



ANNEX 41

Twinning Project AZ/13/ENP/SO/24

Support to the State Social Protection Fund on the introduction of funded element within the insurance-pension system, establishment of non-state pension funds and development of legal framework for regulating their activity

Workshop

Possible solutions for development of multi-level pension system in the Republic of Azerbaijan

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Gesellschaft für
Versicherungswissenschaft
und -gestaltung e.V.



10-11th December, 2014

Agenda

Study report – main conclusions

- Economical situation
- Demographical situation and state social insurance system
- Financial and capital market development
- Private Savings market development
- Financial and capital market supervision
- SWOT analysis for building pension savings in Azerbaijan

Proposals on Development of non-state pension funds

- Scheme Structure and governance
- Labor Law and Consumer protection principles
- Regulation and supervision / Asset investment issues/ Risk management and insolvency issues
- The Pay-out phase of fully funded pension options, problems and actual international practice

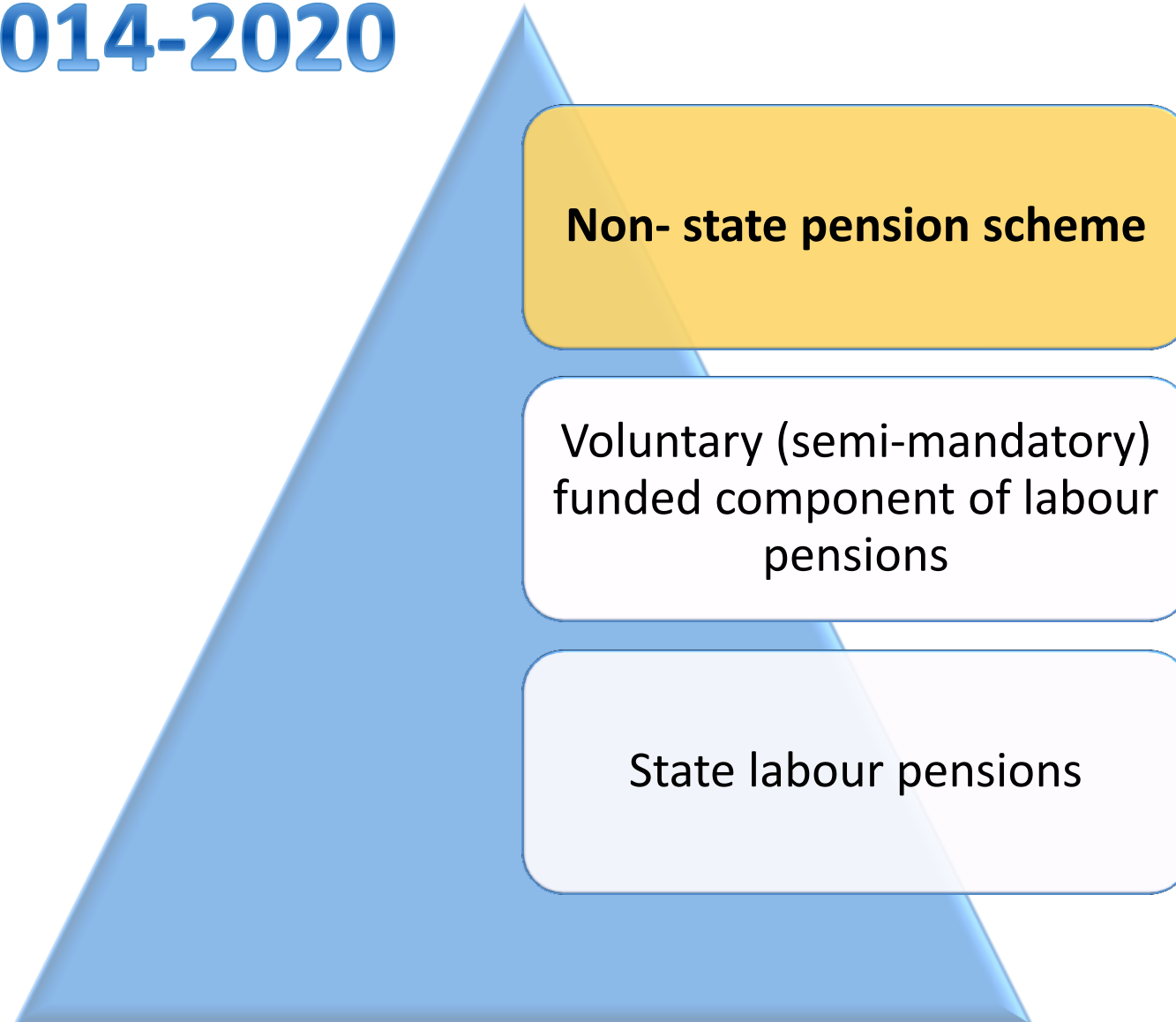
Proposals on Activation of voluntary component of labor pensions

- Comparison of 3 versions of building funded component of labor pensions taking into account existing state social contribution rate and social budget constraints

Structure and governance of non-state pension system

December 11, 2014, session 14:00-15:00

Pension system in Azerbaijan regarding to Concept 2014-2020



Main elements of pension savings system

Participants – Financial institutions for pension management / individuals and enterprises

Contributions

Individual accounts

Administration

Asset management function

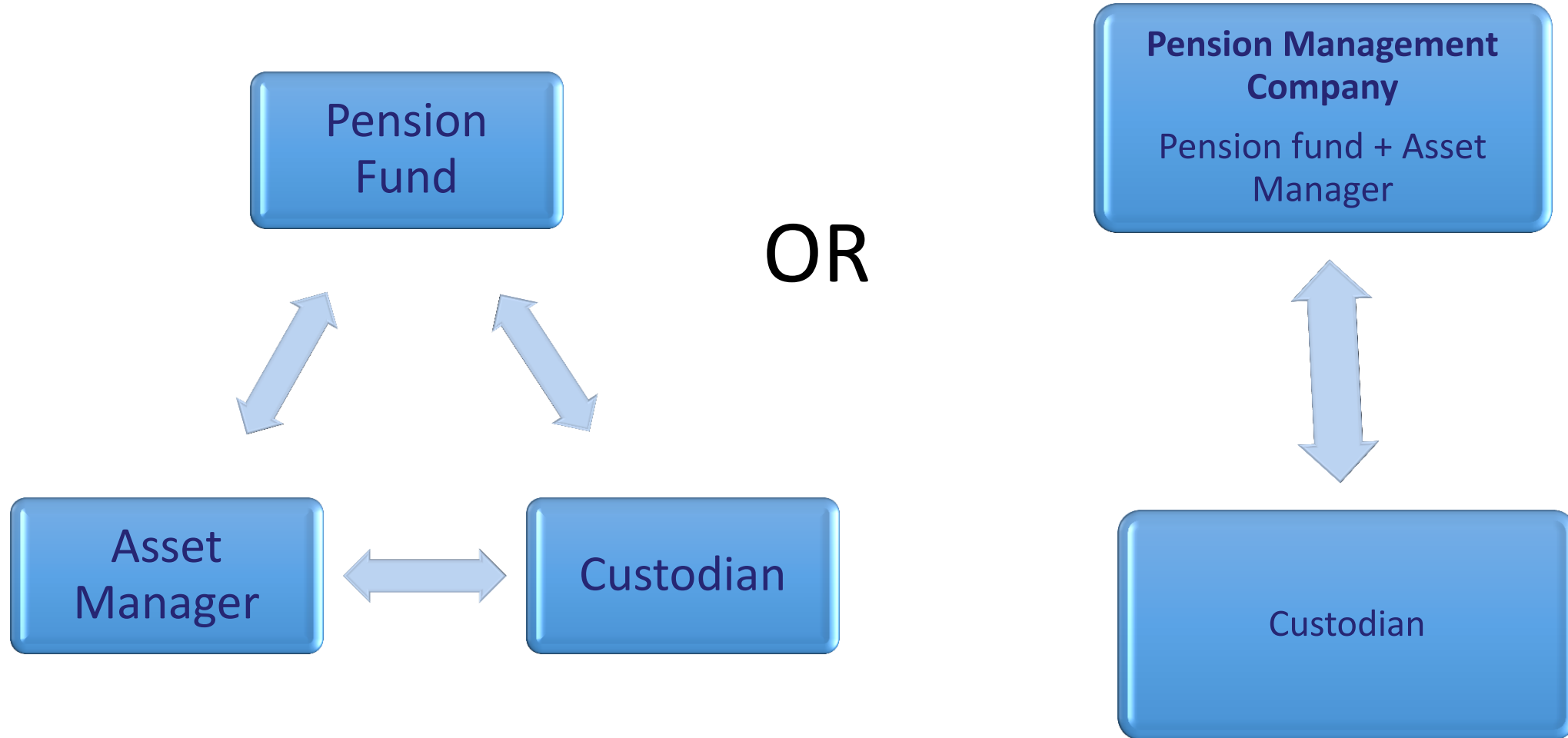
Custodians

Supervision of Pension administration and asset management functions and custodians

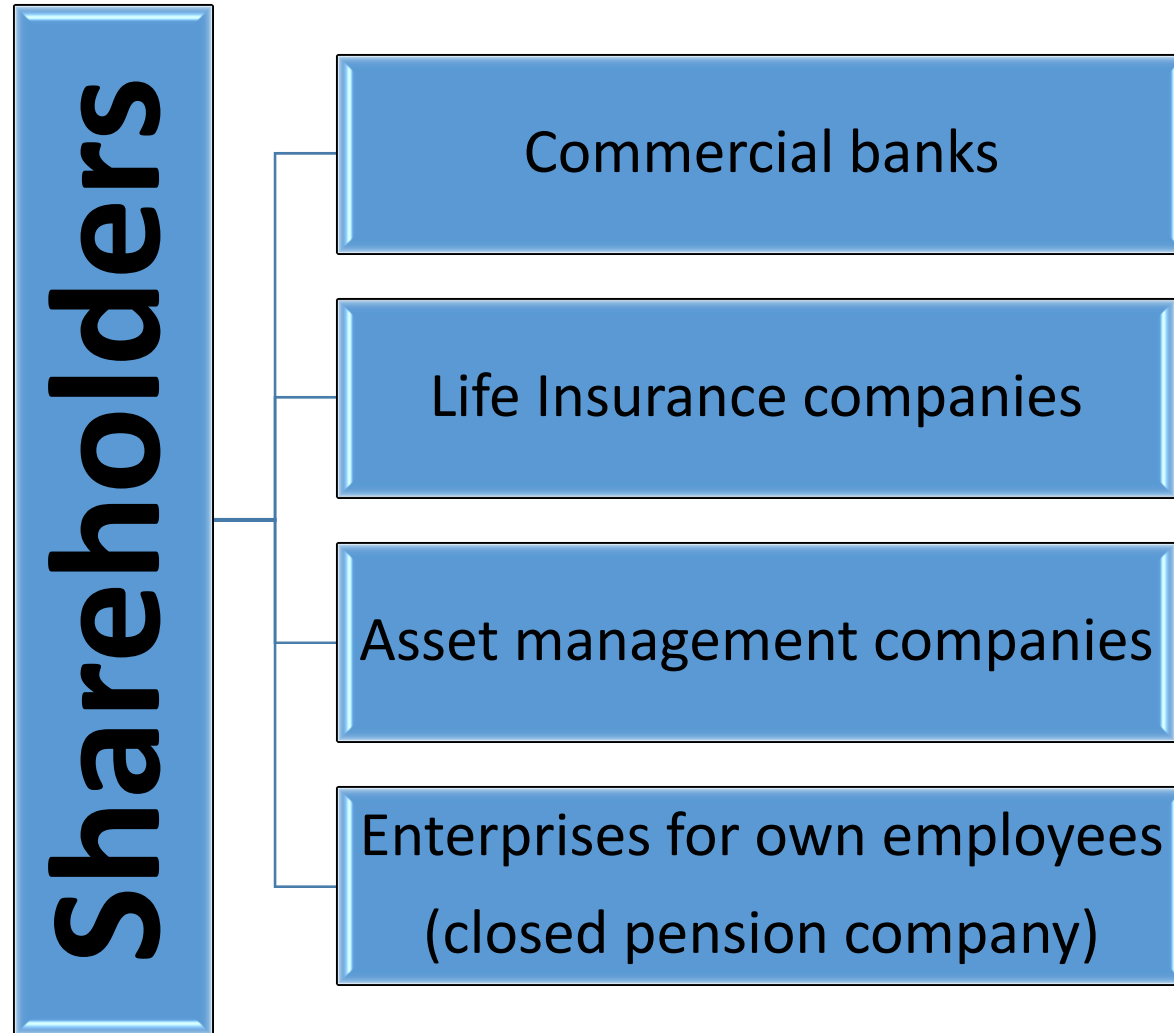
Pay out system

Communication

Financial market participants (institutions) for private and occupational pension savings



Private Pension Management company (Joint stock company for profit)



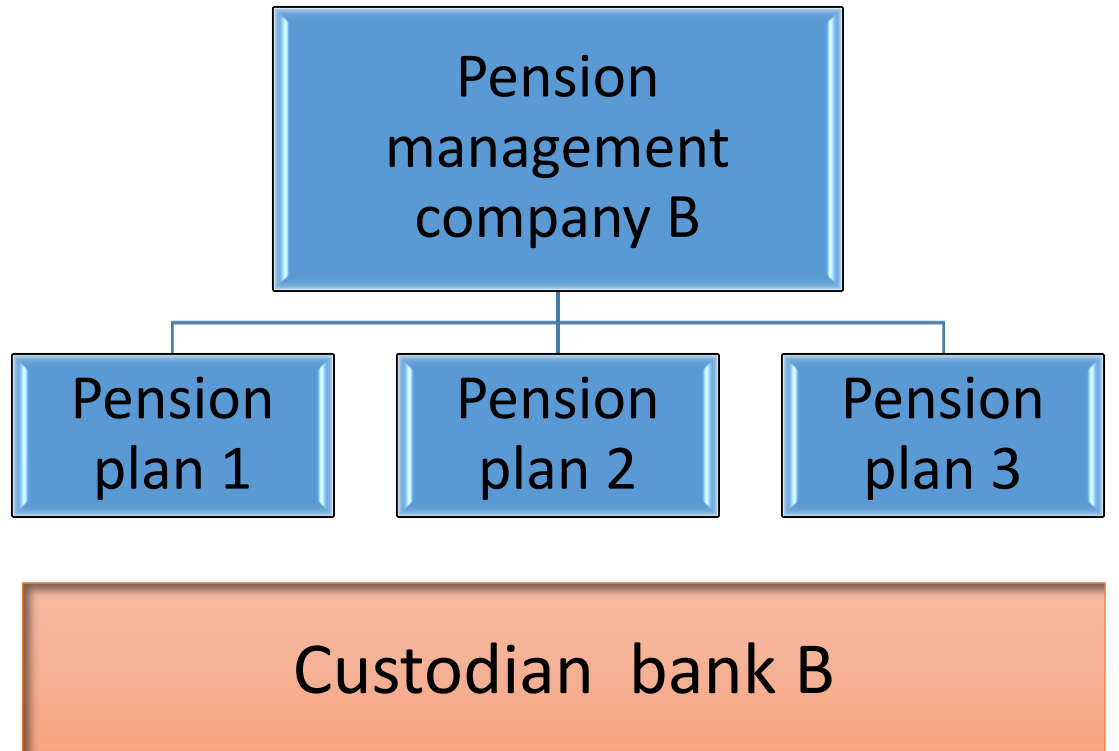
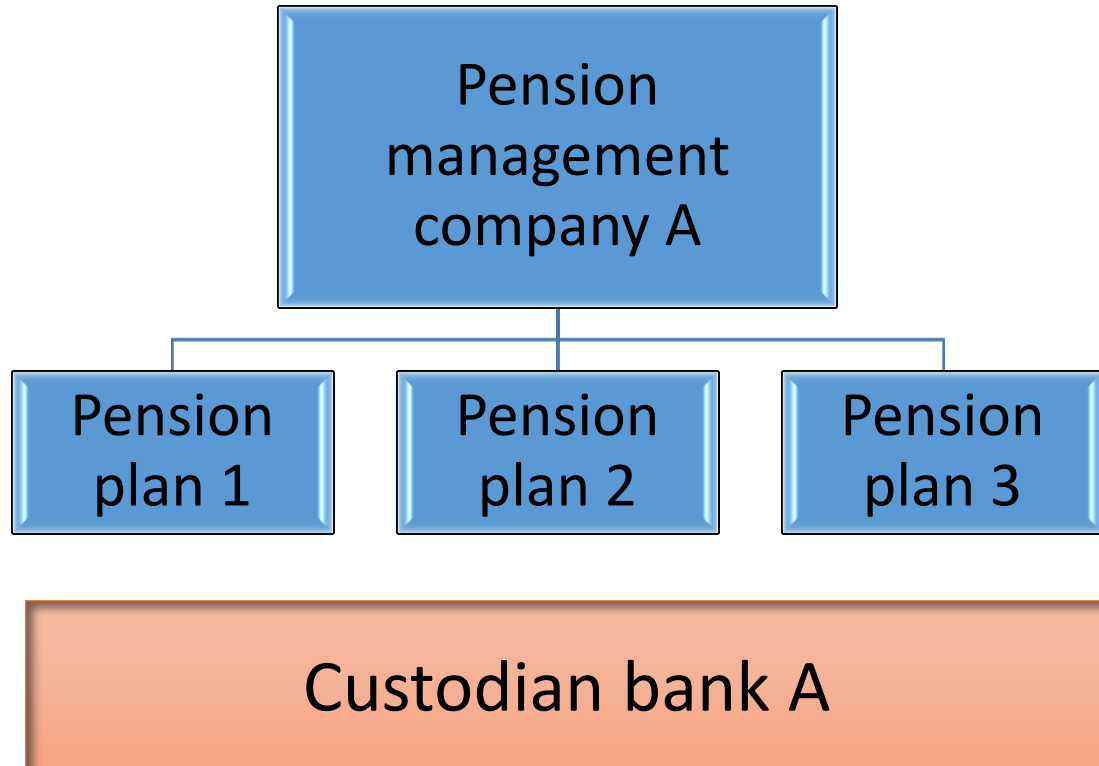
Main functions of Pension management company

- **Accumulate all contributions** and provides investments to participants regarding to pension plans rules
- Provides administration of **Individual accounts of participants** & provides them with all information
- Attracts **new participants to pension plans** (individuals & corporates)
- Takes tactical & strategic investment decisions and makes investment regarding to Investment policy
- Gives investment orders to custodian

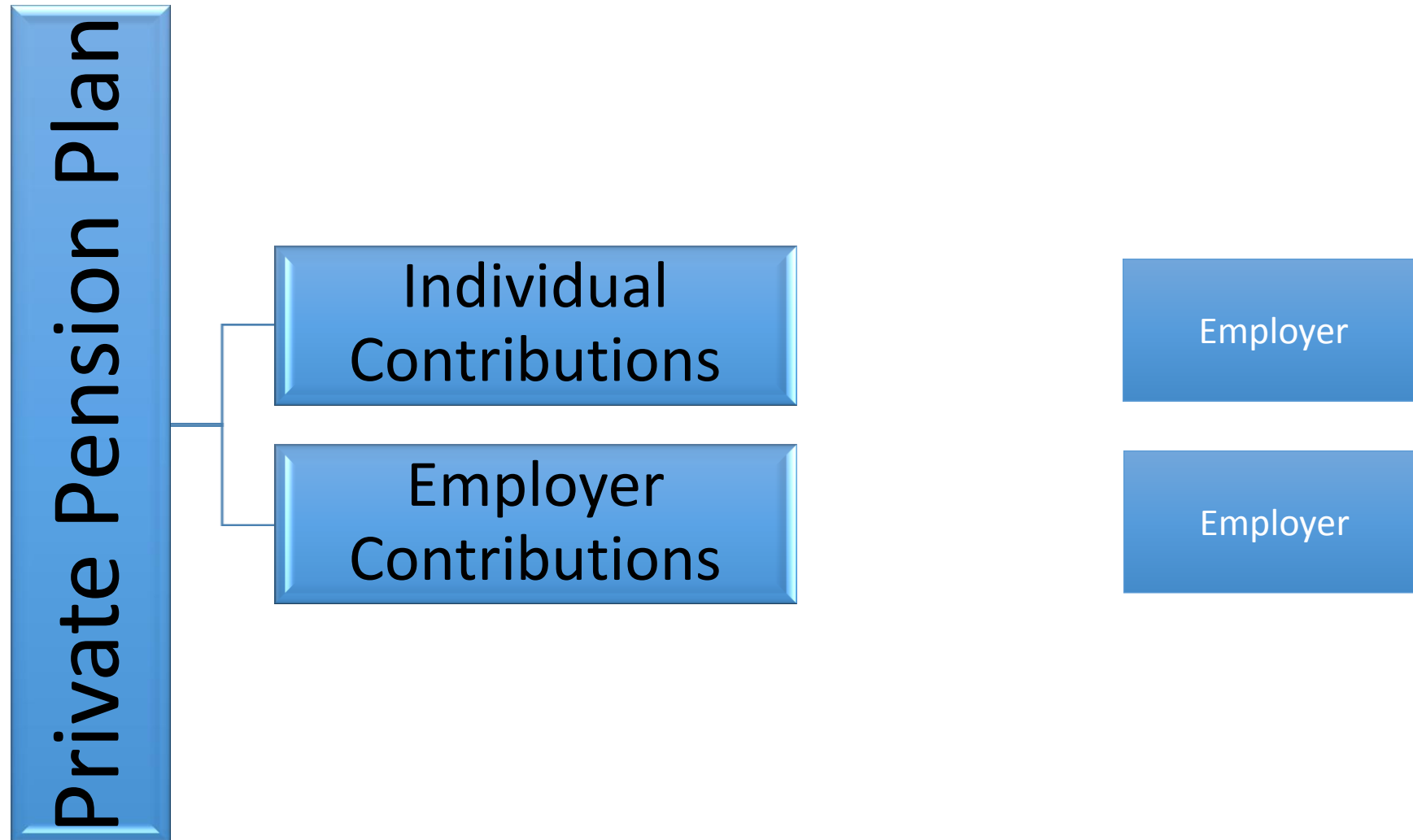
Main functions of Custodian Bank

- Servicing Contributions in & benefits payments of participants in pension plans
- Controls investment limits regarding to Investment policy
- Keeps all investment documents
- Performs all Investment orders
- Valuating investment value (NAV – net asset value by IFRS – international accounting standards)

Pension Management company functional scheme and competition



Private Pension Management Company – Pension Plans



Participation in Private Pension Savings

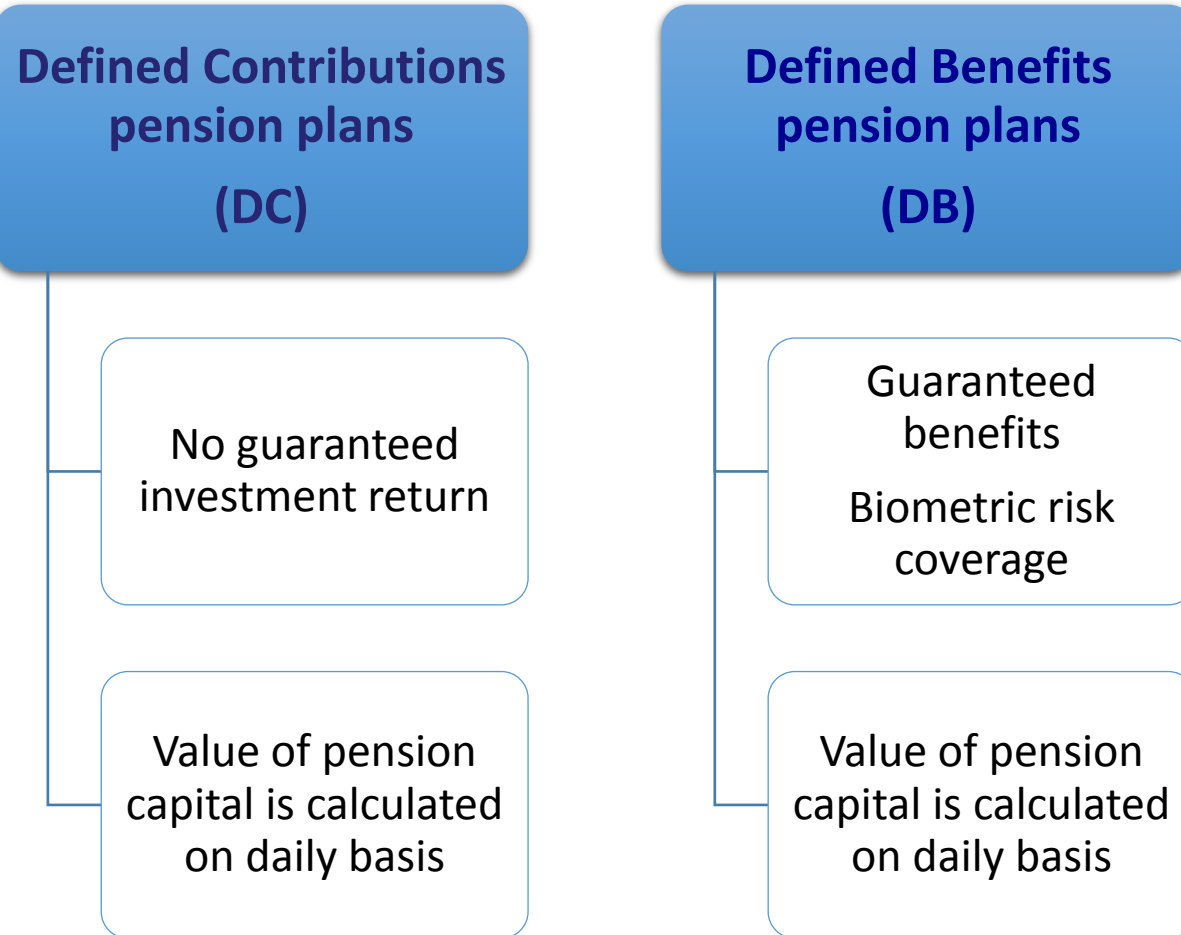
Private pension on individual agreement

- Choose pension management company
- Choose pension plan
- Choose regularity of contributions
- Choose beneficiary by application

Occupational pension on group agreement

- Employer chooses Pension Management company and pension plan (usually conservative or by the choice of employees)
- Choose regularity of contributions
- Register employees in pension management company
- Participants choose beneficiary by application

Types of Private Pension Plans



DC and Hybrid pension plans

DB Hidden liabilities and more expensive

**Biometric risk coverage / guaranteed investment return
3 M EUR shareholders capital needed**

Types of Pension plans by strategy & currency

Investment strategies

① CONSERVATIVE

- 0% Equities
- Shortly before pay-out period or during payout period

② BALANCED

- Up to 25% Equities
- During Savings period
- During Pay-out period

③ ACTIVE

- From 25% - 50% Equities
- During Savings period up to 45 years

Contribution currencies

① AZN

① EUR

① USD

Tax advantages for contributions up to 10% from gross salary

Individual contributions

- tax exempt from personal income tax (14% or 25% for employees or 20% for self-employed)

Employer contributions

- For company - included in deductible expenses and no object of corporate income tax (20%)
- For individuals and company – no state social insurance contributions paid for this type of personal income (Employer – 22%, Employee - 3%)

Communication

General information

- publications, interviews, press conferences, public campaigns
- Public (SSPF, Ministry of Labour and Social Security) websites
- Pension Management Industry websites

Individual information

- Pension Management Industry **Individual Internet solutions**
- **On-line and E-services** → individual account statements, applications for beneficiaries, application for pension benefits, agreement signing / **Transparency and accessibility of all information on line**
- **Planning and servicing tools:** Pension planning calculators, pension checks



THANK FOR YOUR ATTENTION!

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