

Annex 4 - SPSS

Unofficial English Translation

**CONCEPTUAL APPROACHES  
TO THE PENSION SECURITY  
SYSTEM REFORMS OF  
THE REPUBLIC OF ARMENIA**

**YEREVAN – 2005**

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## I. PREFACE

In terms of time economic reforms in the Republic of Armenia left behind social security and particularly pension system institutional changes.

Leaving the pension system the way it used to be will not only lead to deep crisis in the system but also slow down social and economic development of the country. Crisis in such systems cannot be resolved by administrative methods, such as lowering level of bureaucracy in collecting mandatory social security payments. The situation can be changed (taking into account long term development prospect as well) only by creating fundamentally new model of pension system which will provide for constitutional guarantee of citizens' right to pension.

In view of this the main strategic task is to create such a system of pension security which will equal the changes being carried out in the field of economy. The role of state must be changed in this system. The state must establish conditions for all members of society so that they will be able to "earn" their pension. The state should care for only those who were unable to "earn" their pension as following the International Labour Organization Declaration, pension is compensation for the income that was lost by a person due to his age, disability, loss of bread-winner and other cases of total or partial disability for work.

The goal of pension system changes shall be to reach financial stability in state pension system and establish conditions for further development of pension security which will bring to higher standards in financial security of work capacity (including elderly age).

At this time intense work is being performed in a lot of countries for changing the present pension systems with the aim of increasing their efficiency. From the other hand, these processes are continuous by nature, as even in developed countries with established pension system it is crucial to have changes in the pension system every 10-12 years. With the on-going world economic integration it becomes even more objective.

There are three basic institutions for pension security, with a number financing methods, different combinations of which allow having tens of groupings of national pension systems (pension system models).

The first institution is social aid (survival pension), which is one of the mechanisms of struggle against poverty in developed countries and also exists in the present pension system.

The second institution is personal pension insurance, which is carried out by way of accumulating and investing insurance means that will later provide for

life insurance annuity. Accumulating and investing these insurance means is performed by either generation solidarity or personal methods.

Financing methods are social payments (social tax), general taxes and insurance. The first and second institutions are financed by social payments (tax) either through general taxes or solidarity principle.

The main problem to be solved for establishing new pension system is to decide to what extent and with what financial mechanisms should each above mentioned institution participate in this system. Specifically important is to decide proportion between gender solidarity and personal accumulation principles within the third institution.

For many countries (both developed and developing ones) the main task is deciding on a pension system. The adopted rule is including all the above mentioned institutions in the future pension model, which is otherwise called a system supplied from different sources, a mixed or multilevel one. Its advantage is that such kind of system, in general terms, is viewed as a stable one, it has more guarantees for securing dignified old age, because in case one of the system financing sources is not functioning satisfactorily (or does not function at all) due to any reason, others will keep on functioning and pension will be provided. Pension systems supplied from different sources have the following structure:

1. state pension security (includes social aid for people not acquired right to pension from mandatory pension insurance), which is realized through state administration and financed by social taxes or general taxes. State pension security provides pension amounting to 25-30 % of average salary;
2. mandatory pension insurance (may include both distributive and accumulative elements), financed as reflected in each one's personal pension accounts by insurance payments he/she made or made for him/her, which later become a basis for calculating and allocating pension insurance part;
3. voluntary pension insurance (also includes additional social insurance made by employers), financed by voluntary insurance payments.

This structure determines two ways of changing pension systems, i.e. complex and parametric.

During the complex one, fundamental changes take place, making it possible for abrupt, partial or gradual transformation from one system to another (from the acting system based on generation solidarity to accumulative system). The volume of complex changes (i.e. proportion of distributive and accumulative elements in the system) depends in particular on financial problems accompanying transition period: hidden state debt or new tax burden, related to countable quantity of the social tax transferred to the new system paid during the years worked and present pension financing.

During parametric changes of pension system, not the whole system is changed but only its most crucial elements (eligible age for pension, mechanisms for pension calculation, introduction of personal calculation system and others). Parametric changes form precondition for the complex one.

In any case the changes should not bring to instability of tax burden and state debt for the next generation. It means no increase in tax rates is allowed, including in relation to further service of issued tax under changes. To avoid such consequences it is required to make calculations by models based on actuary mathematics.

Following these principles Chapter II of concept provides conclusion on what the pension reform must look like based on analysis of the present pension system of the Republic of Armenia. Chapter III provides description of the future pension system of the Republic of Armenia. Chapter IV reviews problems of transition to accumulative system and Chapter V provides steps to be taken for reforms.

## **II. PRESENT STATE OF THE PENSION SYSTEM OF THE REPUBLIC OF ARMENIA**

### **Question of social justice**

Social justice factor of the present pension system is considerably ruined, which is expressed in the following ways:

- Starting to get pension will mean considerable income decrease, as average pension amount is substantially less than income amount before the moment of transforming to pension. This is explained by average amount of working pensions given at present to working pensioners (who make more than 80 % of all the pensioners), which makes up to 9300 AMD (at the same time military personnel are given 70-100 % of their previous income, and judges – 75 % of their salary), or only 22 % of the average salary of the Republic. It is worth mentioning the following: not of the previous salary, but of the average salary of the Republic. Today's average pension of the Republic does not cover pensioner's even basic needs, whereas instead of the present 22 % it is acceptable that relation of the average pension to the average salary should make 50-60 % (taking into account pensions given from the accumulative funds).
- There is misfit between the amount of the pension paid and the volume of insured person's participation to financing pension system. Pension amount depends solely on the years works by the pensioner and the salary earned during the working activity is expressed in pension size to a very small extent (about 22 %). The amount of mandatory social security insurance payments to be made or difference between salaries of 15, 000 AMD and 150, 000 AMD at retirement age is not decisive in determining pension volume of citizens

receiving pension. The thing is that in the present system the pension amount depends on the main pension and years worked. The other circumstance is that the system is not transparent and reliable for citizens as it does not secure stable and predictable pensions in the long term.

- The pension amount has a very little purchasing capacity. Its average level of 9,300 AMD considerably leaves behind general poverty level of 12,000 AMD, and if 176,000 pensioners with 25 years of experience are taken into account, their average pension amount (4,900 AMD) will be significantly less than poverty food line of 7,000 AMD.
- The current low level of pension makes the problem of income reallocation more distinguished. One of every state's criteria for welfare is the part of GDP spent on pension security. In GDP of the Republic of Armenia specific gravity of the means set out for pension security makes about 3 %. Even in many developing countries the figure fluctuates in the range of 7-10 %. Unfortunately, in the system of generation solidarity or reallocation this ratio cannot be changed, because it is impossible to create a system of appropriate incentives we will touch upon later.

### **Short term tax and budget problems**

In the present distributive system there may frequently appear current gaps in accumulated means and those to be paid which must be covered at transfer account from the state budget, and that means additional taxes or new debt. Even in the event of a balanced pension fund, high pension tax hinders collection of other taxes or removes financing of long term investment programmes. All this has a negative effect on economic growth and employment. The following facts are given in support of this:

- In the field of pension security particular deformations may include smaller basis for mandatory social insurance payments. At present, according to expert estimates financial means directed to salary payments in the Republic, out of which social payments are made, make up only 8.8 % of GDP. Just to compare, in developed countries calculated salary amount totals to 35-40 % of GDP. It brings to unacceptable financial burden carried out by lawful employers paying by increased rates. In the end, it will turn out to be an anti incentive for employers.
- On the one hand, pension does not perform its role as an institution of salary compensation, on the other hand, high income population groups with relatively high salary rates and low pension not equivalent to salary are not encouraged by acting mechanisms of pension security unacceptable for them and naturally do not pay for it.
- Pension system financing is carried out through insurance payments accumulated in mandatory social insurance budget of the Republic of Armenia. Major part of financial means accumulated in insurance budget, around 90 %, is paid by employer through salary fund. The other part of the payments, i.e. 3 %, paid by employees from their salaries, makes 20 % of all accumulated payments. Thus, it can be concluded financial state of insurance

budget is primarily conditioned by the size of work payment fund, trends of its formation, as well as by share of the latter in general domestic product of the Republic. Accumulative pension system introduction also establishes a major system of incentives for solving this problem. Establishment of pension means is greatly influenced by changes in cash income structure of the population. Labour cost in labour market of the Republic is quite low which leads to decrease of salary role in cash income structure of the population: thus, if in 1985 salary portion in income structures was 76 %, in 1992-1993 – 56-58 %, in 1995-1996 it was 35-40 %. At the same time, alongside with decrease in specific gravity of salary, there is an increase in income share of those social fields (human aid, cash transfer from relatives, charity and others) which are not due to make insurance payments. Such trends are generally proper for market economy development logic and are also a result of labour market deviations and shadow economy expansion. Mechanisms in place are unable to solve this problem. It is required to create a system of incentives including pension total reforms.

### **Sustainability problems of pension system**

In view of sustainability, the current pension system also creates serious problems. They mainly concern demographic changes, solutions to which, as for example, pension age increase, tax rate increase, increase in volume of budget transfers, are not economically and politically favourable.

Main indicator for depicting demographic problems is the ratio between the number of employees and the number of pensioners, i.e. factor of pension system burden. At present, as to official data, the number ratio between the number of employees and pensioners in the economy of the Republic is 2,3:1, in other words, 1 pensioner for 2,3 employees. This state of things is stipulated not only by demography but also by conditions of pension allocation and payment. If we consider violations of tax regulations and take into account that out of 1200.0 employees (including military personnel, students, and owners of lands of agricultural value who do not make social payments) only 450.0 k make real payments, then the factor of pension system burden will be equal to 1:1. It's worth mentioning in European countries the indicator level at 3,5:1 is considered to be critical.

### **Economic concerns and lack of incentives system**

Experience of various countries show that inefficient work of distributive pension system may distort reallocation of national savings, decrease work motivation, bring to low economic result and growth. Generally it is negatively reflected on savings and development of capital market, which in turn significantly affects economic growth.

Armenia also faces these problems. Pension system of the Republic of Armenia supporting at present 17 % of the population is viewed as starting point of social structure of the Republic, whereas the following groups are not satisfied with the current pension system:

a) Pensioners with extremely low purchasing capacity of pension which does not provide for dignified elderly age. The latter regret about savings they had made some time before and transform negative impulse to the present generation. Weak relation between social payments and pensions received make youngsters consider social payments as taxes and as a result of it avoid these taxes, in some cases even avoid working (or shadow activity);

b) Those who make insurance payments because they think rates of insurance payments (or salary fund tax burden) are high, or else we wouldn't have the situation when salaries actually paid are not declared;

c) The state that constantly worries about lack of financial stability in pension system (permanent tension around repaying debts, etc).

Apart from the mentioned factors, while deciding on national pension system model, besides the current social and economic situation, it is required to consider their mid-term and long-term possible scenarios development. It can be reached by image or model of any future scenario through actuary or mathematic simulations.

With all this said and based on the mentioned facts it can be concluded that complex reforms are needed in the current pension system.

### **III. DESCRIPTION OF FUTURE PENSION SYSTEM OF THE REPUBLIC OF ARMENIA**

#### **Goals and principles of future pension system**

It is envisaged to have a pension system changed by creation of principally new pension security institutions with the main goal of insuring that Armenian citizens are provided with appropriate, available, stable and permanent income at their old age:

- The appropriate system, in addition to reliable instruments for leveling threats to most of population during their life, must secure poverty elimination in old age and provide pensioners with pension to cover basic life needs;
- Availability of the system is correspondence to financial means of individuals and society, a situation when anti incentives will not replace social and economic needs or will not lead to tax and budget undesirable consequences;
- Stability is related to financial ease and survival ability within logical assumptions in observable future;
- Permanency relates to possibilities to stand stresses, including those originated from economic, demographic and political risks;



The second goal of the new pension system is long-term positive promotion of economic growth through improving transparency and flexibility in labour markets and development of financial markets. That is, as any pension system is fed by national income it must be discussed in view of economic results level and effect on its growth.

In view of principles:

- The new pension system should most comprehensively include working population economic and social changing conditions, presence of different forms of property and working activity, and different nature of professional risks. It is required to reduce the rate of employers' participation in total expenditure of insurance financing and increase the share of hired employees.
- Pension rate must be based on the value of insurance payments accumulated (made) during the whole working activity period and calculation of individual length of life, i.e. involve social justice principle. This will ensure rights and responsibilities equality is secured for the insured persons.
- It is also important to establish proper mechanisms for mutually agreed and interrelated activity between salary, tax and pension systems as the key requirement for insuring stability and reliability of all the social objects responsibilities in the field of state active social policy and pension security.
- Existence of pension insurance system available for everyone.
- And finally, it is required to establish a well balanced pension system which will consider social and insuring nature of pensions on the one hand, and public economic capacity from the other hand. Its base must be laid by comprehensively grounded optimal compensation factor of pension system<sup>1</sup> (i.e. relation of average pension to average salary), which is interrelated with purchasing capacity of pensions and validity of insurance period, as well as takes into account average number of years to be insured for women and men after they retire.

Thus, it is envisaged to create three-level (mixed) system in Armenia with inclusion of the following elements.

1. state pension security
2. mandatory accumulative pension insurance
3. voluntary pension insurance.

### **Description of the new system elements and ways of their financing**

**State pension security** is carried out by state administration and is financed by financial means collected through unrewarded social payments (taxes) and general taxes.

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<sup>1</sup> While calculating optimal compensation factor it's appropriate to base upon the system of social standards describing life quality of the population. In this filed considerable experience is accumulated in International Labour Organisation (ILO). Thus, as a key instrument for struggle against poverty ILO Convention N 12 envisages that in case of making insurance payments by employer for 30 years the bottom level of compensation must not be less than 40 % of the previously received salary. In case of less work experience (less than 30 years) it is proposed to decrease annual pension rate by 1-2 %. The upper level of compensation factor of pension system is within 60-80 % of the salary.

This element, as social aid, must ensure minimal pension for everyone including those without proper means in accumulative system. The amount of pension given must not be as big as to harm incentives system of accumulative system or desire to pay for insuring own old age. It can be up to 25 % of the average salary, approximately today's pension amount.

Mandatory pension insurance (mandatory accumulative pension insurance from certain period for people of certain age). Any person participating in this system has his/her personal account and receives pension to that account before retirement age according to calculations of accumulated social mandatory payments and average life length.

To support this view it is needed to bring to life the part of "State pension" formula approved by law of the Republic of Armenia which will allow to involve accumulative accounts system. For this a strictly defined method of proper accounts is required:

1. Those groups of population which must be included in the system (these may be 16 year old citizens who are starting employment, as well as 30 (40 ) year old citizens);
2. Those groups of population which can choose either to be enrolled in the new system or keep on to the old one (they can be over 30 (40) years old, i.e. citizens before reaching the age allowing for elderly pension, as well as those receiving elderly pension while continuing their employment);
3. Finally, those groups of population which cannot be enrolled in the new system or haven't been participating in the accumulative system (may be those receiving elderly age who are no longer in employment and no longer make payments to the system).

The first group of population will be totally included in the accumulative system and will no longer pay social taxes to the solidarity system. Those from the second group who are enrolled in the accumulative system will also pay only to the accumulative one.

Existing pensioners will be paid from payments made to the solidarity system and general taxes.

At this point it is important to make the above mentioned calculations correctly and strictly define the population groups as there may be changes in the 2<sup>nd</sup> and 3<sup>rd</sup> groups depending on the amount of social payments made to the system. That is, it is needed to define the least amount of payments to be made from which it will be sensible to calculate the pension rate by the principle mentioned:

1. The least amount of monthly social payments (at present it makes 5,390 AMD: 5,000 AMD from the employer for each employee paid from the salary

fund, and 390 AMD from each employer receiving the minimum salary of 13,000 AMD);

2. At the retirement point (63 years old), the index of expected average length of life which will be required for calculation of pension size from the amount reflected in conventional accumulative accounts;

3. The minimum amounts of financial means directed to actual accumulation and periods of their gradual increase, if decision is taken that the first group is included in the accumulative system on gradual basis.

4. While defining the population groups based on calculations made it will be possible to calculate the pension size using P/L formula, where:

'P' is data on total amount of payments made to pension insurance reflected in individual insurance accounts after personalised calculation introduction,

'L' is the average expected length of life of men and women at the retirement point.

For each person coming to retirement age the decision to retire must be made individually. The insured person must have a chance to decide on the age to start retirement which will be an incentive to increase work experience and pension amount. Pension system must motivate employees to voluntarily start retirement later than defined retirement age. This will considerably improve the system financial state: on the one hand the employer will make payments for a longer period of time, on the other hand, the system will pay pension to that person for the shortest period possible.

It is crucial to make adjustments in pension size after the retirement point, otherwise the pension cost will constantly decrease due to inflation. Generally, pensions are indexed either in relation to inflation or increase in actual salary: totally or partially. It is the most commonly accepted option in the world. At the retirement point it is preferred to propose a higher pension and a smaller factor of its increase afterwards, rather than a small pension and a fast growing factor of increase.

Within mandatory pension insurance are disability and loss of bread-winner cases insurance:

- Disability pension insurance is given in case of total or partial loss of income due to accident or illness. The aim of disability pension insurance is restoring a part of income lost due to disability. Pension system will pay pensions only in case of total and permanent (not professional) disability. In case of temporary disability to work, allowance will be paid financed by other sources. In case of professional disability employers finance through a special programme (including private insurance). Pension sizes will be calculated based on the experience the person would have if he/she had to start retirement at the age defined for elderly pension;

- In case of breadwinner loss the given pensions are also insuring. Their aim is to replace the income the lost breadwinner could have got. In case of

breadwinner loss the pensions given to the family provide a chance to continue receiving economic support. It provides children with financial support by the time they are able to earn living and grants income to care for spouse, permanent disabled, young children and parents who are staying at home under adults' and caring person's care. An ascertained pension formula is provided by law of the Republic of Armenia. In view of this, base for additional pension must be considered the number of years worked the deceased person would have worked if he started retirement at defined age.

**Voluntary pension security** (also includes social insurance carried out by employer): it is financed by voluntary insurance payments: it is included as additional insurance besides the state system. Here the state main mission is to establish legislative field for ensuring natural flow of the system activity and a body to perform state control over activities of the bodies within that field. In general, it is appropriate to adopt two main forms of non-state pension security (voluntary pension insurance) widely used in international practice, i.e. securing pension insurance through non-state pension funds and life insurance companies. These are alternative non-state pension security forms which secure a quite wide range of different preferences of society representatives.

#### **IV. PROBLEMS OF TRANSFORMATION TO ACCUMULATIVE SYSTEM**

##### **Preconditions of transformation**

Introduction of accumulative pension insurance requires specific conditions. There are a number of preconditions for accumulative pension insurance in mandatory pension insurance system. The major part of them is the same for both mandatory and voluntary accumulative pension insurance. However, due to some reasons, for mandatory system the conditions are stricter than for voluntary one.

One of the important requirements of accumulative pension insurance system introduction is "solidarity" system budget balanced state or state budget capacity to compensate deficiency, which can result from accumulative system introduction. As a part of systemized means goes to accumulative system, "solidarity" budget can have a deficiency. In this case for financial difficulties to be solved it is required to have the following conditions.

- Low level of state budget deficiency (not more than 1% of GDP),
- At least 2% of factual economic growth in the Republic of Armenia in the last few years,
- Relative development of stock exchange,
- Existence of state institutional structures needed for accumulative insurance activity, especially existence of state specific control body and a full normative legal base,

- Total introduction of personalised account system.

As the mentioned conditions are rather “strict”, very often the second step of insurance introduction becomes introduction of voluntary pension insurance which seems to prepare and test those mechanisms required for introduction of accumulative mandatory pension system. In view of this, preconditions for introduction of the system are state special control body and full normative legal base.

International experience shows that success of reforms activity is conditioned by establishment of effective inspections and regulation capacity.

Regulation of introduction of long term pension assets and role of inspection body with appropriate capacity is ever more crucial because the newly formed system will closely work with financial markets, it will deal with risks not less than those typical to bank system.

### **Possible directions for investing pension assets**

Introduction of pension assets policy is realised by the minimum risk principle. Managing and keeping of pension assets is a matter of strict regulation. In primary stage pension assets distribution is limited by minimum risk introduction, with a condition to gradually liberate it in future. From liberation point of view high risk introduction programme will include mortgage bonds and then the whole capital market.

### **Inspection body**

Such a body can be established either by creating a new body or developing the existing one. Before that accumulative system will be formed under the government and along with developing inspection body independent from government these processes will be passed on to the latter.

The logic of inspection body formation is the following:

- The whole process of reforms until accumulative element introduction is managed from one point, i.e. person in charge of reforms;
- At the same time it will be decided within the strategy who will be implementing the function of accumulative system inspection. This inspection must be very firm, vigilant and according to international standards. Bodies implementing accumulative insurance must obligatory be subordinate to external audit. Limit of administrative costs of financial means and their reinsurance must also constitute a part of inspection.

### **Payments and taxes to accumulative system**

There three possible options for making payments to accumulative system:

- A part of social tax is continued to be paid to distributive system, and another part – to accumulative one;
- At the beginning social tax is paid both to distributive and accumulative systems in fixed portions, however within a couple of years payments made to distributive system gradually become to zero;
- A part of population pays only to accumulative system, the other part, the older ones, to distributive system

In the Republic of Armenia the option choice must be made by appropriate actuary calculations (simulations), however the last two options are more preferable. Simulation results are required at least for the following entry parameters:

1. If only people younger than 20, 25, 30, 35, 40 or 45 years old are included in the new system.
2. "Generations solidarity" system is financed at the expense of general taxes and social payments by those who are not included in the new system, partial social payments paid by everyone, state debt expense. In each case there can also be envisaged a financial participation of donor organizations and Diaspora.
3. Pension size will reach 30, 50, or say 100 % of the salary preceding retirement age.

Only by means of such simulations it can be said if the transition mechanism is better than the other one. The results should not be estimated by absolute values, their incentives systems and economic consequences must be compared by estimating the policy makers. This subject will require technical assistance of international donor organizations.

Simulations will make clear or we will get as a result the following.

- To what degree are those transforming to the new system familiar with pension right shaped within the old system?
- What is the pension financial gap of those remained in the old system?
- Will they be financed at the expense of taxes, debt or charity?

The three most reasonable simulations may be chosen out of these, which will be introduced to the government for discussions. After reviewing and deciding on the best option, thorough description of pension system and transiting details will be introduced.

Transition to accumulative system is closely connected to tax policy, especially income tax policy. At present bureaucracy of income tax collection is weak. Introduction of accumulative system will allow improving income tax bureaucracy for those transited to accumulative system with establishment of declaration mechanism. For those who are not included in the new system,

pension tax (social payment) can be combined with income tax adding a motivation to making payments to distributive system.

Public awareness work plays a big role within pension reforms. This process should include nation-wide discussions, organisation of debates, seminars attracting interested organisations and persons. Special radio and TV programmes will be prepared with discussions and debates included in those programmes, advertising clips will be prepared about the new system and will regularly be broadcast by radio and TV. Suchlike activities will also be covered by regular press.

## **V. STEPS TO FOLLOW FOR UNDERTAKING REFORMS**

### **The first stage of the reforms (2005-2006)**

For implementation of pension security system reforms first of all new strategy must be developed based on the conceptual approaches giving exhaustive answers to questions to be found there using comprehensive analysis and actuary calculations (mathematical simulations). The problem in particular refers to the following works:

#### 1. New strategy development:

1) Analysis, estimation of works performed in the pension field in 1999-2004 and preparation of review on the current situation;

2) Policy decision taken on all problems (specifically financial sources in transitional period, group of people to be included in the new system, stages and exact deadlines for transiting to the new system) concerning introduction of mixed system of pension insurance (including accumulative element), definition of further steps to be undertaken and expected results, development of a new universal programme (strategy) and its introduction for approval.

2. Introduction of personal (individualised) calculation system (implemented alongside with works mentioned in Point 1):

1) Following the rules and terms defined by decision to be taken by the government of the Republic of Armenia in April 2005:

- a) Introduction of account personalised by employees and physical persons,
- b) Establishment of personal statement information database centred around personalised account, comparison and control of account data and payments actually made,

2) Pension allocation supported by data reflected in personal account including:

- Pension size preconditioned by amount of social payments made,
- Exclusion of need for citizens to introduce certificates on work experience,
- Minimisation of subjective factor in pension allocation.

3. Use social security cards (implemented alongside with works mentioned in Point 1):

- Ensure use of social security cards system in accordance with Decree N 963-Ü of 25 June 2004 of the Government of the Republic of Armenia,
- Finalise inclusion into information database social card numbers of those who receive poverty family allowance, pensioners, the unemployed, disabled, those who make social payments and of tax paying physical persons,
- Ensure automated exchange of data between social cards and mentioned information databases,
- Establish inter-republican net with on-line connection to ensure data are exchanged on an appropriate level between different state government bodies,
- Increase in efficiency and reliability of information in use, exclusion of subjective involvement.

4. Gradual transformation to a non-cash system of pension payments.

5. Introduction of voluntary pension insurance, the third component of pension security, which must precede introduction of voluntary accumulative pension insurance system and must be implemented through non-state pension funds, insurance companies and banks. Establishment of legislative field, appropriate infrastructures and voluntary pension insurance control state body.

6. Organisation of public discussions, round tables, seminars, workshops, TV debates, etc.

7. Development of the Law of the Republic of Armenia on "Mandatory pension insurance" and other draft laws introduced in a pack with this one in 2006, ensuring their discussions and adoption in 2007.

**The second stage of pension reforms (2007 – to be continued)**



### Annex 3 - SPSS

Introduction and implementation of appropriate legislative base and infrastructures for accumulative pension insurance.