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PENSION REFORM IN ARMENIA

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PENSION REFORM IN ARMENIA

Armenia, like other European countries is facing demographic challenges, which is not only aging population, but also emigration of economically active population because of war, blockade and socioeconomic issues that country faced in early 1990-ies, right after Armenia regained independence. Even though economic situation improved in 2000's, state expenditures on social security do not provide necessary funds for dignified retirement. Aging of population will have no possibility to maintain sustainable social welfare system under the current pay-as you-go (PAYG) system. Armenians decided to use the window of opportunity to change the pension system. It's worth mentioning, that economically even more established nations have to undergo unpopular measures to keep the current level of pensions. The Government of Armenia has committed to reform the country's pension system by introducing both voluntary and mandatory funded pension options. It hopes that these reforms will make the system financially sustainable and ensure an appropriate level of income at retirement. The reform process will require change in the mentality, attitude, and behavior of common citizens and economic entities.

The reformed pension system of the Republic of Armenia incorporates three components.

Component 1: State Pension (Social Pension/Pillar 0 and Labor Pension/Pillar 1)

An old age social pension shall be granted to individuals, who have reached the age of 65 and are not eligible for a labor pension. The state pension security secures pensions to individuals in the cases and in the manner prescribed by law at the cost of the State budget.

Component 2: Mandatory Funded Pension (Pillar 2)

The mandatory funded pension component shall ensure the payment of funded pension benefits to individuals as prescribed by law from mandatory funded contributions and return on their investment when these individuals reach the age entitling them to an old age labor pension.

Component 3: Voluntary Funded Pension (Pillar 3)

The voluntary pension component shall ensure the payment of supplementary pension (income) to individuals from voluntary funded contributions and return on their investment or insurance fees when these individuals reach the age entitling them to an old age labor pension.

CHAPTER 1. STATE PENSION OVERVIEW

Armenia's existing pay-as-you-go pension system is based on the principle of solidarity of generations, the essence of which lies on the basis of the current social security is that payments are financed by current pensioners' pensions performers. The income and social taxes paid by employees, employers and individual entrepreneurs is a direct tax paid to the State budget of Republic of Armenia, of which the pension payments are made.

The state pension system is named distributive pension system. It has three components: labor, military and social.

- 1) Labor:
 - a. old age
 - b. privileged

- c. long service
 - d. disability
 - e. survivor
 - f. partial
- 2) Military:
- a. long-term service
 - b. disability
 - c. survivor
- 3) Social:
- a. old age
 - b. disability
 - c. survivor

The principles of the state pension policy shall be as follows:

- 1) ensuring the pension right, irrespective of nationality, race, sex, language, religion, political or other views, social origin, property or other status;
- 2) ensuring the financial sustainability and development of the state pension system;
- 3) ensuring social solidarity and social justice; and
ensuring a minimal amount of pension which is compatible with the minimal consumer budget.

CHAPTER 2. LABOR PENSIONS

Eligibility for the Labor Pension

An *old age labor pension* shall be granted to any individual who:

- 1) has reached the age of 63, provided he or she has a length of service of 25 years;
- 2) has attained the age of 63 even if the person has length of service for less than 25 years, provided he/she has at least 10-years of service; or
- 3) is one year younger than the age of entitlement, provided the person has the length of service of at least 35 years and is not employed.

The individual entitled to an old age labor pension may apply for a pension any time at his/her own discretion.

The old age labor pension shall be granted for the life-time period.

A *privileged pension* shall be granted to individuals who:

- 1) have reached the age of 55 and have at least a 25-year's length of service of which at least 15 calendar years count as full-time employment under particularly hazardous, particularly heavy conditions;
- 2) have reached the age of 59 and have accrued at least 25 calendar years of service of which at

least 20 calendar years count as full-time employment under particularly hazardous, particularly heavy conditions; and

- 3) suffers from hypophyseal dwarfism (nanism), have at least 20 calendar years of service, and have reached the age of 45.

The privileged pension shall be granted to the individual before he or she reaches the statutory age entitling them for old age labor pension.

Lists of professions, works, professions, positions entitling persons for the type of pension specified above are approved by the Government of the Republic of Armenia.

Long service labor pension shall be granted to the employees of civil aviation as described below.

- 1) Members of flight command and air traffic control staff, air crews, flight operators and stewards:
 - a. Upon reaching the age of 45 if the duration of their service is at least 25 calendar years
 - b. Individuals who have been released from air service for health reasons may be entitled to a long service pension if their length of service is at least 20 calendar years.
- 2) Staff members of air traffic control service who have a dispatcher's certificate:
 - a. Upon reaching 50 years of age if the duration of their service is at least 25 calendar years out of which at least 15 calendar years count for employment in the air traffic control service
 - b. Upon reaching 50 years of age if the duration of their service is at least 25 calendar years out of which 10 calendar years count for their employment in air traffic control service and if they have been released from their service in air traffic control system for health reasons
- 3) Members of the engineering-technical staff:
 - a. Upon reaching 55 years of age if the duration of their service is at least 25 calendar years, out of which 20 calendar years count for occupations entitling them to a long service pension

The long service labor pension shall be granted to the individual before he or she reaches the statutory age entitling him /her to an old age labor pension.

The list of positions entitling the individual to a long service labor pension shall be established by the Government of the Republic of Armenia.

The individual who has been recognized as a person with disability shall be granted the *disability labor pension* if at the time of recognizing his or her disability he or she has earned the following length of service:

Age Group	Length of Service
under 23	2 years
23 – 26	3 years
26 – 29	4 years
29-32	5 years
32-35	6 years
35-38	7 years
38-41	8 years
41-44	9 years
Above 44	10 years

An individual recognized as a person with disability due to an occupational injury or disease, shall be granted a disability labor pension, irrespective of his or her length of service. The disability pension shall be granted for the entire period of disability.

The below family members of the deceased individual shall be granted a *survivor's labor pension*:

- 1) a child under the age of 18;
- 2) brother, sister and grandchild under the age of 18, provided their parents have a 3rd category limitation of working capacity;
- 3) a disabled child aged 18 or above, provided he or she has been recognized as disabled before reaching the age of 18 and has a 3rd category limitation of working capacity and is not employed;
- 4) parents, spouse who have reached the old retirement benefit age or are recognized as disabled, provided they are not employed;
- 5) spouse or any other capable adult member of the family or a person recognized as custodian in the manner as established by law, regardless of his or her age, provided he or she is the caretaker of the deceased breadwinner's child, brother, sister or grandchild entitled to a pension in the manner established by this Article who is under 14 and is not employed; and
- 6) grandparents, provided they are not employed and have no children or their children have a third category limitation of working capacity.

In case a full-time student of an educational institution loses his/her benefactor, s/he shall be granted a survivor's pension until graduating from the educational institution, however before attaining the age of 23.

Family members of a person who has died as a consequence of an occupational accident or an occupational disease shall be granted a survivor's pension, irrespective of the length of service of such a deceased person.

In case of losing a benefactor, the survivor's pension shall be granted for the whole period of entitlement to such a pension.

A *partial pension* shall be granted to:

- 1) persons employed in the education sector and certain categories of workers of culture, upon reaching the age of 55 if they have at least 25 calendar years' of length of service of which at

- least 12 calendar years count for their professional length of service; and
- 2) certain categories of actors of theatrical and theatrical and show organizations, upon reaching the age of 50, provided they have at least 25 calendar-years' length of service of which at least 12 calendar years count for their professional length of service.

A partial pension shall be calculated in proportion to the professional length of service. Partial pension shall be granted to the beneficiary until he or she reaches the old age labor pension age.

Calculation of the Labor Pension

The amount of the labor pension is the sum of the basic pension and the labor portion of the pension benefit.

The labor portion of the pension benefit is the product of the years of service, annual service value and personal coefficient of the beneficiary.

The labor pension shall be calculated based on the following formula:

$$P=B+(N \times V) \times C, \text{ where:}$$

- P* is the monthly pension amount,
- B* is the basic pension amount;
- N* is the years of service;
- V* is the service value per year;
- C* is the pensioner's personal coefficient

The personal coefficient of a pensioner shall be calculated according to the following formula:

- 1) For years of service up to 25 years (inclusive): $C=0.04 \times N$;
- 2) For years of service over 25 years: $C=1+0.02 \times (N-25)$.

For individuals born on and after January 1, 1974, only the period of employment and other activities not prohibited by the legislation of the Republic of Armenia before January 1, 2014 shall be taken into account, except for the case of calculating the personal coefficient of the pensioner.

The basic pension amount is determined as follows when calculating the size of the *labor disability pension*:

- 1) 140 percent of the basic pension for the first severity group;
- 2) 120 percent of the basic pension for the second severity group; and
- 3) 100 percent of the basic pension for the third severity group.

For the *survivor's labor pension*, the basic pension amount shall be granted to each eligible beneficiary in an amount equal to 40 percent of the pensioner's labor portion plus the basic pension.

The size of the labor pension for each child who has lost both parents shall be calculated by

adding 40 percent of the labor portion of pension calculated for each deceased parent to the five-fold amount of the basic pension.

The size of the survivor's labor pension for a child between 18 and 23 years of age, considered as a full time student of an education institution, who has lost both parents, shall be calculated in the manner prescribed by the above paragraph.

The size of the basic pension and annual value of the length of service shall be defined by the Government of the Republic of Armenia.

CHAPTER 3. MILITARY PENSIONS

The following persons shall be eligible for a *military pension*:

- 1) the command and non-command staff (commissioned and non-commissioned officers, common staff) (hereinafter, the military servant) of the defense, police, the executive bodies of national security, and the Rescue Service of the Republic of Armenia (hereinafter, referred to as respective authorities);
- 2) enlisted persons liable for military service and participants of military defense operations of the Republic of Armenia; and
- 3) persons serving in the penitentiary institutions and the persons serving in the enforcement of judicial acts service under the Ministry of Justice of the Republic of Armenia.

A long term military service pension shall be granted to the following military servants who have served in the respective authorities, as well as penitentiary institutions and court act enforcement services (hereinafter also referred to as the military servant) as prescribed by the laws regulating the service in the above-listed institutions and:

- 1) have at least 20 (calendar) years' length of military service at the time of their due retirement from the military service (hereinafter the military service);
- 2) in connection with attaining of the retirement age for military pension have at least 25 years' length of service at the time of their retirement from the military service because of old age or health status of which at least 12 years and 6 months count for their military service; or
- 3) at the time of retiring due to a redundancy plan have reached the age of 45 and have earned at least a 25 calendar years' length of service out of which at least 12 calendar years, 6 calendar months count for their military service.

The military servant shall be granted a pension upon his or her retirement in the manner prescribed by Law. The long service military pension shall be granted for the lifetime.

A disability military pension shall be granted to military servants recognized as disabled by the competent state body responsible for conducting medical-social examinations, who become disabled in the course of their military service or five years after their due retirement as a consequence of a sickness or injury occurred when still in service.

The disability military pension shall be granted irrespective of the duration of the military service.

The disability military pension shall be granted for the entire period of disability.

A *survivor's military pension* shall be granted to family members of a deceased military servant despite of the reason of death, past period and term of service of military servant.

The provisions of this Article shall also be applicable with respect to the following:

- 1) family members of duly retired military servants who have died - irrespective of the date of their death – because of an injury or sickness occurred during their service; and
- 2) family members of military servants who have been recognized as missing or deceased during the service or when performing their military duties.

A survivor's pension shall be granted also to the family members of former military servants duly retired from military service and eligible for a pension who have not applied for a pension and have died during the first six months after their due retirement.

Calculation of the Long Service Military Pension

The long service military pension shall be calculated in the following manner:

- 3) for military servants identified in Clause 1, 70% of the monthly cash benefit and food allowance, plus:
 - a. for each full year of military service above 20 years, 2 percent of the monthly cash benefit and food allowance shall be added to the long service pension; and
 - b. 1 percent of the monthly cash benefit and food allowance for each full year of service preceding the military service; and
- 4) for military servants identified in Clause 2 and 3, 65% of the monthly cash benefit and food allowance, plus;
 - a. for each full year of military service exceeding 12 years and 6 months, the amount of long service pension shall be supplemented by an additional 1% of the monthly cash benefit and food allowance which, however, shall not exceed 5% of the pension amount.

For each year of service exceeding 25 years (including the military service calculated under privileged terms), the amount of long service pension shall be supplemented by 1% of the monthly cash benefit and food allowance.

The amount of military pension shall not exceed the monthly cash benefit and food allowance. Supplements to the monthly salary of a person having a length of service of 20 calendar years qualifying for a long service military pension, who continues his or her military service shall be paid in the manner and at amounts set out by the Government of the Republic of Armenia.

Calculation of the Disability Military Pension

The disability military pension shall be calculated as follows:

- 1) for persons with Category 1 disability, 70% of the monthly cash benefit and food allowance which shall not be less than 150% of the official basic pension as defined by the legislation;
- 2) for persons with Category 2 disability, 60% of the monthly cash benefit and food allowance which shall not be less than 110% of the official basic pension as defined by the legislation;
- 3) for persons with Category 3 disability, 40% of the monthly cash benefit and food allowance which shall not be less than 75% of the official basic pension as defined by the legislation.

The amount of disability military pension of enlisted common-rank military servants shall be equal to the one and a half amount of the minimal pension as defined in this Article.

Calculation of the Survivor's Military Pension

The survivor's military pension shall be calculated as follows:

- 1) for each child, 40% of the cash benefit and food allowance paid to the deceased breadwinner;
- 2) for each child under the age of 18 who has lost both of his or her parents, 60% of the cash benefit and food allowance paid to the deceased breadwinner which, however, shall not be less than the 5-fold amount of the legally established basic pension;
- 3) for each other family member mentioned in Article 13 of the Law, 30% of the cash benefit and food allowance paid to the deceased breadwinner.

The amount of the survivor's military pension payable to each family member of a deceased enlisted common-rank servant shall be equal to 150 percent of the basic pension, and for each parentless child under the age of 18 it shall be equal to the 5-fold amount of the basic pension.

The size of the survivor's military pension of a child between 18 and 23 years of age, who is a full time student of an educational institution and have lost his/her both parents shall be calculated in the manner prescribed by this Article for calculation of the pension of a minor under the age of 18.

CHAPTER 4. SOCIAL PENSIONS

An *old age social pension* shall be granted to individuals, who have reached the age of 65 and are not eligible for a labor pension.

The person entitled to an old age pension may apply for a pension any time at his or her own discretion. The old age social pension shall be granted for life.

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

A person, not qualifying for a labor or military survivor's pension shall be granted a *survivor's social pension*. In case of losing the benefactor, this pension shall be granted for the whole period entitled to the survivor's pension.

Calculation of the Social Pension

The size of the old age social pension shall be calculated at the amount of 100 percent of the basic pension.

The size of the disability social pension shall be calculated as:

- 1) 140 percent of the basic pension for persons belonging to the first category disability group and those recognized as a “disabled child”;
- 2) 120 percent of the basic pension for persons belonging to the second category disability group; or
- 3) 100 percent of the basic social pension for persons belonging to the third category disability group.

The size of the survivor’s social pension granted to each family member shall be calculated at the amount of the basic pension. For each parentless child under the age of 18, the survivor’s social pension shall be calculated at the five-fold amount of the basic pension. The size of the survivor’s social pension of a child having lost both parents between 18 and 23 years of age, who is a full time student of an educational institution, shall be calculated in the manner prescribed by Clause 2 of this Article.

CHAPTER 5. MISCELLANEOUS

Certifying Length of Service

For the period preceding January 1, 2013, the service record book or any other document identified by the Government of the Republic of Armenia shall serve as the main document certifying the length of service. From January 1, 1992 through January 1, 2013, documentation certifying actual payment of social contributions or receipt of salaries shall also be treated as a record of the length of service. For the period following January 1, 2010 the length of service shall be validated based on the data included in the database as specified in this Law.

Assigning of Pensions

A pension shall be assigned based on the written application of the citizen – and for minors under 14 or citizens under custody, the legitimate representative, i.e., parent, adopter or custodian – to the unit granting pensions in accordance with the citizen’s place of registration (address) in the Republic of Armenia as of data recorded in the State Population Registry of the Republic of Armenia. The date of submitting the application on receiving a pension to the unit assigning pensions shall be treated as the date of granting the pension. The application shall be submitted along with all legally prescribed documentation required for granting a pension. Where the package of documents attached to the application is incomplete the unit assigning pensions shall accept the application and notify the applicant in writing about the documents which need to be submitted additionally. If the citizen fails to attach to the application the documents certifying payment of social contributions or receipt of salaries, the statement proving the payment of social contributions shall be obtained by the unit assigning pension in line with the procedures established by the Government of the Republic of Armenia. If the citizen files the necessary documentation within three months after receiving the due notice, the date of accepting the application by the unit assigning pensions shall be treated as the date of applying for a pension. Within ten working days after accepting the application on receiving a

pension, or within ten days after filing all necessary documentation, the unit assigning pensions shall review the mentioned documents and take a decision on granting a pension or rejecting assigning of the pension. Where the unit assigning pensions decides on assigning a pension, it shall prepare an electronic pension file in the manner established by the Government of the Republic of Armenia.

In the event of taking a decision on rejecting assignment of the pension, the unit assigning pensions shall send a written notice to the applicant within five working days along with indicating the reason for rejection and the procedure for appealing the decision.

A decision on refusing to grant a pension shall be taken if:

- 1) the individual is not entitled to the requested pension;
- 2) based on the State Population Registry, the individual has no permanent place of residence (address) in the Republic of Armenia; or
- 3) the individual has failed to submit in a due and timely fashion the documentation necessary for granting a pension.

The list of bodies empowered to grant pensions, the list of documents necessary for granting pensions, the procedures for filing applications on granting (recalculating) pensions, changing their types, paying pensions and maintaining pension files (documents) shall be established by the Government of the Republic of Armenia.

Timing for Granting of Pension

The pension shall be granted:

- 1) from the date of submitting the application;
- 2) from the date the state authorized body responsible for medical-social expert examinations recognizes the individual as a person with disability, if the application on granting a pension has been filed within three months after such a day;
- 3) from the date of death of the breadwinner, if the application on granting a pension has been filed within six months after such a date; and
- 4) from the date of retiring from military service, provided the military servant applies for a pension within six months after his or her due retirement.

Payment of Pension

The pension shall be payable either in cash or non-cash during the course of the given month, on the basis of application submitted by the pensioner.

CHAPTER 6. MANDATORY FUNDED COMPONENT

The *mandatory funded component* was enacted to secure a direct link between the amount of pension contributions made and the pension received and to enable contributors to have an impact on the amount of their funded pensions through selecting the manager of their pension assets and the management policy of such assets. This pension income is in addition to state pension for persons who

attained the pension age and who have made funded pillar contributions during the course of their employment in the Republic of Armenia.

Funded pensions are funded through contributions made for (in favor of) the participants and incomes gained from the investment thereof.

The following people who were born on January 1, 1974 and after are mandatory participants in the mandatory funded component:

- 1) hired employees and persons performing public service, with the exception of military servants and persons having an equal status;
- 2) notaries; and
- 3) individual entrepreneurs.

Clause 1 shall be applicable also with respect to foreign citizens and persons without a citizenship, who were born on January 1, 1974 or later and are earning basic income in the manner as established by legislation of the Republic of Armenia.

The following persons may participate on a voluntary basis in the mandatory funded pension component:

- 1) the following persons born prior to 1974:
 - a. hired employees and persons performing public service, with the exception of military servants and persons having an equal status;
 - b. notaries; and
 - c. individual entrepreneurs;
- 2) self-employed persons, irrespective of their age.

Clauses 1 and 2 shall be applicable to foreign citizens and persons without a citizenship who were born before 1974 and who receive basic income in the manner established by legislation of the Republic of Armenia.

The decision of persons specified above to join the mandatory funded component shall be final. They shall not be entitled to change the decision on joining the mandatory funded component and shift to the previous system, irrespective of the fact of changing or quitting their job. Persons provided above shall, upon deciding to voluntarily join the mandatory funded scheme, open a pension account with the register of participants through the respective web site or account.

The employer (tax agent) shall calculate and make funded contributions from the basic income of the person having voluntarily joined the mandatory funded scheme starting from the month following the month when the person opened a pension account.

Rates of Mandatory Funded Contributions

Funded contributions shall be paid at the rate of 10% from the basic income as follows:

- 1) a hired employee, a foreign national and a stateless person participating in the scheme, who is earning basic income in the manner as envisaged by the legislation of the Republic of Armenia and whose monthly income does not exceed AMD 500,000, shall make a monthly funded contribution in his/her pension account in the amount of 5% of the basic income, while the remaining 5% shall be paid for (in favor of) the participant from the state budget to secure 10% of the required contributions;
- 2) a hired employee, a foreign national and a stateless person participating in the scheme who is in receipt of basic income in the manner as envisaged by the legislation of the Republic of Armenia and whose monthly income exceeds AMD 500,000, shall receive AMD 25,000 on monthly basis for (in favor of) his/her pension account from the state budget, while the remaining contributions shall be paid by such persons to secure 10% of the required contributions;
- 3) an individual entrepreneur or a notary, who participates in the scheme and whose basic annual income does not exceed AMD 6,000,000, shall be obligated to make monthly funded contributions in his/her individual pension account in the amount of 5% of the basic income, while the remaining 5% shall be paid for (in favor of) the participant from the state budget to secure 10% of the required contributions;
- 4) in the case of an individual entrepreneur or a notary, who participates in the scheme and whose basic annual income exceeds AMD 6,000,000, annually AMD 300,000 shall be paid for (in favor of) the participant from the state budget to the pension account, while the remaining annual contributions shall be paid by such a person to secure 10% of required contributions.

A participant having voluntarily joined the mandatory funded pension scheme shall contribute at the rate of 5% of the basic income. No additional contributions are made for (in favor of) him/her from the state budget.

Moreover, the overall contributions made from the state budget for (in favor of) the participants who are in receipt of income simultaneously from several sources may not exceed the amounts stipulated above in regard to contributions made from the State. A participant in receipt of income simultaneously from several sources shall be obligated to make additional pension payments until April 15 of the year following the calendar year, in the amount of the difference of 10 percent of his/her basic income and the respective contributions made by the State.

Obligations to make funded contributions shall be effective until attainment of the pension age. In case a participant continues to work after attaining the pension age, s/he shall be exempted from making mandatory funded contributions. However, s/he can continue to voluntarily participate in the mandatory funded scheme. Upon attaining the pension age no funded contributions shall be made for (in favor of) the participant from the state budget. Funded contributions shall be made by the participant until the time when the register of participants receives an application from the participant on receiving of the funded pension. The register of participants shall notify about receipt by a participant of funded pension to the authorized body (hereinafter - tax authority) in charge of collecting funded contributions and administering individual recordkeeping.

Payment of Mandatory Funded Contributions

Employers shall bear obligations for calculating and transferring mandatory funded contributions for (on behalf of) their employees acting as tax agents.

Employers shall be obligated to check with the tax authority whether their employees are considered as persons obligated to make mandatory funded contributions and shall calculate, withhold and make on monthly basis funded contributions from the basic income.

Notaries, individual entrepreneurs and self-employed persons, are responsible for calculating and making mandatory funded pension contributions for their own on an annual basis.

Transferring of the Personal Information and Mandatory Funded Contributions to the Register of Participants

The tax authority shall process the reports on the mandatory funded contributions within 10 (ten) days from the due date of submission or the date of actual receipt thereof. For those persons whose data reports convey no errors and for whom the funded contributions stated in the report were made to the bridge account, the tax authority shall issue payment orders to the Treasury to transfer funds from the bridge account and the respective amounts of the state budget of the Republic of Armenia to the register of participants. The register of participants shall open a pension account for each person. The register of participants shall manage the pension account until the death of the participant and, upon availability of shares in the pension account of the participant at the moment of his/her death, until the time of inheritance of the shares or the end of the inheritance timeline.

The state body authorized in the financial sector of the Republic of Armenia shall transfer funded contributions as allocated by the state budget to the register of participants account opened with the Central Bank.

The register of participants shall:

- 1) transfer shares in quantities equal to the funded contributions to the pension account of the pension fund selected by the participant against the funded contributions made for (in favor of) each person, given the distribution share value of the given fund.
- 2) transfer to the account specified by the respective pension fund custodian the amount equal to the distribution value of shares transferred to the pension account of participants in accordance with sub-clause 1 of this Clause;
- 3) provide information to the pension fund manager of each pension fund about the respective pension fund shares transferred to the pension accounts according to sub-clause 1 above and the amount transferred as per sub-clause 2 of this Clause, but not disclose the participants having made the selection.

The pension fund rules may not define any limitations pertaining to quantity of mandatory pension fund shares to be acquired by each participant and the amount paid against such shares. The initial nominal value of the pension fund share shall be determined by the Government of the Republic of Armenia. Participants to a mandatory funded pension component shall be obligated to select a single pension fund. Each funded contribution (contributions) made for (in favor of) a participant during the same time period may not be directed simultaneously to more than one pension funds. A participant shall be entitled to change for free the mandatory pension fund previously selected and direct his/her future funded contributions to any pension fund managed by the same or the new pension fund manager. A participant shall be entitled only to exchange his/her mandatory pension fund shares with another mandatory pension fund shares. A participant shall be entitled only to exchange his/her mandatory

pension fund shares with another mandatory pension fund shares (managed by the same or another manager) by submitting to the register of participants an application on exchanging of the fund shares. In case of exchanging of the mandatory pension fund shares a redemption fee of shares subject to exchange may be charged from the participant.

Description of the Mandatory Pension Fund and Permissible Investments of Mandatory Pension Fund Assets

Mandatory funded pension funds are as follows:

- 1) Balanced fund: the total weight of shares and the derivative tools purchased to hedge them may not exceed 50% of the fund's assets;
- 2) Conservative fund: the total weight of shares and the derivative tools purchased to hedge them may not exceed 25% of the fund's assets; and
- 3) Fixed income fund: assets may not be invested in shares or the derivative tools based on these shares.

Each pension fund manager should be obligated to offer at least a conservative fund. Mandatory pension fund assets may be invested in the Republic of Armenia and abroad.

Mandatory pension fund assets may be invested in foreign countries in the following instruments:

- 1) deposits and bank accounts of financial organizations that are accredited and supervised by authorized bodies supervising the banking system in Organization for Economic Cooperation and Development (OECD) or European Union (EU) member countries;
- 2) securities issued or fully guaranteed by OECD and EU member states and their central banks;
- 3) any securities admitted to a regulated market registered and supervised by the authority which supervises the capital market of OECD and EU member states;
- 4) units (shares) of investment funds registered and supervised by the authorized body supervising the capital market in OECD and EU member states; and
- 5) derivative tools with the sole purpose of hedging.

Central Bank regulations may define minimum criteria for foreign issuers or their securities, in which mandatory pension fund assets may be invested.

Mandatory pension fund assets may be invested in the Republic of Armenia in the following assets:

- 1) bank accounts and deposits of banks, provided the bank is not in the process of insolvency (bankruptcy);
- 2) securities issued or fully guaranteed by the Republic of Armenia or the Central Bank;
- 3) securities which are permitted to the regulated market of the Republic of Armenia ;
- 4) securities issued by investment funds, which are supervised by the Central Bank; and
- 5) derivatives with the sole purpose of hedging.

Central Bank regulations may define minimum requirements for rating of legal entities registered in

the Republic of Armenia and their securities in which mandatory pension funded assets can be invested. The mandatory pension fund assets may not be formulated at the expense of borrowed funds, except when the funds have been borrowed for the period of redemption of up to 3 months and comprise up to 10% of the given pension fund assets and provided the requirements in terms of limits prescribed by this Law have not been violated as a result of such borrowings. Mandatory funded pension assets may be invested in instruments listed above only within the scope of quantity and currency limitations as defined by the Government of the Republic of Armenia.

Mandatory pension fund manager shall take measures to rebalance the pension fund investments to ensure possible maximize returns, preserve and save pension fund assets, if the limitations have been breached as a result of:

- 1) changes in market prices constituting a basis for valuation of assets;
- 2) changes in foreign currency rates;
- 3) changes in economic and organizational relations between organizations in shares of which pension fund assets have been invested; or
- 4) other circumstances independently and beyond the control of a pension fund manager.

CHAPTER 7. PAYMENT OF MANDATORY FUNDED PENSION

Funded pension may be paid in the following forms:

- 1) annuities;
- 2) programmed withdrawals; and/or
- 3) lump-sum.

The size of a funded pension is based on the value of pension fund shares available in the pension account of a participant and the period of payment. The register of participants and the insurance companies should use universal mortality tables for both genders for the purposes of calculation of annuities and programmed withdrawals. A participant shall be entitled to mandatory funded pension provided s/he has attained the pension age. A participant may dispose of his/her pension assets irrespective of the fact of receiving of a state pension.

Given the total book value of mandatory funded pension shares available in the pension account of a participant, the latter may receive his /her mandatory funded pension in the following manner:

- 1) if, when converted into equal monthly payments, the monthly amount is less than or equal to 75 percent of the basic pension, the participant shall be entitled to receive the funded pension in the form of programmed withdrawals or in the form of a lump-sum payment;
- 2) if, when converted into equal monthly payments , the monthly amount is more than 75 percent, but less than five-fold, of the basic pension, the participant shall be obligated purchase an annuity in the amount received as a result of redemption of mandatory pension fund shares; or
- 3) if, when converted into equal monthly payments, the monthly amount is more than five-fold of the basic pension, the participant shall be obligated to purchase an annuity securing five-fold of the basic pension. S/he shall be entitled to receive the remaining assets as programmed withdrawals or receive such assets in the form of a lump sum payment.

The participant shall be obligated to submit an application on his/her selection to the register of participants.

The right to annuity shall arise irrespective of the fact as to whether or not the receiver of annuity receives any other annuity, state pension and/or other benefit from other sources.

Types of *annuity* are:

- 1) single life annuity guaranteed for 5 or 10 years (hereinafter, annuity guaranteed for a certain period of time); and
- 2) annuity of married couples, with guarantee period of 5 or 10 years.

An annuity guaranteed for a certain period of time is payable throughout the lifetime, however if the person dies before the 5- or 10-year guaranteed period (covered by the contract) has elapsed, the persons considered as heirs by law shall be entitled to receive from the insurance company the remaining sum of the annuity guaranteed.

The annuity of married couples shall be paid during the lifetime of the assigned participant. Upon the death of the participant the annuity shall continue to be paid to the surviving spouse throughout the lifetime at the amount fixed in the annuity contract. If both spouses pass away during the guarantee period, their heirs shall receive the portion of the non-paid amount specified in the annuity agreement.

The participant shall file a written application to the register of participants to provide information about the selected insurance company and the annuity agreement, as well as about redemption of shares and transfer of funds to the insurance company, if applicable.

Under the annuity agreement an insurance company shall be obligated to pay an annuity to the participant from the pension account of the participant against the lump-sum funds transferred to it. An insurance company is obligated to conclude an annuity agreement with each participant who has selected one of the annuities provided by the insurance company (public contract).

When entering into an annuity agreement, an insurance company shall be prohibited from the participant any information on the health condition or medical conclusion of sickness of the latter.

Programmed withdrawal is a pension paid on monthly basis at the expense of partial redemption of pension fund shares available in the participant's pension account, which is divided by the months of life expectancy.

A *lump sum* payment shall be made to a participant recognized as having a third degree disability prior to attaining the pension age in the manner as envisaged by legislation and in the event a participant is in an extreme health condition or whose vital organs are in an incurable condition as per medical conclusion issued by the body authorized by Government of the Republic of Armenia.

A lump sum transfer may be made prior to attaining of the pension age also in case:

- 1) the citizen of the Republic of Armenia leaves for a foreign country for permanent residence and

- renounces the citizenship of the Republic of Armenia; or
- 2) foreign citizens who were working in Armenia depart to their country of permanent residence.

CHAPTER 8. VOLUNTARY FUNDED COMPONENT

The voluntary funded component of the pension system of the Republic of Armenia is based on the following principles:

- 1) voluntary participation by natural persons and legal entities; and
- 2) provision of tax privileges for participation in the voluntary funded pension component.

There are the following types of *voluntary funded pension* schemes:

- 1) defined pensions;
- 2) funded pension deposits; and
- 3) defined pension contributions.

In the Republic of Armenia only voluntary pension funds (pension fund managers), banks, and insurance companies are entitled to offer voluntary pension schemes.

A party to the voluntary funded pension agreement 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' favor.

Employers may acquire voluntary pension schemes from voluntary pension fund managers or insurance companies aimed at providing supplementary (corporate) pensions to their employees.

An employer should avoid discriminatory conduct when providing supplementary funded pensions to employees. Corporate (supplementary) pensions may be offered to all employees of that employer or to the specified occupational category of the given employer (including, depending on the number of years the employee worked for the employer). It shall be prohibited to provide supplementary funded pensions exclusively to the management staff of the employer. Within any occupational category, all employees must be offered equal and uniform conditions for participation.

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

A person is entitled to receive a voluntary funded pension upon attaining the pension age, except for the cases listed below.

Before attaining the pension age, a participant shall be entitled to receive his/her funds in the form of a lump-sum payment in the following cases:

- 1) the participant is recognized in the manner established by legislation as a person having a third degree disability in terms of engaging in employment activities;
- 2) the participant is recognized by the Government of the Republic of Armenia as suffering with any high-risk serious sickness and incurable diagnoses of vital organs;

- 3) the citizen of the Republic of Armenia is leaving abroad for permanent residence and is revoking the citizenship of the Republic of Armenia;
- 4) the foreign citizen who was working in Armenia departs to his / her country of permanent residence; or
- 5) termination (liquidation) of the voluntary pension fund.

Payment of Voluntary Funded Pensions by Insurance Companies, Banks, and Voluntary Funded Pension Funds

Insurance companies may offer only “defined pension” schemes.

A person may receive from the insurance company the voluntary funded pension in the following forms:

- 1) a lump-sum payment; or
- 2) lifetime payments or payments for a specified time period (annuity).

Banks may offer only “funded pension deposits” voluntary funded pension schemes. A person may receive the voluntary pension from the bank in the following forms:

- 1) a lump-sum payment; or
- 2) periodic payments.

Upon attaining the pension age a participant shall be entitled to request the bank to transfer the amount of the funded pension deposit or some portion of it to the insurance company for the purposes of concluding an annuity agreement.

Voluntary pension funds (pension fund managers) may offer only “defined pension contributions” schemes.

By making voluntary funded contributions a person acquires shares of the given voluntary pension fund in quantities in proportion to the contribution, on the basis of the distribution value of the given fund shares. The acquired shares certify the right of participation in the shares of the given fund.

A participant of the voluntary pension fund may exchange his / her shares of the voluntary pension fund only with another voluntary pension fund shares.

A participant may receive the pension from the voluntary pension fund in the following forms:

- 1) lump-sum payment; or
- 2) programmed withdrawal.

Upon reaching the pension age, a participant shall be entitled to request redemption of the voluntary pension fund shares and transfer of the funds or a portion to the insurance company for the purposes of concluding an annuity agreement.

Description of the Voluntary Pension Fund and Permissible Investments of Voluntary Pension Fund Assets

The voluntary funded pension assets may be invested exclusively according to requirements of the Law and legal acts adopted in compliance with the Law and the fund rules.

For the purposes of maximizing efficiency of investments in favor of participants of a “defined pension contributions” scheme, investments should be based on the following principles:

- 1) security and profitability of voluntary funded pension assets;
- 2) diversification of risks; and
- 3) provision of adequate liquidity.

The Pension Fund Manger shall be obligated to launch a system of risk management, which will enable control and assessment of the position risks and their share thereof in the general risks of the pension fund.

Requirements of the risk management system shall be defined by the Central Bank regulation. Voluntary pension fund assets may be invested in the Republic of Armenia and abroad. Voluntary pension fund assets may be invested in the following assets in the Republic of Armenia:

- 1) bank accounts and deposits, provided the given bank is not in the process of insolvency (bankruptcy);
- 2) securities issued or fully guaranteed by the Republic of Armenia, the Central Bank and the communities of the Republic of Armenia;
- 3) securities permissible for trading in the regulated markets of the Republic of Armenia;
- 4) securities issued by investment funds, which are supervised by the Central Bank; and
- 5) derivative tools with the sole purpose of hedging.

Voluntary funded pension assets may be invested abroad in:

- 1) deposits and bank accounts of financial organizations, which are licensed and supervised by the body authorized to supervise the capital market in OECD countries and EU member states;
- 2) securities issued or fully guaranteed by OECD countries and EU member states and by the central banks of OECD countries and EU member states;
- 3) securities issued or fully guaranteed by communities in OECD countries and EU member states;
- 4) securities which are registered by an authorized entity in charge of supervising the capital market in OECD countries and EU member states and are permitted to trade on a regulated market regulated by such an entity;
- 5) securities (units) issued by investment funds registered and supervised by an entity authorized to supervise the capital market in OECD countries and EU member states;
- 6) securities of the Russian Federation, which meet the requirements /criteria defined by the Central Bank; and
- 7) derivative securities with the sole purpose of hedging.

The Central Bank may define the list of other countries, where voluntary pension fund assets may be invested.

The provisions herein above and the obligation to make mandatory funded contributions shall become effective as of January 1, 2014.

CHAPTER 9. THE GENERAL PRINCIPLE OF TAXATION

The pension reform also requires changes in the taxation system. The goal of the reform is to create a more transparent and effective tax administration.

The changes to the general principles of taxation will combine social security and income tax. Natural persons, including individual entrepreneurs and notaries, who are residents of the Republic of Armenia (hereinafter referred to as residents) and natural persons, including individual entrepreneurs and notaries, who are non-residents of the Republic of Armenia (hereinafter referred to as non-residents) shall be deemed as income taxpayers (hereinafter taxpayers). The combined income and social tax is a direct tax paid to the State budget of the Republic of Armenia by taxpayers (or, in cases as prescribed by law, through the tax agent – an organization or individual entrepreneur or notary).

Social Security (Prior to Reform)

Mandatory contributions to Armenian social security only apply to Armenian nationals. However, voluntary contributions may be made for foreign nationals so they may secure benefits under the social security system.

Employees who are Armenian nationals make contributions as shown in the table below. This amount is withheld by the employer and is deductible for purposes of taxable income.

Employees are required to make monthly social insurance contributions at the following rates:

Gross Monthly Salary	Contribution
Up to AMD 2,000,000	3%
AMD 2,000,000 upwards	AMD 60,000 plus 8% of the amount exceeding AMD 2,000,000

Employers are also required to make monthly social insurance contributions at the following rates:

Gross Monthly Salary	Contribution
Up to AMD 20,000	AMD 7,000
AMD 20,000 – 100,000	AMD 7,000 plus 15% of the amount exceeding AMD 20,000
AMD 100,000 upwards	AMD 19,000 plus 5% of the amount exceeding AMD 100,000

Individual entrepreneurs are required to pay a minimum social security payment of AMD 5000 (approximately USD 13) per month. On an annual basis, the first AMD 1.2 million (approximately USD 3,000) of gross income is subject to a minimum contribution of AMD 60,000 (approximately USD 150), and the excess is taxable at 5%.

A lower rate of 3% applies to entrepreneurs who are non-VAT taxpayers or subject to presumptive tax (subject still to a minimum contribution of AMD 60,000 (USD 150)).

Personal Income Tax (Prior to Reform)

Armenia taxes resident individuals on their worldwide income. Nonresident individuals are taxed only on their Armenian-source income. The tax year is the calendar year.

Employment income paid by a tax agent is subject to final withholding on a monthly basis.

Monthly Taxable Income	Income Tax Amount
Up to 80,000 drams	10% of taxable income
Over 80,000 drams	8,000 drams plus 20 % of the amount exceeding 80,000 drams

Other income not received from tax agents is taxed on an annual basis.

Annual Taxable Income	Income Tax Amount
Up to 960,000 drams	10% of taxable income
Over 960,000 drams	96,000 drams plus 20% of the amount exceeding 960,000 drams

Rates of Mixed Income Tax

The income tax shall be calculated by the tax agent at the following rates:

Annual Taxable Income	Income Tax Amount
Up to AMD 120,000	24.4% of taxable income
Above AMD 120,000	AMD 29,280 plus 26% of the amount exceeding AMD 120,000

The income tax on non-taxed incomes shall be calculated by the tax agent at the following rates:

Annual Taxable Income	Income Tax Amount
Up to AMD 1,440,000	24.4% of taxable income
Above AMD 1,440,000	AMD 351,360 plus 26% of the amount exceeding AMD 1,440,000

If the natural person receives in cases prescribed by legislation the accrued amount under a voluntary funded pension insurance scheme as one -off withdrawal in the manner established by the legislation of the Republic of Armenia, then the income tax shall be calculated at the rate established by the first table.

Income tax for receipt of pensions from the amount of voluntary funded pension insurance scheme paid by the taxpayer for himself/herself and/or by a third party (including the tax agent) on behalf of the taxpayer under a voluntary funded pension insurance scheme in the manner established by the legislation of the Republic of Armenia, shall be calculated at the rate of 10 percent.