63 Questions and Answers

On the Multi-Pillar Pension System of the Republic of Armenia

Dear reader,

The Government of the Republic of Armenia has embarked on the implementation of pension reforms with a view to ensure decent pensions and financially secure old age for it's citizens.

This Manual contains information about the new pension system, as well as the benefits and opportunities that will be provided. We hope that it will answer a number of key questions concerning the new pension system and serve as a useful resource for you.

The Manual is intended for employers, employees, social sector specialists and, in general, those who are interested in pension issues.

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Preface

The Government of the Republic of Armenia has launched fundamental pension reforms which aim to ensure decent pensions for retirees, to achieve financial sustainability of the pension system and to directly link the size of pensions to social contributions.

A number of problems are inherent to the existing Armenian pay-as-you-go (PAYG) pension system due to the following factors. Firstly, in a PAYG system the contributions paid by employees are not directly linked to their future pensions. This discourages employees in reporting their real incomes and paying social contributions. Employees are not motivated to contribute to the system which, in turn, is unable to ensure adequate pensions. In addition, employers avoid paying mandatory social contributions by underreporting the number of their employees and understating their wages.

Secondly, the demographic situation in Armenia is unfavorable, resulting from the drop of birth rates and migration of working age population over the past twenty years. As a result, one contributor finances the payment of a pension of one retiree whereas in European countries the provision of a pension per retiree is financed by three employees.

International experience shows that countries with financially unsustainable pension systems attempt to address this issue primarily by taking the following transitional measures:

- Transition from a PAYG pension system financed by the principle of solidarity of generations(current workers pay for current pensions) to a more self-sustainable funded system;
- Transition from a formula-based and policy-driven pension model to a contribution model which is based on real incomes;
- Transition from a pension system directly managed by the State to a private pension system which is regulated and supervised by the State.

As a result of ongoing pension reforms, a multi-pillar pension system will be established in Armenia. The Armenian model of the multi-pillar pension system is anchored in the existing PAYG system which, in essence, is complemented by two new components: the mandatory and the voluntary funded components. The new pension system will lead to the creation of a new mentality by establishing the role and ownership of citizens in ensuring their own well-being.

Question 1. What are the features of the existing Armenian pension system?

The existing system in Armenia is a state pension system which is based on the principle of solidarity of generations. This means that the existing contributors finance the pensions of existing retirees. Contributions paid by hired workers, employers and individual entrepreneurs are transferred to the State budget and then used for financing the pensions of the existing retirees. However, the collected social contributions are not sufficient for ensuring the payment of pensions. Therefore, additional funds are allocated from the overall budget revenues for paying pensions.

State pension systems are normally called PAYG pension systems. A PAYG system is comprised of two components: social and labor. The following types of pensions are provided under the labor component: old-age, privileged, long-service, disability, survivor's, partial pensions, and old-age, disability while survivor's pensions are paid under the social component. For clarity, labor pensions are provided upon accumulating the required length of service while social pensions are provided to those individuals who have not accumulated the required length of service.

The social and labor components of the PAYG system will continue functioning within the new multi-pillar pension system in a reformed format.

Question 2. What kind of a multi-pillar pension will Armenia have in place after the reforms?

A multi-pillar pension system will be established in Armenia as a result of the ongoing pension reforms. The Armenian model of multi-pillar pension system is anchored in the existing PAYG system which, in essence, is complemented by two new pillars: the mandatory and the voluntary funded components. It will have the following four components:

Pillar 0 - social pensions – which will provide social pensions to those individuals who have reached 65 whose length of service is up to 10 years. This component aims to prevent poverty at retirement age.

Pillar 1 – labor pensions – which will continue providing pensions to existing retirees, as well as to future retirees who have reached the age of 40 as of January 1, 2014. Only basic pensions will be paid to the mandatory participants of the mandatory funded component. Individuals with more than 10 years' length of service will be entitled to receive pensions under this component.

Pillar 2 – mandatory funded pension – which will provide mandatory funded pensions to individuals born on and after January 1, 1974 (participants of the mandatory funded component aged 16-40), as well as individuals above 40 who have voluntarily joined the mandatory funded component and have paid mandatory funded contributions.

Pillar 3 – voluntary funded component – which will provide voluntary funded pensions without any age restrictions to those who have paid voluntary funded pension contributions.

From January 1, 2011 the voluntary funded component is operational, and the mandatory funded component will be put in place on January 1, 2014.

In the reformed multi-pillar pension system the linkage between incomes earned by an individual, contributions accordingly paid from these incomes and the pension size will be ensured through the introduction of Pillar 2, i.e. the mandatory funded component.

Question 3. Will the existing formula for calculation of pensions and the procedure for their payment be changed as a result of the reforms?

The formula for calculation of pensions for the existing retirees will not be changed, and their pensions will be computed by using the formula which was applicable before the reforms.

The old-age labor pension is calculated by using the following formula:

P = BP + PC x LS x YV, where:

BP is the basic pension

LS is the length of service

PC is the individual's personal coefficient (which is 0.04 for less than 10 years' length of service and [1+0.02 x (LS – 25)] for length of service above 25 years)

YV is the value per year of the insurance record.

The size of the basic pension and yearly value of the insurance record are determined and systematically adjusted by the Armenian government to the extent that these adjustments are affordable for the State budget.

Question 4. Will participants of the mandatory funded component receive pension under the PAYG component?

Yes. Apart from their mandatory funded pensions, participants of the mandatory funded component will receive basic or social pensions under the PAYG pension component. The entitlement to a basic or social pension will be dependent on the individual's length of service.

Question 5. Will the years of employment acquired by an individual before joining the mandatory funded component be taken into account?

Participants of the mandatory funded component will receive a basic pension, as well as reimbursement against each year of the insurance record accumulated before 2014. For example, if an individual's total length of service is 30 years of which 12 years were accumulated before 2014, then upon retirement he will receive a reimbursement from the PAYG component for these 12 years of service.

Question 6. How will the state pension of individuals born before 1974 be calculated?

Individuals born before 1974 will receive pensions from the PAYG pension component. Their pensions will be calculated based on the formula which is laid down in the Law on State Pensions (see Question 3). Individuals born before 1974 may voluntarily participate in the mandatory and voluntary funded components, and in addition to their entitlement to the state pension, acquire a right to mandatory and the voluntary funded pension.

Question 7. Will the tax legislation be revised in connection with the pension reforms?

Yes. Tax reforms associated with the pension reforms will be carried out in the tax legislation. From January 1, 2013 the existing income tax (levied at 0%, 10% and 20% rates) and the mandatory social insurance contribution (at AMD 7000, and 15%, 5% applicable rates) will be replaced by a unified income tax. The unified income tax will be charged at 24.4 percent for monthly basic income of up to AMD 120 000, and for incomes above AMD 120 000 it will be equal to AMD 29.280 plus 26 percent of the amount which exceeds AMD 120 000. Apart from paying the unified income tax, participants of Pillar 2 – the mandatory funded component – must also pay funded contributions. See the details about the funded contribution rates in Question 12.

Question 8. Who will participate in the mandatory funded component?

Participation in the mandatory funded component is built on the principles of mandatory and voluntary memberships.

Membership in the mandatory funded component is compulsory for hired workers, notaries and individual entrepreneurs born on and after January 1, 1974. Public, civil and community servants, deputies of the RA National Assembly, members of the RA Government are regarded as hired workers.

Membership in the mandatory funded component is voluntary for hired workers, notaries and individual entrepreneurs born before 1974.

Furthermore, self-employed individuals may voluntarily join the mandatory funded component regardless of their age. Individuals earning their income from activities not prohibited by law are treated as self-employed, including owners of agricultural lands, payers of patent fees (shoemakers, carpenters, weavers, blacksmiths, etc.) and persons earning incomes based on civil-legal contracts whose payers of income are not treated as tax agents.

Question 9. Who can participate in the voluntary funded component?

Any individual may become a member of the voluntary funded component, irrespective of his age and whether he participates in the mandatory funded and PAYG pension components or not.

The voluntary funded component is known as Pillar 3 of the pension system. By paying voluntary contributions, an individual can acquire entitlement to a supplementary pension.

Employers can also make voluntary pension contributions in favor of their employees by joining a pension scheme under the voluntary funded component. The size of the voluntary funded contribution will be mutually agreed upon between the respective parties, i.e. the payer of voluntary funded contributions and the financial institution offering a voluntary funded scheme.

Question 10. Who will not participate in the mandatory funded component?

Military servants and persons with an equivalent military status will not participate in the mandatory funded component, regardless of their age. The pension insurance of military servants and persons with an equivalent military status will be carried out in conformity with the Law on State Pensions.

Police officers, draft-age persons called up to military exercises, participants of RA military defense operations, officers of prisons and the Court Decisions Enforcement Service are treated as individuals with an equivalent military status.

Question 11. If an individual is a foreigner or stateless person and he works in Armenia, should he participate in the mandatory funded component?

If a foreigner or stateless person born on or after January 1, 1974 earns basic income in the Republic of Armenia, i.e. is employed by a company registered in the Republic of Armenia and receives a taxable salary or other income, then he must participate in the mandatory funded component. If a foreigner works at a diplomatic institution or international organization whose paid income is not subject to taxation by unified income tax, then he is not required to participate in the mandatory funded component.

At their own discretion foreigners born on or after January 1, 1974 can voluntarily participate in the mandatory funded component.

Question 12. What will the rate of the mandatory funded contribution be?

The mandatory funded contribution will be equal to 10 percent of the individual's basic income of which 5 percent will be paid by the individual and the remaining 5 percent will be transferred to his individual pension account from the State budget. However, the amount transferred from the State budget to the participant's individual pension account may not exceed AMD 25 000. This means that if the participant's monthly basic income is above AMD 500 000 (five hundred thousand), then the funded contribution at AMD 25 00 (twenty five thousand) will be credited to his pension account from the State budget, and the outstanding amount necessary for completing the 10 percent contribution must be paid by the employee.

For individual entrepreneurs and notaries the rate of the mandatory funded contribution will be estimated on an annual basis, at a value of 10 percent of the annual basic income. The annual rate of the State contribution transferred to pension accounts of individual entrepreneurs and notaries may not exceed AMD 300 000. If the annual basic income of individual entrepreneurs and notaries does not exceed AMD 6 000 000, then on a yearly basis they will pay a funded contribution at 5 percent of their annual basic income, and the remaining 5 percent will be transferred to their pension account from the State budget. If the annual basic income of an individual entrepreneur or notary is above AMD 6.000.000 (six million), then on an annual basis a funded contribution at AMD 300 000 (three hundred thousand) will be credited to the pension accounts of individual entrepreneurs and notaries from the State budget while the outstanding amount of the required 10 percent will be paid by individual entrepreneurs and notaries.

For those participants of the mandatory funded component who are self-employed or were born before 1974 and joined this component voluntarily, the funded contribution will be equal to 5 percent of their basic income, and no State contributions will be transferred from the State budget in favor of those participants who are self-employed or have joined the mandatory funded component voluntarily.

Question 13. When should participants of the mandatory funded component pay funded contributions?

The mandatory funded component will become effective from January 1, 2014. The first funded contribution must be paid by employees by February 20, 2014 from the amount of their basic income earned during January (salary which is taxable by income tax and incomes received under civil contracts) because employees will pay funded contributions on a monthly basis, by the 20th day of the next reporting month.

Notaries, individual entrepreneurs and self-employed persons who participate in the mandatory funded component will pay mandatory funded contributions on an annual basis, by April 30 of the next reporting year. During the reporting year they can also pay advance funded contributions.

Question 14. Will an individual have access to information about his paid income tax and mandatory funded contributions?

Yes. The State Revenue Committee (tax authority) will maintain personified recordkeeping of funded contributions and income tax paid by employees and their employers, as well as self-employed persons, individual entrepreneurs and notaries. For each employee, individual entrepreneur, notary and self-employed person an individual account will be opened with the State Revenue Committee. The account will reflect the participant's basic income (salary and other incomes received under civil contracts) for the reporting period (for employees - each month; for individual entrepreneurs, notaries and self-employed persons – each year), the amounts of income tax and mandatory funded contributions, and the amount of actually paid contributions. Data consolidated in the personified recordkeeping system will be accessible for holders of individual accounts who can access their information on-line by logging in his page in the personified recordkeeping system. Otherwise, he may request a written individual account statement from the respective regional unit of the State Revenue Committee. The individual account statement will be provided to the participant free of charge once a year, and a commission will be charged against any further information requests filed by the participant during the same year.

Where an employee changes his employer, the responsibility for paying income tax and funded contributions on behalf of the employee shall rest with his new employer (tax agent). No new individual account will be opened at the State Revenue Committee for the employee. Rather, the received information will be entered into his existing individual account.

Question 15. Can an individual cease his participation in the mandatory funded component?

For employees, notaries and individual entrepreneurs born on and after January 1, 1974 participation in the mandatory funded component is compulsory. Therefore, they are not entitled to cease their participation in the mandatory funded component at their own discretion.

Similarly, individuals born before 1974 who will join the mandatory funded component voluntarily may not terminate their participation in the mandatory funded component and return to their former pension status.

Question 16. Who will calculate and transfer employee mandatory funded contributions?

The responsibility for calculating and transferring mandatory funded contributions will rest with employee's employer who acts as a tax agent. On a monthly basis the employer must submit a personified report to the tax authority on incomes paid out to its employees, and funded contributions.

Individual entrepreneurs, notaries, self-employed persons and employees whose employer is exempted from the responsibilities of a tax agent will independently calculate and transfer the mandatory funded contributions to the RA State Treasury.

Funded contributions paid to the State Treasury will be transferred to the Participants' Registrar which will issue pension fund shares for each participant. Each contributor will have his individual pension account with the Participants' Registry. (See details about the individual pension account under Question 24.)

Question 17. How will the mandatory funded contribution be calculated if an individual receives income from several sources?

Where an employee combines several jobs or receives income from several sources under civil contracts, each employer or payer of income of the employee must independently calculate and transfer his mandatory funded contribution by following the general procedure. However, the size of the monthly contribution paid to the State budget in favor of the employee may not exceed the monthly amount of AMD 25 000, and for individual entrepreneurs the above contribution may not exceed the annual amount of AMD 300 000. Where the basic monthly income of an employee is above AMD 500 000, or where the annual basic income of individual entrepreneurs and notaries is above AMD 6 000 000, they are required to pay an additional contribution at an amount equal to the difference between 10 percent of the annual basic income and the appropriate State contributions. After the completion of the reporting year the tax authority will inform the individual about the origination of any additional liabilities related to funded contributions and their size.

Question 18. If an individual has not received any basic income on January 1, 2014, then what will be the implications of the principle of mandatory participation in the mandatory funded component for the individual when in future he becomes an employee, individual entrepreneur or notary?

If a person was born on or after January 1, 1974 but he or she does not have a status of an employee or individual entrepreneur or notary at the time when the mandatory funded component is launched (January 1, 2014) and at a later stage enters into employment relations as an employee or starts his or her own business or is designated as a notary, then he or she must be considered as a participant of the mandatory funded component from the first day of his or her employment and is obliged to pay mandatory funded contributions at the rates and in the manner prescribed by law.

Question 19. How will an individual's participation in the mandatory funded component be regulated if the individual does not earn any basic income?

If an individual does not have any basic income, then he will not be considered as a participant of the mandatory funded component. Nonetheless, he will be still entitled to receive pension benefits from the state pension system and become eligible for a social pension upon reaching 65. And if an individual's length of service is 10 and more years, then he will receive a basic pension.

Question 20. An individual owns an agricultural land. How will his participation in the new pension system be regulated?

Owners of agricultural lands, regardless whether they were born before or after 1974, are treated as self-employed persons and they can voluntarily join the mandatory funded component. They are not required to pay mandatory funded contributions unless they have joined the mandatory funded component voluntarily. In the event of joining the above component voluntarily, they will pay funded contributions at 5% rate, but no funds will be transferred from the State budget to their individual pension accounts.

Even if they do not join the mandatory funded component voluntarily, on reaching 65 they will be entitled to an old-age social pension.

Question 21. What will happen to an individual's mandatory funded savings if he loses his job?

When a person loses his job or ceases to receive income, his mandatory savings will be maintained in his individual pension account and continue to be managed by the pension fund manager. No funded contributions will be paid to his individual pension account during the entire period he is jobless, the return generated from managing pension fund shares will be the only source for increasing his pension account balance. Funded contributions will be credited again to the person's individual pension account once the person finds a new job, and new pension fund shares are acquired from these funds.

Question 22. An individual has lost his job before reaching the retirement age. Will he be eligible for a mandatory funded pension?

Losing one's job does not serve as a sufficient legal basis for receiving a funded pension before reaching the retirement age. The individual may duly apply for a funded pension only upon reaching 63.

Question 23. An individual has become disabled before reaching 63. Is he entitled to receive his mandatory funded pension?

Not all persons recognized as disabled will acquire the right to withdraw their mandatory funded savings in the form of a lump-sum amount before reaching 63. If a person has a 3^{rd} degree working incapacity, then he may withdraw his pension savings in the form of a lump-sum payment before reaching 63.

Of course, this does not mean that these persons will not be eligible for a disability pension provided by the state (pay-as-you-go) pension component. When a person is duly recognized as disabled, he will receive a disability pension from the state pension component.

Question 24. What is a pension account and where will it be opened?

Each participant of the mandatory funded component will have an individual pension account which will be opened and maintained by the Registrar. Pension fund shares owned by the participant will be reflected in the pension account. It will contain information about the quantity of pension fund shares held by the participant, their estimated value, and funded contributions paid in favor of the participant.

Question 25. What is a registrar?

The Registrar maintaining the registry of the mandatory funded component's participants is an organization which will operate based on an agreement signed between the Registrar and the Armenian government. During the first five years of operation of the funded component the participants' registry will be maintained by the Central Depository which will perform the following functions:

- Opening and maintenance of participants' pension accounts;
- Organizing the issuance and redemption of pension fund shares;
- Transferring the participants' accumulated assets to the pension fund manager without disclosing the participants who have made their selection of pension fund managers;
- Transferring pension assets from one pension fund manager to another at the discretion (on the request) of participants;
- Providing information to participants on their pension accounts;
- Effecting lump-sum and scheduled payments together with the custodian;
- Transferring pension assets to insurance companies;
- Transferring the shares of deceased participants to their heirs.

Question 26. How will communication between the Registrar and participants be ensured?

The Registrar (Central Depository of Armenia) does not have its regional units in the Armenian marzes. In order to ensure communication between the Central Depository and participants of the mandatory funded component, account operator offices will be established which will mediate the relationships between the Central Depository and participants, namely, with regard to choosing a fund manager, opening a pension account, etc. The account operator will virtually act as a middleman between the participants of the mandatory funded component and the Registrar.

The Government of the Republic of Armenia will establish the list of organizations which may act as account operators.

Question 27. Will the information about a person's individual pension account be accessible to third parties, including his family members?

Information about a participant's individual pension account will be confidential and it will not be accessible to third parties, including the participant's family members or close relatives.

Neither employers nor pension fund manager can have access to a participant's individual pension account data, which include, the fund selected by the participant, quantity and the value of the pension fund shares held by the participant.

Employers, the Registrar, account operator, tax authorities who by virtue of their functions have access to the information about the participants' individual pension accounts but must maintain the pension confidentiality and not disclose this information or otherwise make it known to any third party.

In the presence of certain grounds exceptions may apply to the above principle of non-disclosure. In particular, based on the decision of the prosecution body or the court employers, government agencies and other entities will be required to provide information about an individual's pension account.

In addition, according to another exception, in the presence of documentation testifying to a right of inheritance information about the individual pension account of a deceased participant can be provided to his or her heirs.

Question 28. What entity will be responsible for managing the mandatory funded pension assets before a participant reaches 63 and how?

Before a participant of the mandatory funded component reaches 63, the mandatory funded pension assets will be managed by pension fund managers. Subsequently, apart from paid funded contributions, the participants will also receive additional return on invested pension assets. The managed assets are not owned by the pension fund manager who must maintain separate records on pension fund assets.

Pension fund managers will be compensated against their fund management services. The size of the commission is set out by law and it may not exceed 1.5 percent of the value of managed assets.

Entities with a status of a joint stock company or limited liability company which have duly completed the licensing process and have been issued a pension fund management license by the Central Bank of Armenia may act as pension fund managers.

Question 29. What is a pension fund?

A pension fund is an entirety of contributions paid by individuals and assets formed as a result of invested contributions. Under a pension fund individuals hand over their funds (funded contributions) to a professional manager which consolidates these funds and manages them as a single portfolio. The right of each participant to the pension fund assets and his share on the return on these assets is certified by his pension fund share.

Pension funds have rules of operation which are approved by the Central Bank of Armenia during the process of the fund registration. By selecting a pension fund, an individual also expresses his agreement to adhering to these rules.

Payments are made to participants from the pension fund (funds equivalent to a participant's share in the fund assets are returned) in the form of pension benefits after the participant reaches the retirement age.

Question 30. What is a pension fund share and who will own it?

A pension fund share is a security. It testifies to the right of the pension fund participant to pension fund assets and a portion of return on these assets.

The right of ownership to pension fund shares will belong to the pension fund participants, i.e. payers of funded contributions. However, their ownership right is subject to certain restrictions, including the following:

- A participant may not use the accumulated pension funds at his own discretion until he reaches the retirement age;
- A participant may not pledge his shares or invest them in the paid-in capital of a legal entity;
- A participant may not donate to use his shares in such a way which can cause termination of the right of ownership to his shares.

Question 31. What will happen when a participant of the mandatory funded component does not select his pension fund manager?

Participants are required to choose their pension fund manager and pension fund within 30 days after opening of his pension account. Where a participant fails to make the selection, the pension fund manager will be selected by the Registrar by randomly distributing among pension fund managers those participants who have not made their selection, in proportion to the selection made by other participants. The Registrar will inform the participant of the mandatory funded component about the pension fund selected on the participant's behalf. In the future the participant may switch to another pension fund at his own discretion.

Question 32. What rights do divorced spouses have to each other's mandatory funded savings (pension fund shares)?

The mandatory funded pension savings (pension fund shares) will be deemed as the individual's personal property, i.e. the regime of common marital ownership will not apply to these funds. Subsequently, none of the spouses may have any pretentions to each other's mandatory funded pension savings.

Question 33. Can the mandatory funded pension savings of an individual be seized based on a court order in relation to the individual's proprietary obligations before he reached the retirement age?

No. No seizure can be imposed on an individual's mandatory funded pension savings against proprietary obligations before the individual reaches 63. This means that if the individual has proprietary obligations to a bank or any other entity and his property is not sufficient for honoring these obligations, then no seizure may be imposed on his mandatory funded pension savings.

A seizure can be imposed on an individual's mandatory funded pension against his proprietary obligations only after he reaches 63, as well as during the period of receiving an annuity (funded pension). If an individual has proprietary obligations – for example, he or she has received a loan from a bank – then upon reaching 63 his or her funded savings can be seized for the purpose of honoring his or her proprietary obligations to the bank.

Question 34. How can an individual monitor the payment of his mandatory funded contributions by his employer?

In order to confirm that the employer has paid mandatory funded contributions on behalf of the employee, the employee may request that his employer provides the appropriate information. Where the employer fails to provide reliable information or the employee has doubts about the accuracy of the provided information, he or she may apply to the tax authority. The tax authority will maintain personified recordkeeping of individuals' incomes, paid income tax and funded contributions. For each employee, individual entrepreneur, notary and self-employed person an individual account will be opened with the tax authority where the amount of the basic income of each person (salary and income from civil and legal contracts) for the reporting period will be recorded (for employees, on a monthly basis and for individual entrepreneurs, notaries and self-employed persons, on an annual basis). The above account will also reflect the amounts of payable income tax and mandatory funded contributions and the actually paid funded contributions. These data will be accessible for holders of individual accounts.

Question 35. How can a participant obtain information about his accumulated funds?

At the end of each working day the pension fund manager must disclose the value of each managed pension fund share. This information will be available on the manager's website, as well as account operators of the manager and the Registrar, i.e. the Central Depository.

A participant can estimate the current value of his accrued funds by multiplying the quantity of his own pension fund shares by the value of shares of the concerned fund. The participant can obtain information about the quantity of his own shares from the Registrar in the form of an account statement. Moreover, information about the participant's account (account statement) will be available electronically any time through the website of the Registrar.

Question 36. What role can an individual have in managing his funded pension assets?

An individual will select the mandatory funded pension fund and the fund manager which will manage his funded pension savings. The individual can switch to another mandatory funded pension fund and fund manager, as well as invest his assets concurrently in several pension funds, for example, leave the previously accumulated funds in one pension fund and hand over the future pension savings to management by another pension fund manager.

Participants can switch to another pension fund at their discretion by selecting other funds operated by the same manager or any other fund of other managers. If the participant changes his fund manager or fund for the first time during a year, then no fees will be charged, and where switching of the fund manager or fund occurs more than once during the same year, the manager may charge a fee against redemption of shares.

The freedom of choice will contribute to an increased responsibility of fund managers and healthy competition.

When an individual makes his choice at the initial stage, he is recommended to access information about fund managers and their management (from websites, published booklets) and then to learn about the levels of their service fees since they can significantly vary from fund to fund, as well as to check the reliability of the pension fund and to review its rules of operation.

The return generated as a result of managing pension assets is a key criterion for selecting a pension fund, and each fund manager is required to disclose regular information about the earned return.

As to the participants' role in influencing the asset investment strategy and decisions on where and what securities should the assets be invested in, it should be noted that by choosing a pension fund manager and reviewing the fund rules, the individual also selects the type of investment fund.

Question 37. From what sources can an individual obtain information about pension fund managers in order to be able to make an appropriate selection among managers?

An individual can obtain comprehensive information about pension fund managers from the website operated by each manager which must contain the following information about the fund manager and his managed pension funds:

- At least the recent annual and quarterly financial statements;
- Audit opinions about the annual statements;

- Information about the composition and structure of pension fund assets;
- Information about the yield of the pension fund;
- Information about decisions on paying out dividends;
- Information about people with significant participation in the manager’s paid-in capital, including their names and size of participation;
- List of members of the managers’ board of directors, executive body, including their personal data.

Information can be accessible also through information materials published by the Central Bank of Armenia, pension fund prospectuses, materials released in newspapers with a circulation of at least 3 000 copies, pension fund rules.

Information posted in the websites of fund managers will be verified and monitored by the Central Bank of Armenia in order to assure no dissemination of inaccurate and misleading information.

Question 38. Can a pension fund go bankrupt?

No, a pension fund cannot go bankrupt because it does not have a status of a legal entity. Bankruptcy of a pension fund manager does not imply a bankruptcy of a pension fund. Pension assets are not jeopardized in the event when the manager goes bankrupt because these assets are owned by the participants and they are not part of the manager’s property. Separate recordkeeping is maintained for the pension assets by the fund custodian in case the manager goes bankrupt (and they are not exposed to any risks associated with the bankruptcy of the custodian). The custodian is required to transfer the fund to another fund manager within the legally specified timeframe.

Question 39. Can a participant choose a specific investment asset or decide on the policy for investing his funds?

The participant cannot directly decide on the policy for investing his assets. However, each pension fund will be managed under an investment policy which is approved and published by the fund manager in advance, each participant can select a preferred investment policy by choosing a specific pension fund operated by a particular manager. The permissible investments of pension funds and investment limits will be set out under the appropriate government decree.

Question 40. What is a pension fund custodian and what functions does it perform?

A pension fund custodian is a legal entity operating independently from the fund manager (i.e. the custodian is not affiliated to the fund manager) which is responsible for the custody of pension fund assets, i.e. their safekeeping and separated recordkeeping. In addition, transactions in the fund assets (debiting and crediting of funds can be executed only with the consent of the custodian. The custodian has certain control powers over the manager. This means that the custodian oversees the observance of legislative requirements and the fund rules by the manager and he does not execute the assignments issued by the manager as this would result in a violation of legal requirements or the fund rules.

Only banks are entitled to act as pension fund custodians. However, the law anticipates that during the transition period, i.e. before banks build the necessary capacities for performing the function of a custodian, the function of the custodian for all pension funds (mandatory pension funds) formed on the basis of mandatory funded contributions will be performed by the Central Depository of Armenia (CDA) in the capacity of a centralized custodian.

Question 41. Who will oversee the operations of pension fund managers and custodians?

The activities of pension fund managers and custodians will be regulated and supervised by the Central Bank of Armenia.

Pension fund managers are required to publish, as well as post on their websites their financial statements and audit opinions.

Question 42. How will a participant's funded pension savings be protected if the fund manager is liquidated or decides to terminate its activities as a pension fund manager?

A pension fund manager can be liquidated only after obtaining a preliminary consent from the Central Bank of Armenia. In the event of liquidation or termination of the pension fund manager, the participants' shares will be transferred to another asset manager. The process of transferring shares to other manager will be overseen by the Central Bank of Armenia. The participants of a pension fund in liquidation can duly switch to another pension fund free of charge within 60 days.

Question 43. Can an individual withdraw his mandatory funded pension savings in the form of a lump-sum amount before reaching 63?

In certain exceptional cases the individual may withdraw his mandatory funded pension savings before reaching the retirement age. These exceptions include the cases when the individual is terminally ill or leaves the Republic of Armenia permanently and terminates his Armenian citizenship or is recognized as disabled (with a 3rd degree working incapacity), as well as other cases specified by law.

Question 44. Can an individual receive only a basic pension upon reaching 63 and postpone the receipt of his mandatory funded pension for an indefinite time-period?

Yes. Upon reaching 63 an individual can receive a basic pension and postpone the receipt of his mandatory funded pension for an indefinite time-period. If the individual dies, then his non-received funded pension savings will be inherited in the due manner.

Question 45. An individual has reached the retirement age but he continues his employment and does not receive a mandatory funded pension. Is he required to pay mandatory funded contributions?

If the individual has reached the retirement age (63), then he is entitled to apply for a funded pension. For that purpose he should file an application with the Registrar. If the individual does not apply to the Registrar for receiving a funded pension and continues his employment, then he is not released from the responsibility to pay mandatory funded contributions. His funded pension savings will still remain at the pension fund in the form of shares and they will be managed by the fund manager until the individual decides on receiving a mandatory funded pension. When an individual continues his participation in the mandatory funded component after reaching 63, no contributions will be paid in favor of the participant from the State budget.

Question 46. How will an individual's mandatory funded pension savings be managed if he dies before reaching 63?

Where the individual dies before reaching the retirement age (63), the mandatory funded pension savings will be transferred to his heir(s) by the right of inheritance. The inherited pension savings will be transferred to the heirs' individual pension accounts or provided to them in the form of a lump-sum amount. If the balance of the pension account of the deceased participant is below the 25-fold value of the basic pension, then the balance will be provided to the heir(s) in the form of a lump-sum amount. If the balance of the inherited pension savings is above the 25-fold value of the basic pension, then the heir(s) will receive a lump-sum amount equivalent to the 25-fold value of the basic pension, and the residual amount will be transferred to their individual pension accounts. If the heir(s) of the deceased participant are not members of the mandatory funded component and do not have individual accounts with the Participants' Registry, then individual accounts will be opened in their names where the inherited pension savings will be credited.

Question 47. How will an individual's mandatory funded pension savings be managed if he dies before reaching 63 and has no heirs?

If an individual dies before reaching 63, then the funded pension savings will remain at the pension fund and will be managed by the fund manager for three years. If no heirs claim the deceased individual's pension savings during the three-year period and his shares are not inherited, then the pension savings will be duly recognized as heirless and they will be transferred to the State budget.

Question 48. Is the refundability of the mandatory funded pension assets to the participants of the mandatory funded component guaranteed?

Through legal regulations the Government of Armenia will create the necessary and adequate conditions for reasonable management of the participants' pension savings and ensure a decent pension upon their retirement.

The refundability of the entire amount of mandatory funded contributions paid by the participants is guaranteed and it will be adjusted by the annual inflation rate. The refundability of the above amount will be guaranteed by two sources: (i) the resources of the Guarantee Fund established for this particular purpose and (ii) the State budget of Armenia. 20 percent of refundable funded pension assets will be guaranteed by the Guarantee Fund and 80 percent of the above refundable assets will be ensures at the cost of the State budget.

Question 49. Will the RA Government set out the size of mandatory funded pensions?

No. The Armenian government will not set out the size of the mandatory funded pension because the level of the funded pension benefit will depend on the basic income received by the individual during his employment career, the funded contributions paid from his basic income and return on his managed pension fund shares.

Question 50. What are the ways of providing funded pensions to the participants of the mandatory funded component?

The form of receiving the mandatory funded pension depends on the level of the available balance of the participant's pension account and the period of receiving funded pensions. A participant can receive his mandatory funded pension upon reaching the retirement age in three forms:

- Annuity
- Lump-sum payment
- Program withdrawal .

Universal mortality tables must be used for both sexes in calculating mandatory funded pensions.

Question 51. Who should an individual apply to in order to receive his mandatory funded pension?

In order to receive a mandatory funded pension, the individual must:

- Find out the size of the mandatory funded pension savings available on his individual account. To do this he should apply to the Registrar, i.e. the Central Depository of Armenia
- Review the insurance market in order to identify the annuities offered by insurance companies and the terms and conditions of annuity agreements
- After selecting the insurance company, file an application with the Registrar along with specifying the insurance company with which he has an annuity agreement.

Within three days after receiving the participant's application, the Registrar must provide a certificate about the available balance of the participant's pension account, their total carrying value and the size of the monthly payment in cases when these funds are evenly divided into monthly payments.

Question 52. What is an annuity?

An annuity is the amount paid by an insurance company to the individual during a certain period at a certain frequency against the transferred lump-sum amount. In case of an annuity an agreement is made between the participant and the insurance company to which the available balance of the participant's pension account are transferred.

If the funded pension savings of the individual are evenly divided into monthly payments and each monthly payment is above 75 percent of the basic pension but below the 5-fold amount of the mandatory funded pension, then the participant must select an insurance company and enter into an annuity agreement with it.

The participant must file a written request with the Registrar which should detail his selected insurance company, the annuity agreement, as well as transfer of his pension savings to the insurance company. Within 10 working days the Registrar must transfer the available balance of the participant's individual account to the selected insurance company. Within 7 days after the receipt of the funds the insurance company must inform the participant in writing about the receipt of the fund and their value.

The insurance company will start paying the annuity under the terms and conditions of the annuity agreement after it receives the pension savings.

Question 53. What are the types of annuities?

The following two types of annuities are specified by law: (a) annuities guaranteed for 10 or 5 years; and (b) joint annuities guaranteed for 10 or 5 years.

Annuities guaranteed for 10 or 5 years are paid for the life term. However, if an individual dies before the completion of the 10 or 5 years' guaranteed period, then his heirs have the right to withdraw the outstanding amount of the annuity from the insurance company.

Joint annuities are paid for the life term to the individual to whom the annuity is assigned. After the death of the beneficiary it is paid to the survivor spouse for his or her life term at the amount specified in the annuity agreement. If both spouses die during the guaranteed period, then their heirs receive the outstanding amount of the annuity.

Question 54. What are the essential terms of an annuity agreement?

An annuity agreement concluded with an insurance company should specify the type of annuity, the age of the participant, i.e. pension beneficiary, the amount transferred to the insurance company, the size of the payable annuity, the timing and frequency of payments, the responsibility of the insurance company for infringing the provisions of the annuity agreement and other essential terms. Furthermore, when signing an annuity agreement, the insurance company may not require from the beneficiary any medical certificate on his health status.

Question 55. Can an individual terminate the existing annuity agreement and enter into a new annuity agreement with another insurance company?

Yes, if the insurance company has infringed the provisions of the annuity agreement. Where the insurance company fails to pay the annuity in two successive cases, the pension beneficiary may terminate the annuity agreement at his own discretion along with requesting indemnification of his incurred losses and refund of the outstanding amount. The outstanding amount of the annuity will not be provided to the beneficiary in the form of a lump-sum payment. He must enter into a new annuity agreement with another insurance company, and the outstanding amount will be transferred to the account of the new insurance company. The procedures for terminating annuity agreements will be laid down by the Central Bank of Armenia.

The issue of paying annuities in cases when an insurance company goes bankrupt will be regulated by the legislation on insurance companies. Specifically, on the consent of the Central Bank of Armenia the entire portfolio of the insurance company will be transferred to another insurance company which will be acting as the legal successor of the failed company and will continue paying the annuity under the annuity agreement.

Question 56. How will the individual's mandatory funded pension savings be managed if the individual dies during the period of receiving annuities?

When the beneficiary dies while receiving annuities, the funded pension savings will be maintained by the insurance company, provided the beneficiary dies after the completion of the guaranteed period for paying annuities. If the beneficiary dies before the completion of the guaranteed period as specified in the annuity agreement, then the insurance company must calculate and return to the beneficiary's heirs the outstanding amount payable during the guaranteed period.

Question 57. What is a program withdrawal and what are the bases for providing program withdrawals?

A program withdrawals is a pension paid to the participant on a monthly basis from the funds accumulated on his pension account which are distributed by the number of months of the average life expectancy.

The legislation identifies the below cases when funded pensions can be received in the form of program withdrawals. Firstly, if the participant's accumulated pension savings are proportionally divided into monthly payments and these payments are below or equal to 75 percent of the basic pension, then the participant is entitled to receive his funded pension in the form of program withdrawals. Secondly, after signing an annuity agreement which ensures a 5-fold amount of the basic pension, the participant may receive his remaining pension savings in the form of program withdrawals.

Question 58. What is a lump-sum payment and what are the bases for its payment?

A lump-sum payment is the lump-sum withdrawal of the pension account balance by the participant upon reaching the retirement age. When the participant's accumulated pension savings are evenly divided into monthly payments and each monthly payment exceeds the 5-fold amount of the basic pension, the participant is required to sign an annuity agreement which ensures a 5-fold amount of the basic pension, and the residual amount can be accessed by the participant in the form of scheduled payments or a lump-sum payment.

In addition, the following bases for withdrawing the funded pension amount in the form of a lump-sum payment is defined by law:

- The participant is recognized as disabled with a 3rd degree limited working capacity before reaching the retirement age;
- The participant is in an extremely critical condition and his vital organs are terminally affected;
- The participant dies, and in this case the withdrawn funds should be below or equal to the 25-fold amount of the basic pension;
- The participant who is an RA citizen moves abroad for permanent residence and terminates his Armenian citizenship;

- Foreigners working in Armenia return to their country of permanent residence.

Question 59. Will the payment of the mandatory funded pension be terminated when a citizen leaves Armenia temporarily or moves to another country for permanent residence?

No. The payment of the mandatory funded pension will not be terminated in cases when a citizen leaves Armenia temporarily or moves to another country for permanent residence. He will continue receiving his mandatory funded pension irrespective whether he is physically in Armenia or not. He can authorize other persons to receive his mandatory funded pension on his behalf or provide his foreign bank account details to the Registrar or his insurance company to which the mandatory fund pension will be transferred. The pension beneficiary will cover all costs associated with the transfer of his mandatory funded pension to his foreign bank account.

Question 60. What is a voluntary pension scheme and who should an individual apply to in order to join it?

The voluntary funded pension scheme is, in essence, an agreement between an individual (in favor of the individual or other party) or employer (its employee) on the one side, and a provider of voluntary funded pension services on the other side on paying voluntary contributions, accumulating and paying voluntary pension under certain terms and conditions. Voluntary pension services can be provided by insurance companies, banks and voluntary pension funds. Insurance companies can offer only ‘defined-benefit’ schemes, banks can operate only ‘funded pension deposits’, and voluntary pension funds can offer only ‘defined-contributions’ schemes.

Question 61. Will an individual be entitled to any tax privileges if he or she joins the voluntary funded component?

When an individual has joined the voluntary funded component, he or she will enjoy income tax privileges. In particular, the individual’s taxable income will be deducted by up to 5 percent. For example, if the participant’s monthly basic income is AMD 100 000 and he has paid a voluntary funded contribution at AMD 5000, then his income tax will be assessed based on AMD 95 000.

Employers are entitled to made deductions from the profit tax base in cases when they pay voluntary funded contributions in favor of their employees. In determining the employer’s taxable profit, gross earnings should be deducted at 50 percent of voluntary funded pension contributions paid by the employer for each employee but no more than 2.5 percent of the labor compensation paid to the concerned employee and other equivalent payments.

The employer will not pay profit tax on the portion of voluntary funded contributions paid by the employer in favor of its employee which does not exceed 7.5 percent of the labor compensation of the concerned employee and other equivalent payments.

Question 62. Can a participant of the voluntary pension component cease his participation at his own discretion?

A person participating in the voluntary pension component can cease his participation when he reaches the retirement age if:

- He is recognized as a disabled,
- He suffers from an incurable disease,
- He moves from the Republic of Armenia to another country for permanent residence,
- The voluntary pension fund is liquidated.

An individual may temporarily suspend the payment of voluntary pension contributions but he may not withdraw his paid voluntary funded contributions in the form of a lump-sum amount.

Participants may change their bank, insurance company or pension fund by transferring their voluntary pension savings to another bank, insurance company or voluntary pension fund.

Question 63. Who can an individual apply to when he or she has a complaint or question concerning the mandatory funded contributions, individual accounts, or pension account or their annuity?

In case of any complaints or inquiries related to mandatory funded contributions and individual accounts, individuals can apply to the RA State Revenue Committee (the tax authority) which will review the complaint or inquiry within 30 days and notify the applicant in writing about its decision along with detailing the reasons and legal bases for taking such a decision. If the inquiry or compliant is outside the competence of the tax authority, then within 3 days the latter will forward the compliant or inquiry to the competent body.

An individual may submit any complaints or inquiries in relation to his individual pension account to the tax authority or the Registrar. If the individual has a complaint regarding his annuity, he can apply to the management body of the insurance company. If the issue is not settled at this level, then the case can be brought for the consideration of the Central Bank of Armenia. In addition, any complaints related to individual pension accounts and annuities can be filed with the Financial System Mediator.