension component contributions is centralised and is being handled by the Republic of Armenia Tax Authority.

Centralized personified pension account maintenance (Centralized registry) and Centralized custody also operate in the private mandatory pension industry to minimize the costs of operation of this pillar. However, the pension asset management is decentralised and is provided by asset management companies.

Benefit payments from mandatory pension funds, depending on the form of the pension to be paid, can be provided by either centralized registrar or decentralized life insurance industry.

If the pension is selected in the form of programmed withdrawals or lump-sum payment, the Central registrar will organise redemption of units and pension pay-outs.

If the pension is selected in the form of annuities, the Central registrar will organise redemption of units and transfer of funds to any life insurance company selected by the participant to buy an annuity.

Coverage

The scheme covers private and public sector employees, notaries and self-employed persons. Foreign nationals and stateless persons, who were born on or after January 1, 1974, having right to reside within the Republic of Armenia, and gain basic income in the manner as established by legislation of the Republic of Armenia, are also mandatory participants and shall pay social contributions on general grounds as prescribed for the citizens of the Republic of Armenia, unless otherwise provided in the international treaties of the Republic of Armenia.

Persons born prior to 1 January 1974 as well as self-employed persons, notaries and sole entrepreneurs can join the mandatory pillar voluntarily. The decision to join the system is final.

Persons shall cease paying social contributions, where they attained the retirement age and have submitted an application to the tax authority for ceasing to pay social contributions or they submit to the registrar of fund participants an application for receiving a funded pension.

Contributions

Basic principle is that the contribution rate to the individual pension account in mandatory funded pension pillar is 10 % of the employee's salary, which should be accumulated in pension funds as a future pension. One part must be paid by the participant, the other part by the state government.

In mandatory pension component the contribution rates are as follows:

- From 1 January 2020 - 2,5% of monthly salary,
- From 1 January 2021 - 3,5% of monthly salary,
- From 1 January 2022 - 4,5% of monthly salary,
- From 1 January 2023 and later - 5% of monthly salary.

So, in 2020, only 2.5% of the employee's income was charged as a social contribution, whereas the state co-financing rate was at 7.5% of the employee's income.

From 2021, the state participation has decreased by 1% becoming 6.5%, and the employee participation has increased by the same level, by so becoming 3.5%.

Currently the caps set for contributions are as follows:

- 1) Contributions are not calculated, transferred (charged) from the monthly income exceeding 15 times the minimum monthly salary (1.020.000 AMD).
- 2) Contributions are not calculated, transferred (collected) from the annual income exceeding 180 times the minimum monthly salary (12.240.000 AMD).

The contribution rate for voluntary participants of mandatory tier is 5 per cent; the state does not match that amount.

There is no employer contribution.

From 2013, the employer social contributions, employee income tax, and social contributions are unified into one unified income tax paid by employees. Employers did increase the wages of employees by the amount of the former social contribution.

Therefore, in the new multi-pillar pension system the eligibility criterion, set by legislation, is the payment of income tax to the state budget.

The income tax is set at the following rates:

Period	Income tax rate
1 January 2020	23 %
1 January 2021	22 %
1 January 2022	21 %
1 January 2023	20 %

Benefits

At retirement (age 63 for both men and women), the person is entitled to use his/her pension in the following forms:

1. program withdrawals,
2. life annuities (period-certain annuity and joint),
3. lump-sum payments.

If the personal account balances at retirement (shifted to monthly payments²) is:

² Calculation is based on the net asset value of the fund units at retirement and life expectancy

1. less than or equal to 75 % of the basic pension, the contributor shall receive the funded pension in the form of an annuity or programme withdrawals or a lump-sum payment,
2. more than 75 % of the basic pension, but less than or equal to 5 folds said pension, the contributor shall conclude an annuity contract in the amount generated as a result of redemption of his or her mandatory pension fund units,
3. more than 5 folds the basic pension, the contributor shall conclude an annuity contract by the amount of 5 folds the basic pension, and shall be entitled to receive the remaining part in the form of an annuity or programme withdrawals or a lump-sum payment.

Early withdrawals are allowed in the following cases:

Use of personal funded pension accumulations at any time, including before reaching retirement age is permitted in the following cases:

1. If the participant is disabled prior to retirement,
2. in case of developing any of the diseases (suffering from any of the conditions) as established by the Government of the Republic of Armenia,
3. a foreign contributor returns to his or her country of permanent residence.

Survivor benefits are provided only through public pension scheme.

Mandatory pension assets as well as the remainder under annuity contract are inheritable.

Fees

The pension fund management annual fee shall not exceed 1.5% of the net assets value of the given pension fund.

The fees for custody services and for register keeping are paid at the expense of pension fund manager.

In some cases of unit exchange transactions redemption fee is charged, however, the fee rate shall not exceed 1% of net asset value of redeemed units.

The pension fund manager may additionally charge for expenses related to management of the pension fund from that pension fund. The list of these fees and the maximum amount thereof are defined by regulation.

Taxation

Tax regime is TEE: the contribution is taxed; the investment income and pension pay-outs are tax exempt.

PRIVATE OCCUPATIONAL/PERSONAL PENSION (VOLUNTARY)

Type of plans/schemes (for occupational voluntary private pension schemes):

Those participants, who formed certain pension rights before joining the voluntary funded pension scheme, besides the basic pension, mandatory funded pension, will get service-length based compensation for the years, worked before 2014 as well.

Voluntary Funded Pension Scheme is offered by the investment fund (pension fund manager), insurance company or a bank aimed for provision of voluntary funded pension, which entails respectively the procedure and timeline of making funded contributions, as well as the conditions, timeline and procedure of calculation and payment of voluntary funded pensions.

Insurance companies, banks, or pension fund managers offer and organize collection of contributions, management of the scheme and benefit payments for participants. No other institution is involved in abovementioned processes.

A voluntary private pension scheme is a voluntary funded pension agreement between investment fund (pension fund manager), insurance company or a bank and a counterparty that may be an employer, who enters into a voluntary pension agreement on behalf of its employees, as well as a natural person who is entitled to enter into a voluntary funded pension agreement in his/her or others' favour.

An individual may participate simultaneously in more than one voluntary scheme.

There are following types of voluntary private pension schemes:

1. Defined pensions (DB) schemes: Insurance companies may offer only “defined pension” schemes,
2. Funded pension deposits: banks may offer only “funded pension deposits” voluntary funded pension schemes,
3. Defined pension contributions (DC): Voluntary pension funds (pension fund managers) may offer only “defined pension contributions” schemes.

Employers may acquire voluntary pension schemes from voluntary pension fund managers or insurance companies aimed at providing supplementary (corporate) pensions to their employees. All employees must be offered equal and uniform conditions for participation in voluntary pension scheme.

Supplementary funded pension scheme offered by an employer may be defined also by a collective employment agreement.

Voluntary contributions may be made only by the employers or both by the employers and the employees.

It is prohibited to force an employee to participate or continue his/her participation in the voluntary pension scheme acquired by the employer by imposing it as a requirement for working with the given employer. It is also prohibited to make withholdings or allocations from the salary of an employee or other payments made equal to it in relation to participation in the voluntary funded pension scheme.

Coverage

The scheme covers everyone regardless of age and sector of employment.

Contributions

The voluntary contributions can be made by an employer alone or with employees' co-financing (occupational pensions), as well as by a natural person in his/her or others' favour.

The contribution rate is not limited.

Benefits

In case of funded pension deposit scheme, the retirement income will be provided by banks, as periodic payments, lump sum payment, or a combination of both. Additionally, the person has the right to use the lump-sum payment to conclude annuity contract with a life insurance company.

In case of life insurance (DB) scheme, the beneficiary will receive annuities or lump-sum payment from a life insurance company.

In case of pension fund (DC) scheme, the beneficiary is given an option to select either periodic payments or lump sum payment. However, again the person has the right to use the lump-sum payment to conclude annuity contract with a life insurance company.

The use of personal funded pension accumulations, before reaching retirement, is almost the same, as applying to mandatory private pension scheme.

Fees

Legal limits to the list of fee types and ceilings of fee rates can be defined for DC scheme providers.

Taxation

Tax regime is EET: Voluntary contribution and the investment income are tax exempt, however, tax exemption is provided only for 5% of taxable income of employee.

Tax rate of 10 % for voluntary pension is applied upon retirement. However, general income tax rate is calculated for lump-sum payment of voluntary pension.

Employers are provided with profit tax incentives to encourage occupational schemes.

REFERENCE INFORMATION

KEY LEGISLATION

The multi-pillar pension system in Armenia is regulated by the following main Laws:

- **Law on State Pensions**

The Law on State pensions was enacted on 22 December 2010.

The Law regulates the relationships related to the management and financing of the state pension security, the types of state pensions, conditions and procedures for calculating

(recalculating), granting and paying pensions.

- **Tax Code**

This Code was enacted on 4 October 2016.

This Code regulates the relationships pertaining to determination and payment of income tax, defines the scope of income tax payers in the Republic of Armenia, the rates, manner of calculation and payment of the income tax.

- **Law on Funded Pensions**

This Law was enacted on 22 December 2011.

The purpose of this Law is to establish opportunities for receiving pension incomes in addition to state pension by persons having attained the pension age who have made funded contributions by setting rules and requirements for selection and exchange of pension fund and asset management company, pension asset investment restrictions, other operations within mandatory pension system, as well as setting the types of and conditions for receiving pension pay-outs and inheritance of pension assets. It also regulates voluntary pension component by setting types of voluntary pension schemes and rules of complementary pension provision for voluntary contributors.

- **Law on Investment Funds**

This Law was enacted on 22 December 2011.

The purpose of this Law is to protect the interests of investors and ensure that a proper collective investment scheme is developed, uniform rules for organization and operation of investment funds and investment fund managers are established. It describes main parties within collective investment schemes and sets requirements for their operation.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

- **Ministry of Labour and Social Issues of the Republic of Armenia, <http://www.mlsa.am>**
The Ministry of Labour and Social Issues of the Republic of Armenia (MLSI) is responsible for calculation and provision of existing public pensions (“0” and “1” Pillar pensions starting from 2014).
- **Ministry of Finance of the Republic of Armenia, www.minfin.am**
The Ministry of Finance ensures development of financial, economic and fiscal policies and funding of pensions, in accordance with the approved policy of mandatory funded private pension provision.
Treasury within the Ministry of Finance will transfer the mandatory funded contributions from the state budget to the mandatory private individual pension accounts.
- **Central Bank of the Republic of Armenia, www.cba.am**
The Central bank of the Republic of Armenia (CBA) will regulate, license, monitor and supervise the activities of financial institutions of the funded pension system, such as asset managers, life insurance companies, banks, registrar of fund participants of mandatory private pension scheme, etc. The CBA will also analyse data, submitted by supervised entities and publish periodic reports on funded pension system developments for general public.
- **State Revenue Committee of the Republic of Armenia, <http://www.petekamutner.am>**
The State Revenue Committee (SRC) will organize collection of information on the unified

income tax and mandatory funded contributions. Since unified income tax is introduced, the SRC will be responsible for personified record keeping of persons, who pay taxes and pension contributions. The SRC will receive monthly individual reports on paid income taxes and pension contributions from employers, checking and exchanging data as necessary, as well as supervision over the process of collection of the unified income tax and mandatory pension contributions.

Key statistics³

1. Private Pension plans

2. Pension funds data overview:

Total assets (bn national currency) - 426.0	Total assets as % of GDP - 6.9%
By financing vehicle as a % of Total assets	Pension funds -100%
Book reserves - 0%	Pension insurance contracts - 0%
Other financial vehicles - 0%	<i>Occupational assets</i>
% of DB assets - 0%	% of DC assets -100%
Personal assets	<i>Structure of assets: (proposal by SP)</i>
Cash and deposits - 25%	Bills and bonds issued by public and private sectors - 44%
Shares - 0%	Loans - 0%
Buildings - 0%	Collective Investment Schemes - 30%
Other investments - 0%	Of them paid as lump sums - 0%
as pensions - 0%	

³As of the end of September, 2021