

The Concept and Main Approaches of the Pension System Reform Policy in the Republic of Armenia

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Հայաստանի Հանրապետության կենսաթոշակային համակարգի բարեփոխման քաղաքականության հայեցակարգը և հիմնական մոտեցումները

Քարյան Արա Վ.

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Ամփոփագիր. Հոդվածում դիտարկվում են Հայաստանում կենսաթոշակային բարեփոխումների քաղաքականության հայեցակարգը և հիմնական մոտեցումները, որը մեկնարկել է 2010 թ. հաշվի առնելով հետպատերազմյան և «կոփիդով» չհաղթահարված իրողությունները՝ դրա երկարաժամկետ կենսունակությունն ապահովելու նպատակով: Կենսաթոշակային համակարգը, լուծելով իր ինստիտուցիոնալ խնդիրները, պետք է միաժամանակ ունակ լինի կանխորոշել երկրի տնտեսական և սոցիալական զարգացումը: Կենսաթոշակային համակարգի ձևավորումը կարող է որոշել և ակտիվորեն ազդել աշխատանքի նկատմամբ ակտիվ վերաբերմունքի, ոչ ֆորմալ զբաղվածության մակարդակի, ներդրումային գործունեություն, կապիտալի շուկայի զարգացման և, համապատասխանաբար, տնտեսության զարգացման ու աճի վրա և ըստ այդմ հետադարձ արտացոլում ունենա սոցիալական ոլորտի, հասարակության ժողովրդագրական գործընթացների, միգրացիոն բացասական միտումները կանխման վրա:

ՀՀ-ում կենսաթոշակային համակարգի բարեփոխման նպատակը պետք է լինի ոչ միայն կենսաթոշակառուների կենսամակարդակի բարելավումը՝ եկամուտների և փոխարինման գործակցի մակարդակի բարձրացումը, այլ շատ ավելի լայն և համալիր: Անհրաժեշտ է կենտրոնանալ ՀՀ-ում պարտադիր և կամավոր կուտակային կենսաթոշակային սխեմաների առավել արդյունավետ սուբսիդավորման մեխանիզմների վրա, ինչպես նաև ՀՀ կենսաթոշակային ֆոնդերի ներդրումների մեխանիզմների ու գործիքակազմի մշակման վրա, ուղղված՝ երկրի ենթակառուցվածքային ծրագրերի ֆինանսավորման, միաժամանակ ապահովելով դրանց պահանջվող կայունությունն ու շահութաբերությունը:

Հանգուցաբառեր՝ կենսաթոշակային համակարգի բարեփոխումների քաղաքականություն, պարտադիր և կամավոր կուտակային կենսաթոշակային սխեմաներ, կուտակային կենսաթոշակային վճարների սուբսիդավորում, կենսաթոշակային ֆոնդերի ներդրումները ենթակառուցվածքային ծրագրերում

Концепция и основные подходы политики реформирования пенсионной системы РА

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Аннотация. В статье рассмотрены концепция и основные подходы политики реформирования пенсионной Армении начатой в 2010 г. и с учётом реалий поствоенной и не преодоленной «ковидной» ситуации, с целью обеспечения её долгосрочной жизнеспособности. Пенсионная система решая свои институциональные задачи

должна одновременно сама задавать развития экономической и социальной матрицы страны. Конструкция пенсионной системы может определять и активно влиять на: отношение активному к труду, уровень неофициальной занятости; инвестиционную активность, развитие рынка капитала, и соответственно развитие и рост экономики и реверсное отражение на социальную сферу; демографические процессы в обществе; миграцию, в случае РА свести на нет отрицательные тенденции миграции.

Целью реформирования пенсионной системы в РА должна быть не только повышение уровня жизни пенсионеров - доходов и коэффициента замещения, а намного широким и комплексной. В этом комплексе необходимо сосредоточиться на определении путей эффективных механизмов субсидирования государством накопительных взносов в обязательные и добровольные накопительные пенсионные схемы в РА и на разработке механизмов и инструментария для инвестиционных вложений пенсионных фондов РА в инфраструктурные проекты страны, с обеспечением требуемой устойчивости и доходности фондов.

Ключевые слова: политики реформирования пенсионной системы, обязательные и добровольные накопительные пенсионные схемы, субсидирование накопительных пенсионных взносов, инвестиционные вложения пенсионных фондов в инфраструктурные проекты

Due to the long lasting demographic crisis, deteriorating social situation caused by the 44-days war of 2020 and the ongoing COVID-19 pandemic the Republic of Armenia is facing an urgent problem to ensure the short-, medium- and long-term stability and efficiency of the pension system. The unsurmounted aftermaths of this crisis tell on economy as shown by the fact that despite the unplanned 5.8% rise of the economic activity index in 2021, the 7.2% inflation nullified the growth. Actually, the growth of economic activity is hardly recoverable [1].

It is also worth noting that COVID 19 pandemic gave rise to acute socio-economic complications in all countries, and among them has raised serious questions to the pension system. In this situation we need to assess the trend and results of the pension system reform launched in Armenia in 2010 and - to ensure its long-term viability, outline the goals and measures for furthering the reform taking into account the post-war realities and unsurmounted COVID situation.

An effective pension system must meet the economic and socio-demographic challenges of the country. In a welfare state the pension system should humanely and justly ensure a fair standard of living for pensioners and provide any opportunity to employees to actively influence their future pension.

The pension system is an important and at the same time a very vulnerable part of the social order of the state, which is at the crossroads of interests of the national economy, the society as a whole and the retired elderly people. The pension system manifests itself based on the level of economic development and prevailing socio-demographic realities. Meanwhile, its position and role can be twofold, a) either it is in the "backyard" of the socio-economic matrix of the state, when the state allocations would be always insufficient to ensure the goals of the system, b) or while solving its institutional objectives the pension system itself sets incentives and supports the "tone" of the economic and social matrix development. RA should be guided by the

second option. The said incentives are in the plural because the structure of the pension system may determine and actively influence:

1) Attitude to active to work. With a low level of pensions, it is practically impossible to motivate young and capable people to work for the good of the country when they see nearby poor and distressed pensioners unable to live on pension. Under such conditions the behavioral component of each individual cannot be determined by patriotism, moreover, by his personal concern for the state if the state does not care for the elderly and is unlikely to think about them when they reach that age. Availability of certain mechanisms enabling the people to independently determine the level of their pension would give a behavioral motivation for active and productive work and professional growth, and will accordingly tell on the level of production, employment and labor productivity.

2) The level of informal employment. The low level of pensions cannot practically encourage the citizens to abstain from unofficial wages (in envelopes) and demand that the employer pay official wages, and thereby transfer the contributions to accumulation system.

3) Investment activity, development of the capital market, and, consequently, economic development and growth and their reverse reflection on the social sphere;

4) Demographic processes in the society because social stability is an important factor in motivating the parents to have more children in the family;

5) Migration. In the case of RA it should be nullification of the negative trends of migration. It is well known that most often the goal of an individual's labor emigration is becoming in some years a beneficiary of the pension system of the country of immigration where the pension level is high enough to ensure a trouble-free old age in RA.

As a result, a fair pension system can have a direct positive impact on the social stability in the country and eliminate possible political risks.

Thus, the goal of reforming the pension system in RA should be much broader and more comprehensive than just improving the pensioners' living standards - income and replacement rate. In this complex it is necessary to focus on determining the ways to effective mechanisms of the state subsidizing of accumulation contributions to mandatory or voluntary accumulation pension plans in the Republic of Armenia and on developing mechanisms and instruments for making investments from the RA pension funds into the country's infrastructure projects that ensure the necessary stability and profitability of the funds.

At the same time, this goal should organically fit in and correlate with the broad context of the pension system objectives as mentioned below.

It should be emphasized that even obvious at first glance and generally accepted measures to solve the problems require a comprehensive and balanced approach, especially in the social sphere. The concept of pension reform should avoid non-complex and one-sided measures, especially savings on such important indicators as reducing state pensions by raising the retirement age, etc. For example, simply raising the retirement age would not bring anything positive unless steps are taken to help elderly workers staying at work or to help them improve their productivity. Without comprehensive measures, the burden on the state budget will not necessarily decrease. By the way many entities in Armenia are currently resorting to the vicious practice of firing, under the guise of non-compliance with qualification or other standards, their employees close to retirement age.

In general, the task is avoiding the need for a compulsory or repetitive cycle of pension reform (as happened in the Russian Federation), but making the reforms objectively sustainable for hitting the targets of reforming the pension system (within the frames of its restrictions). A special objective in the Republic of Armenia is achieving the understanding of the goals and objectives of the pension reform by broader social strata and at the behavioral level of each citizen.

The problem of pension reform is also in its pace, which is seen as dependent on the current or projected state of the fiscal situation and on intentions of the political forces trying to maintain the status quo. To ensure the non-prevalence of fiscal considerations we need to develop adequate indicators for assessing the impact of reforms. Consideration should be taken of international experience where ungrounded and significant changes to the pension system have led to perceptible decrease in achieving the system's goals and reversing the reforms. Therefore, as a rule, compensatory measures have been introduced to

improve the results for the system beneficiaries (specifically, in Russian Federation where it was decided to suspend the adopted program of the pension system development). To ensure the sustainability of pension reforms, it is important to consider the pension adequacy and affordability of funds as two sides of the coin.

The pension system should be adapted to the aging of the population, carefully considering the logic and fairness of redistribution of the pension system. Unless alternative sources of funding are found the shrinking population of working-age and the rising proportion of retirees lead to the risk of placing a double burden on future workers: higher contribution rates when they work and lower pensions when they retire.

Pension systems must ensure pension equity and redistribution across income levels, as social security deductions (contributions to taxation) and changes in progressivity rules limit the redistributive power of pension systems and call into question their fairness across income classes.

Summarizing the main results of pension reforms in the countries with economies in transition and in the Republic of Armenia, we can state that there are still a number of relevant problems in Armenia, which are discussed below.

We agree with the statement of Maria Agusztinovics [2] that with a strong dependence of pension funding on the level of employment and especially high uncertainty about the future development of the labor market one should proceed from the mechanisms that make pension funding more flexible. The task is to turn on the self-regulation mechanisms under conditions of fluctuations in economic situation and thus ensure the funding without losses in stability and trust. This is a difficult question, which has no ready-made answers. In this regard our approach is based on the standpoint of reforming the mechanisms for the state funding of accumulation contributions to mandatory or voluntary accumulation pension plans in the Republic of Armenia.

Based on the trends occurring after the introduction of mandatory accumulation pension contributions and the trends of stimulating and encouraging pension savings in international pension practice, we propose a new policy matrix for promoting mandatory and voluntary pension contributions by the state in RA. In particular, the gradual withdrawal of the state co-financing of the mandatory accumulation plan, which in fact became mandatory for all its participants, and its involvement in the co-financing of the voluntary funding plan so that to stimulate the participant and his employer making payments in it.

One of the main objectives of the reform is adjusting the rate of pension contributions and ensuring that the replacement rate is on a suitable level. However, to reach a broader social consensus the general public, including employers and employees, must be aware that reduced contribution rates and sustainable and improved replacement rates are incompatible. The society must know and be ready to decide how much it is willing to pay. The main long term objective of the Armenian pension system is its balancing based on the following realities.

Analysis of the socio-economic and demographic characteristics of RA shows a need to change its pension system for conforming it to the possibilities of the state budget, as well as the age structure of the population.

The mandatory pension insurance system, diverting, whether directly or indirectly, the resources from the system of distribution, should increase the efficiency of the RA pension system and not reduce the stability of the pension system as a whole.

The system of voluntary pension provision has a potential of further development to influence the efficiency of the RA pension system as a whole.

Conceptual is the problem of efficient disposal of investment funds of the pension savings in the Armenian system of compulsory pension insurance and their investment into the real sector of RA.

A specific problem of pension provision of the self-employed and non-permanent full-time employees. Currently they face significant challenges in participating in the accumulation pension system, and are at increased risk of poverty and financial hardship in old age.

The targets of reforming the pension system in Armenia should include ensuring a) the growth of the material well-being of pensioners with a replacement rate; b) long-term stability and financial independence.

In this sense, the existing multi-level mixed (distributive-accumulation) system today should fully comply with the economic, socio-demographic realities inherent in the Republic of Armenia and take into account the ethno-cultural, spiritual and historical values of the society. Based on this formulation, the need for a dynamic (not emergency) reform of the pension system should preferably be accompanied and go in the following directions:

- decrease/ reduction of the public debt as a percentage of GDP;
- increase of the labor force and increase in the employment of persons entering retirement age;
- ensuring an increase in the stability of the pension system by increasing the level of assets in

private pension plans and the number of employees involved into the accumulation system;

- redistribution of the burden of pension payments from public to private for reducing the dependence of the pension system on public funding;

- increasing the replacement rate;

- increasing the efficiency of the state distribution system and developing the voluntary accumulation system;

- implementation of relevant initiatives and measures to improve the ratio of pensioners and workers;

- increasing the degree of the employees involvement within the framework of the voluntary accumulation system;

- optimization of administrative costs within each or all subsystems of the pension system.

Increasing the efficiency of distribution system requires optimizing overall costs and increasing the efficiency of resource use in the pension system. The parametric indicators of funding the pension system in the Republic of Armenia are at the limit. The increase in budgetary allocations is limited and problematic in the context of increased social and health spending caused by the consequences of the 44 days war of 2020 and the ongoing COVID-19 pandemic, and may undermine the financial stability of the state budget. An increase in the tax burden in these conditions can only complicate the general economic situation.

While reforming the public distribution system one should consider the some stabilizing measures.

Based on the internationally accepted approach, it will be necessary to gradually heighten the retirement age in line with the increase in life expectancy after retirement. It should be noted that its real impact can be felt later. In international practice, this step has been taken in Austria, Australia, Belgium, Germany, Greece, Denmark, Italy, Ireland, Spain, Israel, the Netherlands, Korea, France, Great Britain, Portugal, Slovakia, Czech Republic, Estonia, Japan, Poland, USA, Slovenia, Russia and Turkey. At the same time, measures should be taken to keep older workers at work and increase their productivity. To this end, steps should be taken for “lifelong learning”, “healthy aging and work initiatives”, in such case market reforms would allow people in the age group of 65 and over to remain active in the labor market. Otherwise, any increase in the retirement age will be nothing more than a false benefit [3, p. 25].

With an increase in average life expectancy, heightening of the retirement age would lead to a better balancing of the ratio of workers and pensioners, to the increase of the pension system income with a simultaneous decrease in costs. It will

also be reflected in the rise of supply in labor market, which, in the context of a predicted decline in the working-age population, is important for the task of economic growth. In general, heightening of the retirement age is not a momentary reaction to the crisis, but an objective process associated with the increase in life expectancy and quality, thereby strengthening the financial stability of the pension system.

Other stabilizing measures, including distribution and accumulation subsystems, consist of:

- encouraging the late retirement through a higher pension (using a surcharge factor) that will reduce the burden on the pension system due to shorter life expectancy. This approach in various variations has been adopted in Switzerland, Italy, France, Germany, Japan, Canada, Korea, and the USA;

- toughening the requirements for the minimum length of service (adopted by the UK, Belgium, Poland, Slovenia, the Czech Republic);

- tightening conditions for early retirement (adopted by Austria, Germany, France, Iceland, Portugal, Switzerland, Israel, Belgium, Denmark, USA, Japan, Korea, New Zealand);

- introducing stimulative mechanisms for the rejection of "gray" wages, and an increase in the income of the pension system. According to various estimates, up to 30% of employees in Armenia are in the field of illegal employment;

- adopting comprehensive measures to increase the ratio of workers to pensioners;

- reviewing the expediency of the state subsidizing of the mandatory accumulation system in Armenia;

- optimizing the administrative costs and increasing the efficiency of resource management in the pension system;

- redistributing the burden of the state allocations and subsidies to pension system by sources, levels and forms of funding.

It should be emphasized that optimization of costs, which limits the payment of pensions to working pensioners or deprives them of tax breaks would be a mechanical approach to international practice. Based on realities and a low replacement rate prevalent in the Republic of Armenia this is a false path and would in fact undermine the target of overcoming poverty among pensioners. In this case pensioners take independent measures to protect themselves from poverty. Currently about 18% of Armenian pensioners continue working upon retirement. Social support of the working pensioners should be limited to lifting any restrictions connected with the payment of pensions as well as tax breaks due to all pensioners.

Consideration taken of the socio-demographic and economic realities of Armenia and the latest international practice in the field of the pension systems development, as well as the available base of the pension system reform over the past 10 years the main directions for reforming the pension system should include a set of structural and parametric transformations.

The problems of reforming the system of compulsory personal pension insurance are still relevant. Over the past 7 years, Armenia's accumulation system has not turned into an important investment resource or "long money" in economy. Although the yield accumulated over the above period was higher than inflation taking into account that introduction of funded pensions is still not adequately perceived by citizens, its returns should be increased and duly advertised. Accumulation system may be enrooted in the pension system when beneficiary-workers and employers have more incentives to pay into it. The mechanism of mandatory personal pension insurance raises many questions.

The issue boils down to the transformation of the mechanisms of functioning of the voluntary pension provision. In international practice, voluntary pensions play a significant role in increasing the replacement rate across the entire pension system at between 11 and 55 percentage points of the replacement rate [4]. To sustain the stability of the accumulation subsystem, it is important to:

- provide additional support to the pension system at a level acceptable to the budget and heighten the level of the pension payments sufficiency (increasing the final replacement rate);

- increase the return on the accumulation system assets, as to assess the expected return of emerging markets, it seems appropriate to add an additional premium of 1% to 1.2%, which is a compensation for their higher sensitivity to macroeconomic shocks that these markets face [5].

- ensure the financial stability of the accumulation pension system and reduce the dependence of the funded part of the pension system on state financing;

- encourage payments to the voluntary funded system from the employees' own savings for increasing the level of the working population involvement in the voluntary funded system;

The main problem of the voluntary pension insurance system in Armenia is its low circulation among workers, which so far does not affect the indicators of accumulation insurance or the overall replacement rate. To develop the voluntary system, the following measures should be taken:

Development of the corporate voluntary insurance programs with a balancing application of tax and non-tax incentives. Active involvement of businesses into the formation of voluntary (non-state) pensions for their employees would need including, to some extent, such expenses into the taxable base of income tax expenses. Besides, government subsidies for interest-bearing loans of socially responsible enterprises implementing voluntary pension insurance programs for their employees may be an additional incentive for this.

It is necessary to take all measures for developing the social responsibility of businesses towards employees. Without building up such a process in the society and in economy it will be difficult to secure the socio-political stability. Following the example of public and social employees, businesses in RA should be motivated to introduce a social package for their employees, which would include a voluntary pension insurance system. It must become a norm in RA, which may have a significant impact not only on the level of pension provision, but especially on the processes of negative migration.

On the other hand, we have to take measures that affect the behavioral component of personal responsibility for one's pension. The state undertakes the function of ensuring everyone a comfortable old age, but the humanity and social justice of the pension system is that the concern for a pension (comparable to the previous salary) were initiated by every citizen.

Suggested also may be an increase in tax incentives for developing personal plans of voluntary pension insurance, for example, in terms of the amount of voluntary pension contributions, or reducing the obligation to pay a single tax for the self-employed, or property tax for persons living in border areas (this approach to property tax compensation is used in Switzerland).

It is necessary to actively expand the infrastructure of the voluntary pension insurance system, including the expansion of available institutions and their instruments.

Another important aspect is the effective use of the pension funds investment resources.

Assets of the APS funds have reached a critical amount, and in case of availability of appropriate investment instruments certain pension funds of Armenia could actively influence the development of the Armenian capital market through investing into the real sector of the Republic of Armenia, especially in infrastructure projects, which would accordingly increase the funds' returns and affect the economic growth.

In terms of reorienting the targets of the pension funds' investment policy aimed at

expanding investments into the infrastructure projects of RA the government developed a special investment platform and instruments for investing pension funds in PPP infrastructure projects. This investment platform is aimed at ensuring an optimal ratio of risk and return, stability of cash flows for servicing investments, neutralizing the adverse effects of exogenous factors and protecting against inflation. In order to effectively build PPP projects considered was also the format of the state support of PPP programs for pension funds. For the effective involvement and reliability of investments proposed is a matrix of structured financing with securitizing of assets for investments in PPP projects. The mechanisms of risk control at the stages of securitization, criteria for including an asset in the pool of underlying assets, as well as the division of underlying assets into financial and non-financial assets are considered in detail.

The above clearly demonstrates that the efficiency of reforms in pension sector requires an integrated approach, with the adoption of appropriate measures to reform all components of the pension system. In this case the pension system can be brought into line with the targets of economic development, taking into account the ethno-cultural, historical, spiritual and social characteristics of the Armenian society.

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