



**AZƏRBAYCAN RESPUBLİKASININ  
DÖVLƏT SOSIAL MÜDAFİƏ FONDU**



**Farid Bakhshiyev**

**Actual Issues for Introduction of Voluntary  
Social Insurance in Azerbaijan**

**Baku - 2015**

# Program and Concepts on Insurance - Pension System Development in Azerbaijan

Prepared based on poverty reduction and sustainable development, development of regions and other state social - economic programs

2001-2005-ci illəri əhatə edən Azərbaycan Respublikasında pensiya islahatı Konsepsiyası

2009-2015-ci illərdə Azərbaycan Respublikasında sığorta-pensiya sisteminin inkişafına dair Dövlət Proqramı

Prepared based on «Azərbaycan 2020: Glance to Future” Development Concept

2014-2020-ci illərdə Azərbaycan Respublikasında pensiya təminatı sisteminin islahatı Konsepsiyası

# In the framework of implemented programs....

Necessary package of measures for harmonization of insurance-pension system to international advanced standards was implemented.

The introduction of labor pension system based on three new pillar structure proved in international best practices and encompassing the base, insurance, and funded components was ensured in our country.

An individual account system was established, the conduct of citizens' pension provision based on individual account data was provided and thus, a transition towards insurance principles in pension provision was ensured.

Insurance-pension and social assistance systems were separated.

Formation of necessary legislative-normative framework in order to ensure the efficient activity of insurance-pension system, development of material technical framework of insurance-pension system, full automatization of system operation, the increase of personnel potential for its functioning were ensured.

# Main targets on the Development Concept “Azerbaijan 2020: Glance to Future”

- ❖ To double up the GDP per capita and reach \$13000, and deliver the export size per capita on non-oil sector by \$1000;
- ❖ Transition from traditional economy to “knowledge economy” and to ensure the development of human capital;
- ❖ 100% application of “electronic government” services;
- ❖ To deliver the minimal salary gradually to minimal living standards and to the normative defined in European countries (60% of average monthly salary);
- ❖ Implementation of complex measures for the development of insurance-pension system, as well as, the application of voluntary social insurance and ensure the operation of non-state pension funds.

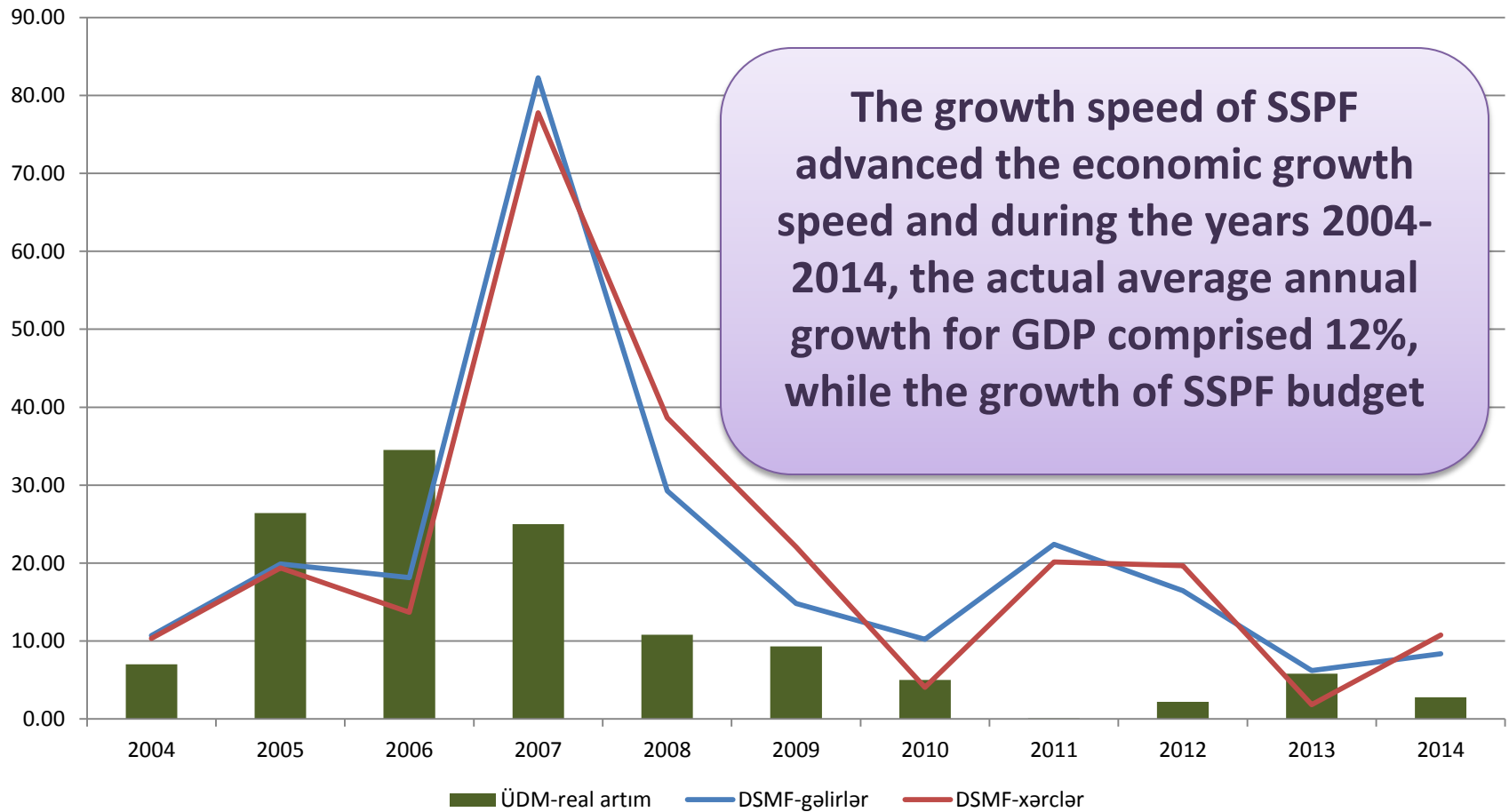


# Measures envisioned in the framework of “Reform Concept on Pension Provision System in the Republic of Azerbaijan in 2014-2020”

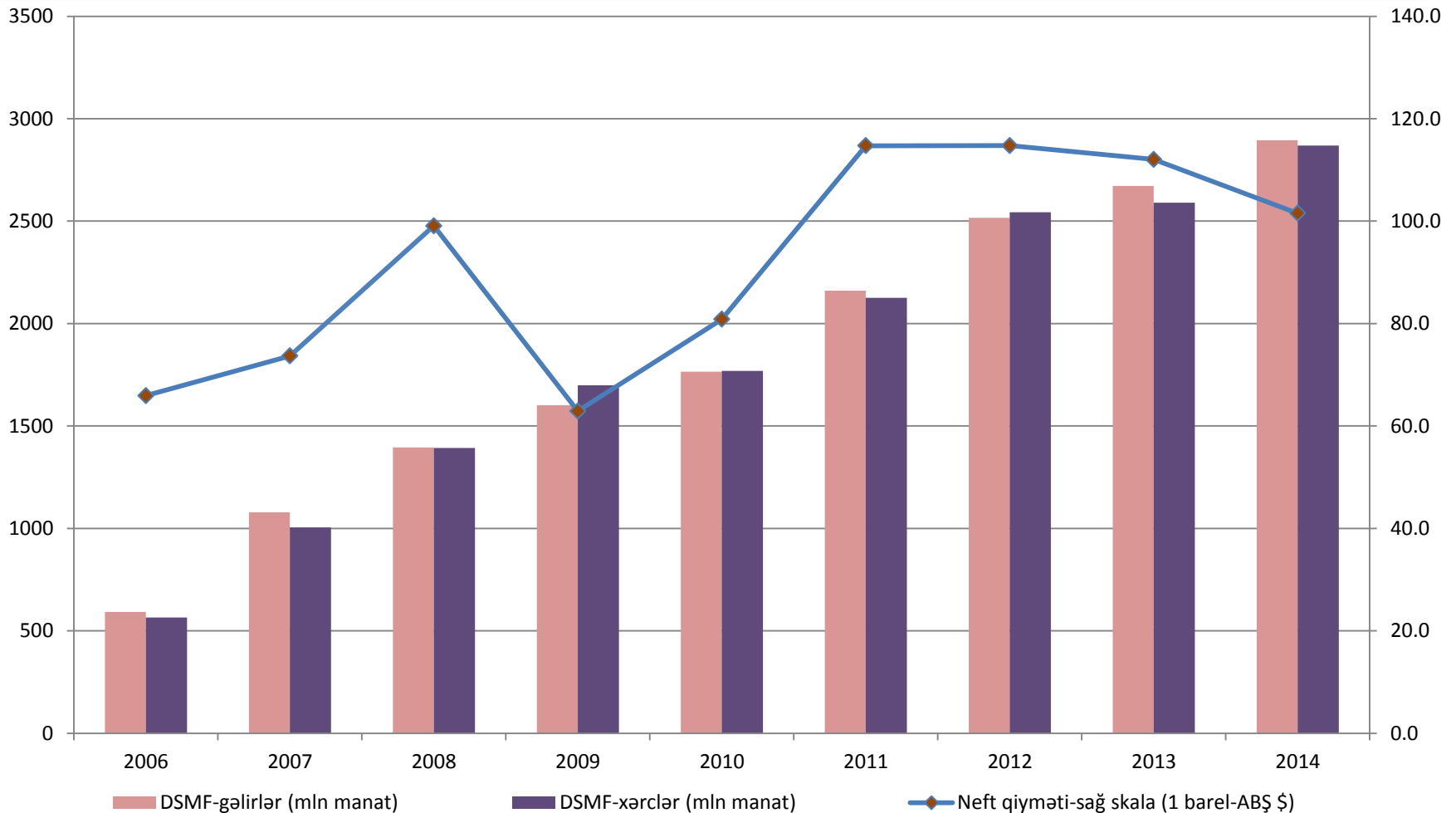
- Implementation of measures for further increase of pension provision system sustainability in long term perspective;
- Mitigation of obligations not related to social insurance and strengthening of symmetric connection between the social insurance contributions and social insurance payments;
- Improvement of the structure of social insurance contribution normative;
- Stimulation of voluntary social insurance and preparation and application of legal framework for establishment of non-state pension funds and facilitation of their activities;
- Adjustment of pension age to demographic indicators;
- Identification of development direction of pension provision system based on long term econometric models guiding to multi-actuary projections.



# Balancing the growth of social expenditures with the economic growth in Azerbaijan

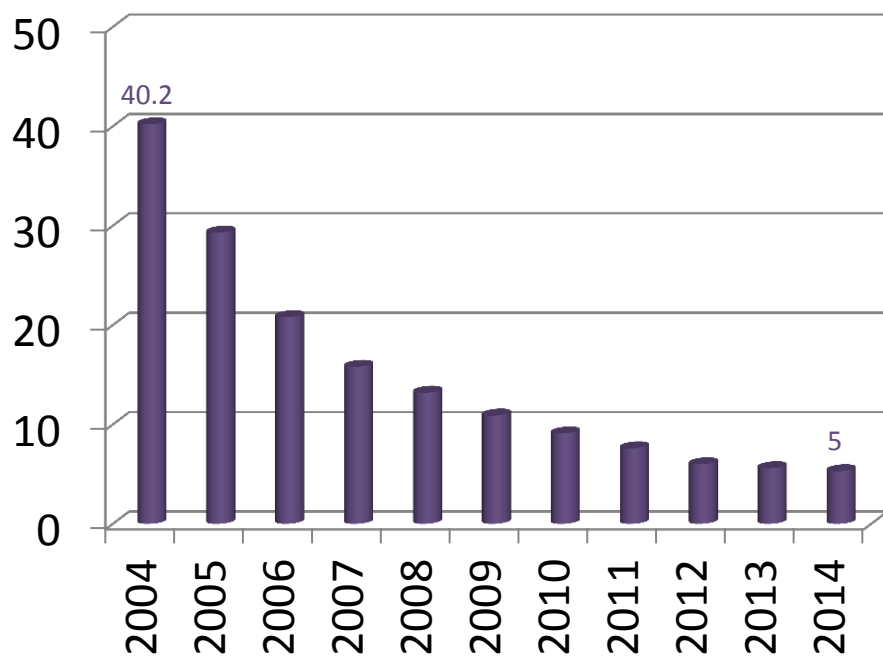


# The fluctuation of oil prices in the years 2006-2014 did not affect the growth of SSSPF budget.

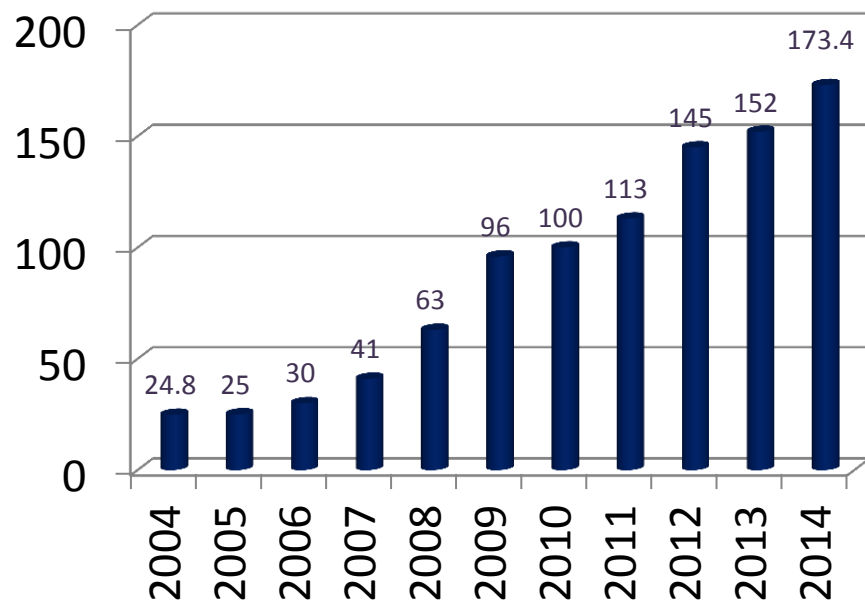


# The connection between the average monthly pension amount growth and poverty level

## Dynamics of poverty reduction (%)



## Average monthly pension (AZN)





# Pension models applied in international practice

## **Distribution- solidarity system**

Is based on  
notional  
accumulation

Currently paid social  
insurance contributions  
by employees are used  
to finance today's  
pensions of old

## **Funded system**

Is based on  
financial  
accumulation

Currently the social insurance  
contributions paid by  
employees in mandatory, or in  
voluntary order is not spent to  
current pension expenses but  
managed by being aimed at  
various investment programs  
in order to achieve an  
additional income.

## **Mixed system**

Is based on  
financial and  
notional  
accumulation

Encompasses the  
elements of both  
system.

# Targets of insurance pension system in Azerbaijan

On the account of mandatory state social insurance contributions

Main pension

On the account of voluntary insurance contributions

Additional pension

Total pension amount

# New elements of insurance pension system– funded component and private pension funds

Placement and administration of social insurance contributions aimed at accumulation

Investment funds

Mortgage fund

Stock markets

Management companies

Bank deposits

Direct investments

Other elements

# Conceptual approach for funded component and private pension funds

## Analysis and assessment phase

Economic and demographic indicators

Legislation system

Characteristics of financial and insurance-pension system

## Phase for legislative framework establishment

Legal and prudential regulation mechanisms

Introduction of necessary provision and concession system stimulating the participation in voluntary insurance

Formation of other necessary infrastructure platform

## Operation phase

Institutional and organizational issues

Principles of organizing individual account in voluntary social insurance area

Mechanisms for protection of system participants' rights and education

# Main principles for management of voluntary social insurance funds

Provision of maintenance of funded contributions

Profitability, diversification and liquidity of investment portfolio

Identification of investment strategies based on objective criteria

Tools for assessing the risk level on securities

Information transparency on account and management system of contributions aimed at funding

Organization of efficient state and public oversight mechanisms for management of voluntary social insurance funds

Management of investment processes

# Actual aspects of organizing of non-state pension funds

## Accumulation of pension payments

1. Methods and means of involving participants
2. Preparation of individual pension plans and establishment of choice opportunity for pension schemes
3. Drafting and conclusion of pension agreements
4. Rules, the size and means of pension payment
5. Setting up of pension accounts and keeping the accounts

## Placement of pension capital

1. Selection of optimal financial tools by maintaining the necessary return level
2. Financing of a manager
3. Account of returns obtained from capital placement

## Account of pension liabilities

1. Rules for maintaining the pension accounts
2. Organization of accounts on profits received from capital management in individual accounts
3. Rules for calculating the liabilities towards the beneficiaries
4. Oversight mechanisms on liability implementation

## Payments on non-state pensions

1. The procedures for non-state pension allocation as to pension system characteristics
2. Methods of calculation based on payment period of pension size
3. Organization of information exchange system with system participants

# Actual issues for the funded component and on regulating the activity of private pension funds

- ✓ *Licensing rules*
- ✓ *Management principles (corporative management system, reporting, audit, etc.)*
- ✓ *Requirements as to accumulation of payments for pension provision purposes, maintenance of pension accounts and awareness on accounts*
- ✓ *Capital requirements and rules for establishment of reserves*
- ✓ *Funds placement and investment policy*
- ✓ *Requirements regarding the risk management system*
- ✓ *Conduct of actuary calculations on liabilities*

# Main aspects of stimulating the participation in voluntary social insurance

- Adaptation of introducing the voluntary social insurance to existing pension and financial system;
- Provision of symmetric connection between voluntary social insurance contributions and future pension provision;
- Application of direct and indirect benefits system (tax breaks, inheritance, etc.);
- Return ratio on voluntary social insurance capital (positive real interest rate);
- Provision of sustainability in long term perspective and risk assessment in voluntary insurance;
- Application of provision mechanisms in voluntary social insurance system;
- Awareness and education measures





AZƏRBAYCAN RESPUBLİKASI  
DÖVLƏT SOSIAL MÜDAFİƏ FONDU

[www.sspf.gov.az](http://www.sspf.gov.az)

# GƏLƏCƏYƏ ARXAYINLIQLA APARAN YOL

**SOSIAL SIĞORTA HAQLARININ ÖDƏNİLMƏSİ  
GƏLƏCƏYİNİZİN TƏMİNATIDIR!**



**Thank you for your  
attention**

[www.sspf.govaz](http://www.sspf.govaz)  
[www.e-sspf.gov.az](http://www.e-sspf.gov.az)