

AMERICAN UNIVERSITY OF ARMENIA

**The Reasons for Lagging of the Pension Reform in
Armenia**

**MASTER'S ESSAY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF ARTS IN POLITICAL SCIENCE AND
INTERNATIONAL AFFAIRS**

BY

ARMINE TSARUKYAN

SUPERVISOR: DR. ARTHUR DRAMPIAN

May 2015

ACKNOWLEDGMENT

I would like to express my deepest gratitude to Dr. Arthur Drampian for his support during the whole period of writing my master's essay. His devoted contribution and encouragement to my research is enormous. I truly appreciate his support and provided guidance throughout the writing process.

I also want to thank all the faculty members for sharing their valuable knowledge with the students and encouraging in studies within the two years. Due to the professors of the Political Science and International Affairs department, the time spent in AUA was precious and unforgettable.

TABLE OF CONTENTS

INTRODUCTION	5
CHAPTER 1. LITERATURE REVIEW.....	6
Pension Reform in Armenia	21
The Reaction of the Society to the Pension Reform	23
CHAPTER 2. METHODOLOGY	26
Hypotheses and Research Questions	27
CHAPTER 3. DATA ANALYSES	28
Interview Results	28
Focus Group Results	36
CHAPTER 4. MAJOR FINDINGS.....	40
CONCLUSION.....	44
REFERENCES.....	45
APPENDIX.....	48

ABSTRACT

In 2011 The Armenian government has initiated a pension reform in the country. The new funded pension system was based on the previous pay-as-you-go system. The previous system had two pillars- 0 pillar (social pension) and 1 pillar (labor pension) and after the reform two more pillars were added - 2 pillar (mandatory funded pension) and 3 pillar (voluntary funded pension). Before the implementation of the mandatory pension system the population had reacted very negatively to the changes and conducted protests and rallies against the pension reform, which delayed the reform and made the government to re-visit the legislative basis and implementation of proposed changes. The purpose of this research is to find the reasons for the hindered and delayed implementation of the reform in Armenia. The method of the research is qualitative and the main source was the primary data. In the scope of this study two instrument were used: in-depth interviews and a focus group.

INTRODUCTION

The elder people are one of the vulnerable segments in Armenia, thus in order to provide a secured retirement for these people the government of Armenia has undertaken a radical reforms in the pension system. Claiming that the previous pay-as-you-go system is no longer beneficial and will not be able to provide adequate pension, the government has adopted the mandatory funded pension system. However, these changes in the pension system have not been greeted by the population. The causes of the resistance and disapproval that hindered the successful implementation of the reform are several.

The following study is aimed to find out why the implementation of the funded pension system has been delayed and hindered in Armenia and identify the main reasons of the population's disrespect towards the pension reform.

Many countries have encountered a similar problem regarding to the changes in the pension reform, and Armenia is in their list (epension.am). In Armenia the pension reform has been initiated due to financial instability of the previous pension system, low fertility rate, migration of the working segment, etc. In the result of the pension system reform two more pillars were added to the previous pay-as-you-go system: the voluntary funded and the mandatory funded components (USAID PALM 2012).

The changes in the pension system were supposed to be a positive turning point in the modern history of Armenia, as since independence this would be the most significant and important reform in the country. But the reform was not welcomed as warmly as the government had expected. Mass resistance and street protests testified the negative attitude of the population towards the reform.

CHAPTER 1. LITERATURE REVIEW

In most of the European countries pension reform is among the priority issues. Aging population, low fertility, risen life expectancy and the globalization effects influence negatively most countries in Europe. If the governments delay introduction of new pension systems generating increased amount of revenues for retirement, a bulk number of workers, especially young ones will be overburdened by the responsibility to finance a huge number of the elder population. If the changes are not be implemented in the near future, the burden on the young will become more irresistible and will bring to absence of payment. In this case the vulnerable part will certainly be the elders. It is quite obvious that new reforms are needed which will guarantee the system of the retirement income (Holzmann et al 2003).

The pension reform is implemented very slowly, because there is a risk for economic insecurity among the elder population and future retirees. As the reforms may put under stress the most vulnerable part of the population, some measures must be taken into account to protect these groups. Some countries in Europe have launched several reforms referring to the viability of their retirement income scheme. The reform is implemented in several steps, such as reinforcing connection between benefits and contributions of the pension. Some of the countries in Europe, such as Estonia, Latvia, Bulgaria, Hungary and Poland have presented significant efforts of the pension reform. The same refers to the countries of the European Union, like Denmark, Netherlands, Italy and Sweden. Currently even more European countries are arranging their pension reform (Holzmann et al 2003).

The countries in the European Union need pension reform for three reasons. The first one is that nowadays rising level of expenditure and low birth rate, low death rate, expanding life expectancy and aging population will increase the pressure on the budget. The second factor is that continuing socioeconomic changes makes present requirements for living standards insufficient. And the last is related to the European economic integration and common

currency. The last two will motivate internal and external migration, but present requirements of the retirement do not contribute to the necessary labor mobility (Holzmann et al 2003).

The level of public pension's expenditure is higher in Western European countries than in other countries which have the same level of income. For the 15 countries of the European Union the standard pension expenditure as a percentage of GDP was 10.4 percent in 2000. For the non-European and wealthy countries of the Organization for Economic Cooperation and Development (OECD), such as Australia, The Republic of Korea, Japan, Canada, New Zealand and the United States, the pension expenditure was 5.3 percent of GDP, which is approximately half of the EU countries. Among the countries of the EU only Ireland has a similar level that is 4.6 percent. The same percent is encountered in the countries in Eastern and Central Europe. But Romania is an exception, as its pension expenditure is 5.1 percent. In the case of Poland the pension expenditure is the highest in the world. It is worth mentioning that the structure of the population age cannot explain the reasons of the gap between these levels of expenditures and those in non-European OECD countries (Holzmann et al 2003).

According to Holzmann most European countries will need to change their pension scheme with socioeconomic changes even if there were no budgetary and demographic pressures for reform. There are three changes that are important. The first one is the rising participation of female labor and modifying family structures, second, increase of different employment, third, the necessity of lifelong learning (Holzmann et al 2003).

All over the world Chile was the first country to change its public pension insurance and adopting mandatory individual funded (IFF) system. This case for a long time was considered isolated. The possibility of the fundamental pension reform was explained by the authoritarian regime of Pinochet. But, spread of the pension reform in all over Latin America

came to approve that full or partial pension privatization was possible during the democratic regimes in 1990s (Mesa-Lago 1998b).

Thus, it was in 1980 when Chile decided to pass a revolutionary pension reform. The reform installed a new system that was based on the obligatory contributions in personal accounts. The system gave the employees opportunity to choose between various pension providers and various forms of payout when they go to retirement. The pension reform in Chile interested many analysts in different countries. While conducting discussions about ways to overcome economic hardships referring to the aging population, economists were making reference to the Chile's pension reform. There are several reasons why this reform became so popular (Acuna and Iglesias 2001).

The first reason is that during the first years of the implementation, the reform could gain trustworthiness to it. The government has thought of solutions for each emerging problem, that is why it became so reliable not only for the Chile's population, but also for the foreigners. Secondly, all the problems of the pension reform that emerged in Chile were similar to the problems that could occur in all other Latin American countries and also in the countries that are outside the region. That is why the success of the reform gives hope to other countries while implementing their reform programs. That is why the Chilean reform was a reference for reforms in other Latin American countries (Peru, Uruguay, Mexico, Colombia, Argentina, Bolivia, El Salvador, Nicaragua and Dominican Republic) (Acuna and Iglesias 2001).

Croatia, Kazakhstan, Latvia, Poland and Hungary are the countries outside Latin America that have presented units of specific capitalization and classified management into the system of the pension reform (Acuna and Iglesias 2001).

In Costa Rica the design of system is contradicting to the reform of Chile. In Latin American countries Costa Rica was the only one that was universalistic. In 1987 42 per cent

of the total pension expenditure was captivated by the civil servants (Mesa-Lago 1994, 98). But the reforms closed new entries into the system, so that civil servants would be involved under common conditions into the latter. They also fortified financial basis by rising the age of retirement for women 60.5 and for men 62.5. The effectiveness of the reform in Costa Rica can be estimated by the decrease of the inequality in the distribution of income. At this very time the inequality in other Latin American countries were increasing (Berry 1998).

In Colombia public and parallel pension systems have been passed in 1993. The government intended to adopt a full privatization connected to some structural modification program. In the government different proposals for pension systems were being discussed but at last President Samper with the Finance Ministry chose the Chilean type of reform (Mesa-Lago 1994, 136). Yet, the suggestion was not accepted in the congress that is why the president had to drop it. Then the government brought the second proposal which had several key aspects in common with the Chilean system. This proposal faced criticism but in the end this one was accepted. Here public teachers, oil workers, members of provincial and municipal pension funds, as well as the armed forces are free from the reform (Cruz-Saco and Mesa-Lago 1998, 404).

Mexico was to reform the pension system in 1992. The new reform would be organized by private sector and financed by the payment from the 2 per cent of the person's earnings. A few years later the government made a decision to privatize the old system. The governing Revolutionary party was against to the privatization of pensions but later by the help of the government the reform was supported (Bertranou 1998). The main representatives of the business were also for the privatization of the pension system. In mid-1997 the system was introduced and started to operate. The most important difference between the Chilean and Mexican reforms was that the contribution of workers did not change but the government's contribution increased (Cruz-Saco and Mesa-Lago 1998, 391).

Betranou (1998) states other differences between the systems of the Mexican and Chilean. The pension funds can be organized by private, public, or mixed corporations that operate under the same laws and rules, including Mexican Institute of Social Security (IMSS). The latter organized the old system of the pension (Betranou 1998).

The government assures a minimum pension for program participants, but there is no social support for those people who have no other retirement plan both in Chile and in Mexico. In the Federal District the minimum pension corresponds to the minimum salary that is accustomed by the annual consumer price index, but there is no regular indexing system in Chile. To end with, the government is liable for the current and future pensions of people who chose old conditions. For the coming years, probably six or seven, funds from the previous pension system will cover several of these requirements, but then they will come out of general revenues (Humber 2000).

The pension reform in Brazil failed unlike other Latin American countries. Like in other countries in Brazil several financial sector interests went for privatization, some members of the government contributed to it and a partial privatization was proposed by the World Bank (Madrid 1999). Some administrations were trying to recover the pay-as-you-go system. In the pay-as-you-go (PAYGO) pension system the current employees and employers make social contributions that are directed to the state budget. And in the framework of this system the pension are funded by the total revenues of the state budget (Marukyan and Zaratsyan 2012).

The main reform in the system would be the set up of the minimum age; 60 for men and 55 for women. Based on the reform people could go to retirement after 35 of service for men, and 30 for women in spite of their age. The reform needed three-fifths majority in Parliament but it did not get the necessary votes. The proposal of the reform was rejected but it was passed eventually at the end of 1998 (Madrid 1999).

The new pension systems mostly are new in Latin America and it is only several years that they are in operation. Thus in some cases it becomes difficult to draw exact outcomes of the reforms (Humber 2000).

The pension reform in Russia started in 2002 (Song 2009). The first tier was supposed to be the mandatory pension insurance, the second tier was voluntary, and the third one was the occupational pension treatment. The new system unites funded and pay-as-you-go systems concepts. So in Russia men who were born before 1953 and women born before 1957 get pay-as-you-go pensions when working citizens provide pensions for the elders. As only five years was left for this age group people to retire, the government decided that pay-as-you-go pension system would function for them. Besides this provided minimum survival income for the citizens (Krivoshchekova, Okuneva and Okunev 2007).

Several years have passed after the implementation of the funded pension reform in Russia. There are several opposing ideas about the success of the reform. For example, Fomin (2011) states that the new pension reform is unquestionably not efficient in Russia. But this does not mean that the government should think of changing it, as it is not a solution to the problem. Currently the burden of pension is quite much on the government of Russia. Different authors that elaborated on this issue state that there might be changes in the pension system of Russia. Liberal economists suppose that the irregularity and incorrect practical application caused the reform function incomplete. That is why the government should liberalize pension saving organizations and expand insurance market (Fomin 2011).

The pension reform in China started in 1984. The goal as usual was to move from PAYG to a three-tier system. The first tier provided a minimum living means for the retired citizens. According to Song (2009), pension reforms in Russia and China have improved and advanced. Thus, while moving from the pay-as-you-go to multipillar system, the latter increased financing among individual workers and enterprises, and government. In China the

reform liberated personal enterprises from arranging aspects of pension finance and condition. The pension reform in China has enlarged pension flexibility, limited injustice between division and regions, and finally made the labor competence and flexibility better (Song 2009).

In any case these two countries have faced different challenges while giving pensions to the retired people. In both countries the population is aging in a high speed and the birth rate is low. As a result fewer workers will try to provide pensions for the retirees. The next issue is that workers have to save for their own retirement meanwhile contributing to the current retired population in both countries. This causes a twice trouble for the current working population. The third issue is that under the new scheme, part of the pension payments are saved in the pension accounts of workers and are invested in the capital markets. Thus the welfare of the retirees depends on the way how financial markets function in Russia and China. Though, based on the experience of the past years, these undeveloped capital markets are not able to value pension funds. That is why; it will not be easy for the new system to certify pension advantages for the future retirees. So, Russia and China yet need to improve their pension system, in order to ensure appropriate pension to the retirees (Song 2009).

In Hungary the need for pension reform was acknowledged in 1989s, when the pay-as-you-go system was seen as unbalanced. The financial problems became noticeable during the economic transformation in the country. Previous reforms brought some changes in the organization and financing of the pension system of Hungary, though they were not ensuring financial stability. The new voluntary pension fund introduced in 1994 did not meet political obstruction (Muller 2003).

The new pension system implemented in 1998 joins mandatory public pay-as-you-go system with a partly mandatory funded-tier. The public tier is important for the old-age

security of Hungary, though the Argentine-style reform does not give prioritization between private and public retirement condition (Charlton et al 1998).

In the list of the Eastern and Central European countries, Poland has achieved one of the most complete pension reforms, including the validation of the public scheme and making private pension funds (Armeanu 2010).

There were mass disagreements over the pension advantages in Poland. The main problem was the early retirement of the citizens. The new scheme brought new pre-retirement advantages and according to this new type people getting benefits before being retired has increased (Chalon´-Dominczak 2007).

After the economic crisis in Poland, there was a need to revise the pension system in the country. Afterwards the Ministry of Finance and the economists tried to adopt Latin American- style pension reforms in Poland, but the suggestion was opposed by the Ministry of Labor and different professors. The latter stated that the old pension system, ZUS, was adequate for the country. But soon after a cabinet reshuffle, the new Minister of Labor, Andrzej Baczkowski, started considering changes in the pension system. Later the Ministry of Finance and the Ministry of Labor decided to join the old pension scheme with a new mandatory fully funded tier. Thus the new pension reform was implemented in 1999. During the implementation of the reform the World Bank contributed with proficiency, international communication, and financial support (Muller 2003).

While being a part of Yugoslavia, Croatia encountered a strong economic crisis in 1980. During this time the living conditions of the elder people started to deteriorate. After the independence the state was having problems providing adequate pensions to the retirees and it was clear that a pension reform was vital for Croatia. While implementing the new pension reform, Ministry of Finance had great contribution, while the Ministry of Labor remained inactive. The pension institute that was organizing the public old-age security system did not

accept the funded tier. It started to work on the first-tier reform. The role of the Ministry of Finance in the implementation of the reform was connected to the strong worsening of the financial situation in the system of the pension. Rising situation of crisis in the country made the passage of the first-tier reforms easy (Muller 2003).

The pension issue was encountered in France as well. The French pension system, like pension systems in other countries is structured Bismarckian ideal. It is based on the state earnings-related system that provides the whole population. The institutional scheme is quite split, because there are many various systems to provide pension for diverse professional groups. The key difference is between the Régime Général and the Régimes Spéciaux. The first one provides employees from the private-sector; the second one covers the public sector. The main way of financing is the pay-as-you-go (PAYGO). Accordingly, the system is failing because of the low birth rates and rising aging population (Thompson 2008).

In the recent years the government of France started to elaborate on the changes of the pension because of the aging population. The changes have not been implemented at once because of the trade union force and demands from the interest groups in the electorate. The pay-as-you-go system had disturbing financial prediction, but even then the reform took a long time to be implemented in France. It was a turning point in the history of France during the time of Jean-Pierre Raffarin as a Prime Minister in 2003. Though before this there was also little success in 1993, but the reform referred to the private sector during this time (Thompson 2008).

In spite of strikes and mass protests the pension reform was implemented in 2003 under Jean-Pierre Raffarin. In order to receive a full pension, the workers should work 40 years. The new reform gives employers an opportunity to employ older citizens. Nowadays 16% of the workers aged 60-65 are employed (Thompson 2008).

The pension reform in Kazakhstan was ratified in 1997 and implemented in January 1998. The idea was to move from PAYGO to one of fully funded accounts. The previous scheme had three main shortcomings. The first one was that the old system, a Soviet-style system, had early retirement ages, particular advantages and high substitute rates, mainly for short service employers. The second problem referred to the extremely high payroll taxes for pensions, which comprised 25.5% of the wages. The last problem was the repeatedly declining income base (Andrews 2001).

The new funded system is based on investments and is structured to endorse self-sufficiency not government reliance, to decrease government spending and to support savings, as well as contribute to the development of the capital market. The new scheme of the pension covered all the workers of all ages. While thinking about the pension reform Kazakhstan decided to follow to the Chilean approach instead of approaches of Hungary, Latvia and Poland (Andrews 2001).

During the implementation of the pension reform the government of Kazakhstan understood the importance of informing the public about the considerable changes in the system of the pension. The goal was to make the high-level information available in person and also through the media. These were significant, as the government realized that it would be one of the ways of gaining the confidence of the society towards the changes. That is why an all-inclusive plan was made for information campaign for public. The campaign got assistance from the Asian Development Bank (ADB). The Latter sent \$900.000 million for conducting surveys and understanding the attitude of the public towards the reform. Later United States Agency for International Development (USAID) sent assistance amounting to \$800.000. This was intended to organize seminars for the employers, press and the government officials. (Andrews 2001).

In 1998 Sweden presented its 'notional defined contribution' system which remains mainly pay-as-you-go scheme. In the following system, there is a safety pension space for the time when people spend to care their children. Thus the pension in Sweden is publicly-organized (Barr 2008).

The pension system in the United Kingdom is a flat-rate pay-as-you-go. Since the reform of 1980, the pension was bound to the price changes instead of wages. The result of the changes was that the pension was below the poverty level (Barr 2008).

The economic situation had great effect on the PAYG system in Bulgaria. Many workers left the jobs and other went to work abroad. During this time the number of retired people increased. In 1994 the dependency on the system increased to 82.7% and the state budget had to contribute more money for the pension system. With the launch of the pension reform the Ministry of Labor was the first actor in the process while the Ministry of Finance was less active. Besides it is important to state that the trade unions encouraged the multi-pillar model of pension (Muller 2003).

In Germany the main changes in the pensions system occurred in 2001. The system was moved from the PAYG to funded social security pensions. The pension scheme of Germany is considered to be multi-pillar. The first one is quite graded and gives pension insurance based on the occupation. The main feature of the reform in 2001 was the constitutional pension insurance for employers, employees and miners (Sailer 2004).

In order to regulate the reform positively and effectively, the government of Germany had to take into consideration several objectives. The first one is the stabilization of the payment rates. It is also vital to follow the increase in the payment rates and try to restrict them. The second issue is that the benefit decrease must be arranged in such a way that the rate of substitution for a pensioner would not increase below 64%. The next one is making

agreement for more personal pension condition. And the last objective is the modification of the pension system to possible changes in the labor market or in society (Sailer 2004).

The government is certain that if they face these objectives, the main issues of the pension system will be removed from the political program for several years. It will provide consistency for retirees, besides it will put the burden on the coming generations equally (Sailer 2004).

It took several years for preparing for the pension reform in Slovenia. The first changes occurred in the 1990s. The pension reform came into force on 1 January, 2000. Despite the changes in the PAYG system, the new first pillar scheme keeps the main principles of social insurance. The insurance is general, mandatory and equal for all the citizens. After the reform the age of retirement has been increased, besides the new rules contribute to the later retirement. If people decide to work after retirement it will be rewarded. If citizens would retire earlier, their pensions will be decreased (Kidric 2004).

The major pension reform in Italy was introduced in 1995. The goal of the reform was to stabilize the pension expenditure on GDP. The reform changed the scheme of the pension fundamentally. In order to make the connection of the profit and payment paid individually, the government decided to remove earnings position for computation and present another contribution mechanism that is notionally defined (Mare 2001).

The reform has the following main characteristics. The first one is that the citizens can decide when they want to retire between 57 and 65. Next, the benefits of the pension are calculated by multiplying the equilibrium of the individual account by an age-related exchange. The reforms that were implemented in Italy affected the reforms taking place in Germany and Sweden (Mare 2001).

According to international organization and economists both in developed and developing countries the formation of fully-funded privately-managed pension systems has significant

constructive effects on the wellbeing of the country. Particularly, pension reform recovers macroeconomic stability by decreasing the political and demographic stresses of the pay-as-you-go systems. Moreover, pension reform requirements may contribute to the growth of savings, economic development and productivity. Pension savings will make the total savings grow if there is compulsion that ban people to borrow against potential pensions. Based on recent evidence this system may be more significant than it was considered for developed countries. Though, it is also thought that pension reform's direct influence on savings is vague and not significant (Walker et al 2002).

A vast majority of studies that examine the influence of financial development on economic growth and productivity and savings, state that pension reform may have positive impact on the growth of capital market. More competent stock markets supply the inducement for long-run investments, which increases the economic growth (Walker et al 2002).

Traditionally, pension funds were considered as major source of savings for market economies. They were launched mainly after the World War II. At this time the governments did not pay out pensions thoroughly. In the OECD countries at first the pension fund members were contributors and only little part of the retired received pension. But the situation in the countries is changing as new pension reforms are being implemented (Bonoli 2003).

According to Levine and Zervos (1998), Rousseau and Wachtel (1998) and Arestis *et al.* (2001) the positive influence of stock markets on growth have been overstated. Besides of the direct effect of the pension reform, that is positive influence on savings and growth, the pension reform is able to contribute to the development of capital market and welfare (Walker et al 2002).

Valdés and Cifuentes (1990) has introduced the concept ‘accumulation of institutional capital’, which may be very significant in rising markets and in such countries where Civil Law traditions are important, as in the second case before the implementation of specific rules strong rules are required. The authorities have to supply private division participants to expand financial instruments where pension funds can be invested. This happens only when there is accumulation of huge amounts of wealth that is investable. The mentioned process is probable to make transparency in terms of financial market and fund organization grow. That is why the advancement of pension fund needs a chain of regulations that are called Institutional Capital (p. 39). The idea is generalized in the following way “the regulatory and institutional environment in which investors, firms and authorities interact with each other”. Institutional capital is a public good that can have contribution in modernizing capital markets (Walker et al 2002).

It is stated that the modernization of laws and institutions will occur even without pension reform. This is true, but there will be extra support to the required reforms if legal authorities are able to recognize important local investors working on behalf of future pensioners as legitimate clients. Advancement is necessary to set the growing needs of institutional investors in order to save the rising capital stock proportions of a nation. This gives benefits to foreign expertise, though in some cases several legal changes including pension reform launched in the country. The same was in the case of Chile (Blommestein 1997, Iglesias 1998 and Vittas 1998).

The managers of the pension fund can make investments in equity capital and stocks of different companies. These managers cannot control the companies but they have an opportunity to become significant minority shareholders. If they work for the interest of future pensioners, they become significant commissioners of minority shareholder interests.

Besides, interest among managers of the pension fund probably opens likelihood of selecting board members (Vittas 1996, Lanoo 1998, Blake and Orszag 1998).

Pension Reform in Armenia

For the Government of Armenia the problems related to the pension system were in the focus of social policy. After the independence of the country, in 1992 and 1995, the government passed a law about pensions -“State Pension Insurance of the Citizens of the Republic of Armenia” (1995). In 2003, the government passed the Law on State Pensions. These two laws were nearly similar as they both were structured on the pay-as-you-go system. In 2005-2006 Armenia made a decision to implement a pension reform; the reform was a shift from old solidarity based system (PAYG) to funded system. This decision was conditioned by several reasons (USAID PALM 2012).

The first reason was that the previous pay-as-you-go system, during which current workers paid for current pensioners, was not financially viable and the accumulated funds were not enough for the payments of the pensions. The second reason is that there are demographic problems in Armenia such as the low fertility rate, high rate of migration, especially of working age population, as well as increased life expectancy. Because of these reasons the pension burden on the society is high, as only one worker pays for one retiree. And the third factor that brought a necessity for reform in the pension system was the absence of connection between workers’ salary or social security payments and the amount of the pension they will receive after retirement. This fact discourages the workers to state their real income and contribute to the pension system, as they do not see the perspective for receiving back adequate pensions after retirement (USAID PALM 2012).

The implementation of the funded system on the basis of the pay-as-you-go system will have long-lasting benefits for all the groups of the population, as the latter provides:

- Beneficial and social protection for the elder population
- Higher pensions for all the layers of the society with less government spending

- Stimuli for working longer, receiving higher salaries and improving the income distribution (IACER).

According to the experience of the European and Latin American countries the success of the pension reform is based on the political will and conviction of the governments, public awareness, cooperation of the civic and political powers, the existence of the program and coordinated and consistent implementation of the events (IACER).

Thus in December 22, 2010, the National Assembly of Armenia accepted five laws that adjust the system of the multi-pillar pension. The laws are: Law on Funded Pensions, Law on State Pensions; Law on Personified Record Keeping; Law on Investment Funds; Law on Unified Income Tax (USAID PALM 2012).

The PAYG system had only two pillars- 0 pillar and 1 pillar. But based on the Laws on State Pension System and on Funded Pensions the new funded system possesses the following 4 pillars:

Pillar 0-Social Pension: this pillar provides pensions to those citizens who have less than 10 years of employment.

Pillar 1 – Contributory State Pension: provides with pension to those citizens that have more than 10 years of employment.

Pillar 2- Mandatory funded pension: people born after 1974, January 1 will be provided mandatory funded pensions.

Pillar 3- Voluntary funded component: this will provide voluntary funded pensions to people without age restriction who decided to join the component. This component was imposed in Armenia in 2011, January 1 (USAID PALM 2012).

In the mandatory funded component the contribution comprises 10% of the basic income where an employee is to pay the 5% of his/her basic income and the other 5% will be paid by the government. Though there is a ceiling in the contribution of the government. This

means that the government will pay up to 25 thousand AMD that is corresponding to the 500 thousand AMD of the salary. Consequently if an employee earns more than 500 thousand drams, the latter has to pay more than 5% in order to fill the required 10% (Stanic and Manukyan 2012).

After joining the mandatory component employees are free to choose the fund, where they want to save their money. If they fail to make a decision on their own, the government will choose instead of them. The next main factor of the pension system is the guarantee that people will receive back their contributed money. Thus, based on the Law on Funded Pensions the government guarantees that the participants of the mandatory component will get back their money adjusted to inflation change (Stanic and Manukyan 2012). The fund where the citizens have chosen will secure the 20% of the contributed money, while the government will provide the other 80% (prip.am).

In order to provide a comprehensive understanding and awareness of the pension reform in Armenia, the government of Armenia set up 'Pension System Awareness Centre' fund. The goal of the fund is to provide the public with necessary information about the pension reform. In the framework of the PSAC 114 hotline was set up to provide the citizens with necessary information about funded pension system (epension.am).

The Reaction of the Society to the Pension Reform

The program of the pension reform has been discussed and structured for nearly eight years. It seemed that everything was ready for the successful implementation of the reform, yet the reaction of the society to the reform has not been fully considered by the government. At the end of 2013, when only a few months was left for the 2014's reform, the society spoke out about its discontent with the reform.

When in 2010 the new bill about the pension system was introduced to the public, most people did not clearly understand it. Only in September of 2013 when some intellectuals (mostly IT specialists) started to study the main concepts of the reform and understood its essence, they strongly opposed that reform and started conducting campaigns against it. A movement emerged called 'Dem em partadirin' which means 'I am against to the mandatory [component]' (news.am).

The main claims of the movement were the following;

- Participation in the pension system must be on voluntary bases,
- Each participant of the system is free to get out of it at any time,
- The implementation of the system must not add financial burden on an employer and employee (yerkir.am).

After some period of time political powers joined the movement in the result of which 36 members of parliament representing the three opposition and one 'alternative' party applied to the Constitutional Court with a request to examine compliance of several articles of the Law on Funded Pensions with Constitution of Armenia. On April 2, the Constitutional Court recognized some articles in the Law on Funded Pensions of the Republic of Armenia anti-constitutional and gave time the National Assembly and the Government time up to 30 of September to revise the anti-constitutional points in the reform (Constitutional Court 2014).

After the decision of the Constitutional Court several changes were made in the law of the pension Law on Funded Pensions in April 2, 2014. Below the main changes are briefly introduced:

- Employees working in a private sector are free to sign up for or refuse the participation in the mandatory component (if they were registered before July 1)
- The mandatory funded contribution was changed into targeted social contribution

- A payment ceiling was set, in which the monthly contributions of an employee cannot exceed 25,000 AMD

Employees who participate in the mandatory component and receive minimum salaries will not pay the required 5%. Instead of them their employers will pay to maintain the minimum salary of an employee (Constitutional Court 2014).

After the revisions in the pension reform law, a group of deputies from National Assembly applied to the Constitutional Court with claims that the new pension reform law still had anti-constitutional articles in it. There are discrimination among civil servants and employers of private sector; the civil servants are obliged to participate in the pension system on mandatory bases, while employers of private sector can join the system on voluntary bases. The age discrimination is kept from the previous law, according to which employees born after January 1, 1974 have to participate in the pension system (Constitutional Court 2015).

The court session about the pension reform law will take place on July 7, 2015, after which the future of the pension reform will be obvious (Constitutional Court 2015).

CHAPTER 2. METHODOLOGY

This research is based on the qualitative method. The main source of the analysis is the primary data. In order to answer to the research questions, two instruments were used. The first one is the in-depth interviews and the second one is a focus group. The interviews were conducted with representatives from the government, who are the primary contributors to the pension reform, members of parliament both from parliamentary majority and opposition, experts from different organizations and also members of the “Dem em’ movement. The interviewees were chosen based on the level of their engagement in the pension reform. The interviews were conducted within a month.

The interviews were a major source for the research as there were different opinions about the reform. Some of the interviewees were speaking in favor of the reform, claiming that the new pension system reform is crucial for Armenia, while the others were certain that the following reform is impossible to implement in such countries like Armenia.

The next instrument used in this study was the focus group. It was conducted with six currently working employees. Three of the employees are civil servants, who participate in the mandatory component; the others are employees from private sector and have declined to take part in the new pension system. The focus group discussion was held in the American University of Armenia and lasted for an hour. During the discussions the participants answered to the questions based on their knowledge about the reform and shared their main concerns and questions with others.

Hypotheses and Research Questions

This study has set up two hypotheses, each of them draws its research questions.

Hypothesis 1: The pension reform is lagging in Armenia because of the public distrust towards the government.

Hypothesis 0: Public distrust towards the government is not the reason for the lagging pension reform in Armenia

- *R1: Was the distrust towards the government a reason for delayed and hindered implementation of the reform in Armenia?*
- *R2: What causes distrust towards the reform in Armenia?*

Hypothesis 2: The pension reform is lagging because it was not properly introduced and explained to the society in advance.

Hypothesis 0: The reason of the lagging pension reform is not connected to the improper introduction and explanation to the society in advance.

- *R1: Is the public thoroughly aware of the new pension system?*
- *R2: What are the main concerns of the public about the reform?*

The results of the interviews will answer to the research questions of the first hypothesis, and will help to accept or reject it. And the results of the focus group will answer to the research questions of the second hypothesis and will promote to the acceptance or denial of the hypothesis.

CHAPTER 3. DATA ANALYSES

Interview Results

The pension reform in Armenia has attracted so much attention and gained importance because of the opposing ideas and perception of citizens. At the end of the 2013, the Parliament of Armenia was divided into two parts. The first part was for the reform, while the other part was against it. Unlike the parliament, many citizens were against the reform and they expressed their opposition by intense rallies. In order to understand why the public was so critical about the reform and why the reform implementers were insisting on the importance of the reform in Armenia, several interviews were conducted with the members of the ‘Dem em’ movement, government representatives, members of parliament from majority and opposition and also experts. During the interviews various ideas were expressed referring different aspects of the reform but the key question that required concrete answer was whether the delay of the reform was connected with the distrust towards the government. The results of the interviews answer to the research questions of the first hypothesis and determine whether to accept or reject it.

While speaking about the causes of rejecting the pension reform the members of the ‘Dem em’ movement brought several factors, the first one was the distrust towards the government. The society does not believe the officials who stand beyond the reform. Such kind of reforms require long time so that the public would start to trust the government. The second factor that caused the reform to delay was social, as the size of the payment burden was distributed inadequately among the citizens' income. The people who earned more than 500,000 drams monthly had to contribute more than 5% of their basic income. The third factor was regarding to the law, since there were points in the reform that were recognized as anti-constitutional, and there was age discrimination because only people born after 1974,

January 1 were to participate in the mandatory component. The law of the reform is quite difficult to implement especially in Armenia where the socioeconomic conditions are poor. The reform has not succeeded in Armenia as the index of poverty is high, nearly up to 35%, which means that every third person in the country is poor. In contrast to this opinion a deputy from the majority gave an importance to such kind of reforms and stressed that the reforms were one step forward to the further development of the country.

An active member of the “Dem em” movement also stated that the population somehow associates the reform with the bank deposits during the Soviet Union, which they lost after Armenia gained independence. This is a precedent for them not to believe the current reforms. The representative of a government agency responsible for pension reform stated that comparing the current reform with the deposits of the Soviet times is not adequate, as what happened with the Soviet Union was a collapse and no one would imagine it could happen. He mentioned that the same way the population could think what would happen with the contributed money in case of world war. No country in the world could have guarantees against the global collapse. The representative of an agency mentioned that even if the government changes the funds of the pension system would not be affected. The reason is that it would not be convenient for any new government to change the system, especially when the new one is more stable.

Interviewees also explained the reasons for rallies. Deputies from the opposition parties stated that the population did not have the necessary perception of the reform and when the distrust towards the government had increased the implementation of the reform became more difficult as the society started to rally. A parliamentarian from the majority stated that the population did not understand the necessity of the reform in Armenia. They do not realize the new system would provide them with good pension years later. If the compensation of the PAYG system is the 20% of the income, in the funded system, the compensation would be

50% of the income. While talking about the rallies and protests against the reform the deputy stated that there might be a positive side in them, as some employers think of raising the employees' income, so that the latter would not feel the burden of the pension contribution.

The members of the 'Dem em' movement stated that the next reason was the lack of information. The society was not well aware about the reform. There were people that knew about the reform but they did not fully understand its essence. Only when they finally realized that it will result in the reduction of their income they started to oppose the reform. The members also stated that the distrust towards the government was another reason why the citizens were against the reform. Protesters were not sure that their contributed money would serve to its needs; they did not believe that 23 years later the money would be returned back. It also coincided that at this time Armenia integrated into the Eurasian Economic Union and this fact increased the level of distrust towards the government even more.

One member of the movement stated that the discrimination towards the employees was also a crucial issue, as those employees earning more money had to receive less benefit from the state than those who have less income. Besides, the government did not take into consideration the present condition of an employee. There are many employees that have taken bank credits and if they were informed about the reform earlier, they would have arranged their expenditures differently. The reform was to come into force in 2014, but it was only at the end of 2013 that some information clips were shown on TV and booklets were distributed. But this was already too late as the population was already out in the streets trying to protect their rights.

Unlike the members of the movement and deputies from the opposition, a government representative stated that the reason of the negative reaction of the people is encompassed in the approach of the population. The society is unable to see the real advantages of the reform and realize the positive aspects. He stated that the pension reform is not just a reform but also

an ideology. Based on this ideology the population can learn how to save and what is more important how to think about their own welfare after retirement. The low level of political culture and also the mentality of the nation caused strong protests.

One of the representatives from the government agencies responsible for pension reform stated that there was a lack of basic financial knowledge among the population so that they can really evaluate the importance of the reform. Those who were against the reform had not gone deeper into the goals and provisions of the reform. He mentioned that the civic resistance was intense as political powers joined them and used the movement for their own benefits and they manipulated it. The inner resistance in the state apparatus interrupted the implementation of the reform.

The reform was very important for the whole country, as the latter would have created new sources for the investments. Several economists came to assumption that pension reform could promote institutional investments that could increase the growth of the GDP by 1.5%. What was regarded to the lack of information and awareness of the population, the representative stated that awareness was only a justification for the delay of the reform. He could hardly remember any other reform that had been covered as much as the pension reform. He noted that the citizens were indifferent towards the reform and were thinking that they would be informed about the reform when the real time would come.

All the interviewees agree that the movement started from the people who receive relatively high salaries, who had registered jobs and whose income comes only from their job. According to the members of the 'Dem em' movement, everybody was against the reform but those who anticipated higher deductions started to rally in the streets in desperation. They noted that the deductions of civil servants were not much as the salaries in the public sector are relatively low, but even that little money was difficult for them to contribute. One of the members stated that when civil servants were participating in the protests, they were trying to

keep away from cameras, as they were afraid of losing their jobs. He brought an example that after some civil servants took part in the rallies they were dismissed from the job. Their employers used a different reason for the dismissal but the real reason was the resistance towards the pension reform.

A deputy from the opposition mentioned that everybody was against the reform as they considered that the government was taking their money against their will. The fact that the reform would bring some difficulties for the employees in Armenia was accepted by a deputy from the ruling majority too. But he stated that the government has undertaken the implementation of the reform with a condition that the population would be provided with necessary accommodations during the age of retirement. A government official stated that the resistance came from the IT specialists who had high salaries. They were the initiators of the rallies. A pension reform agency representative also stated that the rallies started from the IT specialists after they realized the reduction in their net income.

One of the problems regarding the pension reform was the guarantees that the government should have given to the population. The population must be certain that the contributed money will be back in several years. But the members of the 'Dem em' movement stated that the government so far has not introduced a serious proof that the contributed money would be returned. One of them brought the example of the December, 2014 when there was a huge devaluation of the AMD. She even stated that no one could guarantee that the AMD would not be replaced by ruble or a new financial crisis would not happen. All these were questions that bothered the population. Besides, she stressed that whenever there is distrust towards the government it makes it hard to pass any reform.

The distrust of the population and the partial defection of the reform are interconnected, since the people are not certain that they will not be cheated. That is why the government should have thought of some other methods to gain trust and meanwhile persuade the

population about the fidelity of the reform. The government could relieve the participants of the mandatory component from the taxes. In this case the protests and rallies would not be of such a high level.

According to the deputy from the opposition the government would have difficulties to persuade the population about serious guarantees of the reform. Disparity in the number of workers, demographic issues, maintenance of the principle of fairness in the pension reform, these are problems which do not have solutions. Instead of thinking to solve these problems the government tried to implement new reforms that brought to impasse from the view of development perspective.

An agency representative responsible for the pension reform said that a guarantee fund had been created and the private ownership of citizens is guaranteed. Several mechanisms were working for the safety of the reform. In addition to this the representative brought an example from the 2008 financial crisis when many funds, large companies had serious financial losses and the pension funds were the only ones that did not incur any. Certainly there were not large profits but based on the principles of the management of the pension funds it became possible to avoid from losses.

A government official mentioned that there are high levels of guarantees. They have chosen renowned funds with highest ratings all over the world and high degrees of trust and safety. Besides, the government developed oversight mechanisms.

What refers to the mandatory component of the reform the 'Dem em' members stated that their primary motto was 'I am against the mandatory [component]'. The people should decide themselves whether they want to participate or not. They stated that they have not spoken against the entire reform as it also carried positive elements, and there were successful examples from other countries. The 'Dem em' members would be for the reform if the latter was on voluntary basis. They stated that in the environment of distrust, it would have been

difficult to implement the reform. First of all the government officials should participate, and some time later when the citizen would see some results from it, they would join it voluntarily. But in the current situation if the government changed the component from mandatory to voluntary, no one would join because of distrust. While talking about the voluntary component, the government states that the voluntary component was introduced since 2011, but no one knew about it.

The members of the movement could hardly remember of an employee that joined the system voluntarily after January 2014, besides one of them even stated that people had been forced to join the system.

Unlike the members of the movement, the government official stated that initially, when the reform was launched, the system was not mandatory but now Armenia needs to go ahead and develop and the pension reform would be one of the factors of development. According to him if the IT specialists had not interfered then everything would have gone quietly. The official stated that he considered such people betrayer of the country who spread disinformation around the country only because they were not willing to contribute some money for the development of the country especially when their salaries were very high. But unlike the IT specialists there were people who decided to join the system and made the contribution based on their own will.

In contrast to the government official, a deputy from the opposition was sure that the voluntary component would increase the trust of the population towards the government and later there would be no need to move to mandatory one as the number of the citizens joining the reform would gradually increase. He noted that the whole system of the voluntary component was implemented in the middle of 2013 when only months later the mandatory component would have been enforced.

The agency representative was certain that the reform was well designed. The shortcoming of the implementation was the lack of proper awareness by the society. The government had not spent any money on the information campaign. People were informed about the reform quite late, plus the distrust towards the government brought to the resistance of the employees. Though when the law was changed and the mandatory component was imposed only on civil servants there were many employees from private sector that decided not to refuse from the pension system. And that decision was made absolutely without any pressure. The number of the participants of the funded pension system is currently 109 thousands, 60 thousands are civil servants, while the rest are employees from private sector, who knowingly stayed in the system.

The partial defection of the reform was connected with failure to do the preparatory work that should have been done before the start of the reform. Thus according to the government official, and two members of the 'Dem em' movement, there should have been more informational campaigns for the public. Another 'Dem em' member stated that problem was in the economic situation of the country. The government should have provided steady economic situation, increase the salaries and then implement the reform.

The agency representative stated that the reform should have been implemented from July 1 instead of January 1, when the law about the increase of the salaries of the civil servants was enforced. This step would have inspired a little more trust towards the government and would make the implementation of the reform easier.

The government states that the reform must be implemented in Armenia because the state budget might not be able to pay the pensions; that is why the implementation of the reform is of great importance for the country. While the deputies and members of the 'Dem em' movement believe that the reform should be implemented in Armenia only when the socioeconomic situation would be better.

Focus Group Results

As already mentioned in the methodology a focus group was conducted with people who are currently employed. The number of the participants was six, three of which were civil servants, the others worked in a private sector. Unlike the latter, the civil servants participated in the mandatory component and contributed 5% of their salary to the pension system.

The focus group discussion was very intensive and interested as the topic was concerning each of them as a citizen and employee. During the debate different opinions were expressed, some of which were similar, but some were opposing. The overall picture of the discussion was made around the causes of the partial defection of the pension reform. The participants mentioned two major reasons. The first one was the lack of awareness and information and the second one was the distrust towards the government.

Thus from the very beginning of the reform the participants mentioned that their awareness of the reform was very low. If we turn this finding into numbers, the mean of their awareness was 5.5 on the scale of 10. Only two of the participants stated that they were relatively aware of the reform as their companies hired specialists to come and train the local employees, introduce the basic features of reform, advantages, disadvantages and expectations the participants of the mandatory component can have several years later. Other members of the group had little information about the reform. Before refusing to participate in the mandatory component these employees did not even try to gather information, as they were certain that the reform has much more disadvantages than advantages. Those members of the focus group (employees of the private sector) that decided not to participate in the mandatory component mentioned that they had no difficulties while making a decision whether to participate or not.

Throughout the discussion the major point of the delay of the reform was the lack of information. The participants were claiming that if the government made effort to inform the

public about the reform the reaction would not be that negative and intense. Several years ago there were rumors that at the end of the 2013 there would be changes in the pension system, but no one understood what it was and no one realized that the changes would be that global. The reason is that the citizens of Armenia did not know what to expect. Their perception was limited to an idea that this is yet another plan to withhold money from the ordinary citizens. There was no one to describe the real purpose of the reform, to explain that if the reform was delayed, the government several years after could not further pay the pensions. After the introduction of the reform the employees had numerous concerns but even this time the government failed to provide them with necessary information. There was an opinion that implementation of the reform at all stages was transparent, i.e. there were special web-sites and hot-line that were providing necessary information about the reform, though another focus-group participant opposed to this, mentioning that there are many people in Armenia, especially in the remote towns and villages that do not know how to make a use of the technologies. Hot-line and webpage are not enough for the general and comprehensive information.

Another point concerning the lack of information that was mentioned both by the interviewees and focus group members is the bank credits that people had to pay back. The government did not take into consideration this point as well and only when the people gathered in the streets with posters written 'I am against', they realized that something was missed before the implementation of the reform.

Based on the opinion of another participant the lack of information is only the top of the iceberg. She stated that she liked the program, but her experience shows so many violations and situations that the law basically does not function in Armenia. That is why she does not trust the government standing beyond the program.

The focus group participants stated that the second cause that partially failed the reform and caused a negative and vigorous reaction was the distrust towards the government. They also brought the example of the Soviet times as a precedent and did not want to accept that that one was another system.

One of the focus group members noted that there was an impression that the government needed large amount of money and as soon as possible, so that is why they decided to enforce the pension reform. An environment of distrust was quite high towards the government of Armenia from the beginning of the reform and citizens were certain that whatever the government decides it is simply for gripping money from ordinary citizens. Therefore the employees stated that they live in a democratic country and they are to decide what to do with their earned money.

One of the participants repeated the same argument that was already mentioned in one of the interviews, that is the financial situation of an employee is another factor why people did not want to participate in the mandatory component.

The next factor that was a reason of resistance was the mandatory component. The group members stated that the factor of mandatory made people be afraid of the reform. If the reform is for the welfare of the population why it should be mandatory? It is the population to decide how they want to live after retirement. The government did not let the citizens to choose.

It was stated during the discussion that only after the implementation of the mandatory component, people were informed that the voluntary one was operating for nearly two years.

During the focus group discussion there was a reference to the 'Dem em' movement that gathered around it more and more people day by day. The participants stated that the main opponents of the reform were the IT specialists in Armenia. This is explained in the following way. The IT specialists are a segment of the society made of young, intelligent and smart

people with relatively higher income. They opposed to the reform because it was affecting them more than others. Their protest somehow weakened after the government decided to put an upper limit on their contribution, more specifically, they managed to achieve amendment to the law establishing a ceiling for their monthly contribution up to 25,000 AMD.

One of the issues during the discussion, where opposing ideas were expressed, was the fund where the accumulated money will be kept. Some of the participants thought that it would be better if the entire money would be used within the country. That money could have been spent on opening new jobs that would provide the population with employment. Consequently this would result in the decrease of the migration. But the other part of the participants stated that that method would have increased the corruption in the country. Besides, in international funds the expected profit margin will be much higher and more trust would be inspired towards the reform.

At the end of the discussion the participants made several concluding remarks. One of them stated that this reform was one of the major changes in Armenia that is why the government should have made stronger efforts to get the population ready for the reform. They could have started everything step by step as time is required for the complete trust. The mandatory component should not been included in the reform from the beginning. Another participant stated that there should have been success stories presented to beneficiaries. These would have persuaded the population that the reform was only misunderstood and was not as bad as it has been perceived. Another participant said that the program of the reform was good and she hoped that she would not regret after several years. And the last member, who earlier refused to participate in the mandatory component, mentioned that if he knew about the reform as much, as at the time of participation in the focus group, he would not have refused to contribute 5% of his salary to the pension system.

CHAPTER 4. MAJOR FINDINGS

The pension reform has been in the center of the citizens' attention for the last two years. The changes in the pension system are considered one of the most serious reforms in the history of Armenia since the independence. The same reform has been implemented in many Latin and European countries. In some countries it succeeded, while in others there were many barriers and obstacles.

The pension reform in Armenia was not accepted as smoothly as the government had anticipated. The population turned to be categorically against the reform. From the very beginning when the essence of the reform was realized by the society, the negative attitude of the population emerged.

The resistance of the population evoked at the end of 2013 and the first citizens opposing the reform were mostly intellectuals, white collar workers, IT specialists. Why IT specialists, because this was a sector in the society that employed intelligent, smart young people who earned relatively well. Day by day the campaigns against the pension reform were becoming more intense and were gathering around it more people.

The reasons why the population in Armenia has not accepted the changes in the pension system are different. Some connect it with the distrust towards the government, others state that the reason of delay of the reform was the lack of understanding the importance of the reform. Based on the interview results, people who were defending the new system did not connect the trust or distrust towards the government a cause for the hindered implementation of the reform. They stated that the main reason was in the understanding of the population. The society is not able to see the importance and the positive aspects of the reform. The pension reform is a brand new perspective and ideology that the Armenian society is not ready to accept.

On the other hand, the interviewees who were against the reform found direct connection between the trust towards government and the partial defection of the reform. They also stated other reasons as well, such as complicated financial situation, violation of the human rights, violation of the law, and lack of information about the new pension system. Thus, it is obvious that at the end of the interview analyses two opposing ideas are clashing and it is difficult to come to conclusion based on the interview results. That is why the result of the research is based on the author's findings.

According to the results the partial defection of the reform is directly connected to the lack of governmental trust. If the reform was in the frames of the Constitution and did not increase the financial burden of the population that much, the reaction of the society would be less intense and negative. Having a precedent from the Soviet times, the case of deposits, the public connected this reform with that one. Many of the resisting people were young enough to lose the deposits in USSR banks themselves, but they heard these stories from their parents.

The next factor that increased the distrust towards the government was the mandatory component of the pension reform. The population was stating that if the reform is for the welfare of the society, it cannot be mandatory. Each citizen is free to choose how he/she wants to live in the future. They were fierce about the fact that the government was going to withhold money from their gross income without considering the will of an employee/employer. If the pension reform was voluntary, the trust of the society towards the government would increase and based on this trust more and more people would express a wish to take part in the new pension system.

The guarantees that the government has provided was not sufficiently convincing for the citizens. The society was not certain whether they would get back their contributed money or not. The government claims that the pension reform was guaranteed in each step. Maybe it

really has strong guarantees, but the government failed to properly introduce these guarantees to the population so that the latter would be confident. The fact that the society is not sure whether they will get back the contributed money raises another wave of distrust towards the reform and mainly the people standing beyond the reform.

The undefined future of Armenia is another reason for the population to refuse participating in the long-term pension system. No one can guarantee that in the near future there will be no another financial crisis, inflation, transition to ruble, or even war. These are all negative factors that prevent the acceptance of the reform by the Armenians.

Besides the distrust towards the government the socio-economic conditions of the population also matter, while deciding whether to participate in the mandatory component or not. The citizens think why to contribute extra money to the pension system and save for the age of retirement, if they require that money today.

The government did not pay attention to the importance of the public awareness. Special organizations that were to provide the public awareness stated that they have done some informational campaigns but these campaigns were not enough for the public. The reform was very important and comprehensive. The vital point of the reform is that it was directly dealing with the citizens and the population felt the effect of the reform on its own skin. When the society understood that the contribution to the new pension system was being made from their income, they started to resist. There were special hotline and websites that provided detail information about the new pension system, but these sources of information cannot be considered effective, as not everyone was aware how to make use of these sources and get information.

In the next step when some information was already disseminated among the citizens and people were somehow interested about the reform, bulk of questions emerged among them. But according to 'Dem em' movement member the government did not provide proper

answers to these questions in a timely manner. This in its turn contributed to the defection of the reform. This means that if the population was aware of the reform in detail there would be more people that would accept it and would join it even voluntarily.

Based on the findings of this study the two hypotheses are accepted. Thus the research can firmly state that the pension reform in Armenia partially defected because of the public distrust towards the government and it was not properly introduced and explained to the society in advance.

Hypothesis 1: The pension reform is lagging in Armenia because of the public distrust towards the government. – ACCEPTED

Hypothesis 2: The pension reform is lagging because it was not properly introduced and explained to the society in advance. - ACCEPTED

CONCLUSION

The implementation of the funded pension system in Armenia has been one of the most widely discussed policy issues for the recent years. At the same time this was one of the biggest challenges for the Armenian government in introducing reforms in social sector. The program of the funded pension system can be beneficial and effective if implemented and interpreted smoothly. The socio-economic conditions in Armenia did not let the reform to unfold the way it had been planned and structured.

Since the reform was very comprehensive and complex the government of Armenia should have approached to the issue differently. First of all the government should have taken more persuasive steps to gain trust of each citizen affected by the reform. The government should have paid more attention to information campaigns, reach each beneficiary multiple to address all concerns and clarify all issues. If the government spent significantly more on the awareness campaigns of the population the picture of the outcome could have been different.

If the government still wants to pursue this reform in the country, it should first of all consistently change the perception of the population towards the reform. So far the reform was seen only under a negative light. Several steps should be conducted to boost the interest and positive attitude of the society.

The future of the pension reform in Armenia is very obscure. The decision of the Constitutional Court is very decisive. If the latter decides that there are still anti-constitutional articles in the law of the reform, the law will be sent back to the National Assembly for further amendments. Some experts or ordinary citizens think that if the law is sent to the National Assembly for the second time, the government will stop the pension reform implementation in Armenia, but based on this research and the results of the interviews, I think that the government will implement the reform in the country in spite of everything.

REFERENCES

- Acuña, Rodrigo R., and Augusto P. Iglesias. *Chile's Pension Reform after 20 Years*, 2001.
- Andrews, Emily S. *Kazakhstan: An Ambitious Pension Reform*. The World Bank, 2001.
- Arestis, P., O. Demetriades, and K. Luintel. *Financial Development and Economic Growth: The Role of Stock Markets*. *Journal of Money Credit and Banking* 33(1), 2001.
- Armeanu, O. *The Politics of Pension Reform in Central and Eastern Europe: Political Parties, Coalitions, and Policies*. New York: Palgrave Macmillan, 2010.
- Barr, Nicholas. *Reforming Pensions: Myths, Truths and Policy Choices*. London: London School of Economics, 2008.
- Berry, Albert. *Confronting the income distribution threat in Latin America*. Colorado, 1998.
- Bertranou, Julien. *Mexico: The politics of the system for retirement pensions*. University of Pittsburgh Press, Pittsburgh, Pennsylvania, 1998.
- Blake, D., and M. Orszag. *The Impact of Pension Funds on Capital Markets, 1998*.
- Blommestein, H. *Institutional Investors, Pension Reform and Emerging Securities Markets*. Inter-American Development Bank, Office of the Chief Economist, Working Paper 359, 1997.
- Bonoli, Giuliano. *Two Worlds of Pension Reform in Western Europe*, 2003.
- Charlton, R., R. Mckinnon, and L. Konopielko. *Pensions Reform, Privatization and Restructuring in the Transition: Unfinished Business or Inappropriate Agendas?*. Europe-Asia Studies, 1998.
- Chalon-Dominczak, A. *Pension System and Employment Incentives? Polish Experience*, 2007. http://www.cef-see.org/pension_reform/ChlonDominczak.pdf.
- Cruz-Saco, and Carmelo Mesa-Lago. *The pension system reform in Peru: Economic rationale versus political will*. Pennsylvania, 1998.
- Fomin, D.A. *Results of Reform of Russia's Pension System and Its Prospects*. 2011.
- Holzmann, Robert, Mitchell Orenstein, and Michal Rutkowski. *Pension Reform in Europe: Process and Progress*. Washington, D.C., 2003.
- Huber, Evelyne, and John D. Stephens. *The Political Economy of Pension Reform: Latin America in Comparative Perspective*. United Nations Research Institute for Social Development, 2000.

Iglesias, P. *The impact of pension reform on capital markets: the Chilean experience*. Washington, DC., 1998.

Information-Analytical Center For Economic Reforms. *Pension Reform: Public Awareness*. n.d. <http://www.gov.am/files/library/75.pdf>.

Kidric. *Pension Reform in Slovenia*, 2004.

Krivoshchekova, E., E. Okuneva, and V. Okunev. *Mandatory Pension Insurance: Russian Pension Reform: Theory and Practice*. 2007.

Lannoo, K. *Institutional Investors, Capital Markets and EMU*, 1998.

Levine, R., and S. Zervos. *Stock Markets, Banks, and Economic Growth*. The American Economic Review, 1998.

Madrid, Raquel. *The New Logic of Social Security Reform: Politics and Pension Privatization in Latin America*. Stanford: Stanford University, 1999.

"Mandatory fully funded pension: Second Pillar." Pension Reform Implementation Program. Accessed May 10, 2015. <http://prip.am/mandatory-fully-funded-pension/>.

Marukyan, Ruzanna, and Arman Zaratsyan. *Brief on Implementation of Unified Income Tax and Personified Recordkeeping System*. Yerevan: USAID, PALM, 2012.

Mare, Mauro. *Financial Constraints and Policy Options: The Pension Reform Process in Italy and its Relevance to Asian Countries*. Rome, 2001.

Mesa-Lago, Carmelo. *Changing Social Security in Latin America: Toward Alleviating the Social Costs of Economic Reform*. Colorado: Lynne Rienner Publishers, 1994.

Mesa-Lago, Carmelo. *The Reform of Social Security Pensions in Latin America: Public, Private, Mixed and Parallel Systems*, 1994.

Muller, Katharina. *The Political Economy of Pension Reform in Central and Eastern Europe*. German Development Institute, 2003.

Multi-Pillar Pension System: Implementation Challenges and the International Practice. Yerevan: Pension and Labor Market Reform Project (PALM), USAID, 2012.

"Pension Reform Awareness System History." [epension.am/am](http://www.epension.am/am/psac_history). Accessed May 10, 2015. http://www.epension.am/am/psac_history.

Rousseau, Peter L., and Paul Wachtel. *Financial Intermediation and Economic Performance: Historical Evidence from Five Industrialized Countries*. Journal of Money Credit and Banking, 1998.

Sailer, Markus. *Pension Reform in Germany: An Assessment*. Germany 2004.

Song, Shunfeng. *Pension Systems and Reforms in China and Russia*, 2009.

Stanic, Katarina, and Arsen Manukyan. *Introduction of Mandatory Funded Pillar in Armenia and Possible Risks*. Yerevan: USAID, 2012.

State Pension Insurance of the Citizens of the Republic of Armenia, accepted by National Assembly of Armenia on 06, December, 1995.

The Constitutional Court of RA. *Decision about Funded Pension Reform (Հայաստանի Հանրապետության Ազգային ժողովի Պատգամավորներ Դիմումի Հիման վրա՝ Կուտակային Կենսաթոշակների Մասին Հայաստանի Հանրապետության Օրենքի 8, 7, 8, 37, 38, 45, 49 և 86-րդ Հոդվածների Սահմանադրականության Վերաբերյալ Գործով)* Yerevan, April 2, 2014.

The Constitutional Court of the Republic of Armenia. "«ՀՀ Ազգային ժողովի Դիմումի Հիման վրա՝ ՀՀ Ազգային ժողովի Կողմից 21,06,2014թ. Ընդունված « Կուտակային Կենսաթոշակների մասին» ՀՀ Օրենքում Փոփոխություն Կատարելու Մասին» ՀՀ Օրենքը /ՀՕ-67-Ն՝ և Կից ՀՕ- 68-Ն, ՀՕ-69-Ն, ՀՕ-70-Ն, ՀՕ-71-Ն, ՀՕ-72-Ն, ՀՕ-73-Ն, ՀՕ-74-Ն, ՀՕ-75-Ն, ՀՕ-76-Ն և ՀՕ-77-Ն Օրենքները, Ինչպես նաև Դրանց Հետ Համակարգային Կապի Մեջ Գտնվող « Եկամտային Հարկի Մասին» ՀՀ Օրենքի 6-րդ և 10-րդ Հոդվածները Հայաստանի Հանրապետության Սահմանադրությանը Հակասող և Անվավեր Ճանաչելու Մասին» Գործի Դատաքննությունը Հետաձգելու Վերաբերյալ." Yerevan, March 25, 2015. <http://www.concourt.am/armenian/decisions/working/2015/pdf/sdav-17.pdf>

"The Claims of the 'Dem em' about the Funded Pension System." Last modified June 12, 2014. <http://www.yerkir.am/am/news/68981.htm>.

"The voice of 'Dem em' will be still heard: the Members of the Movement Sum up their Passed Way." Last modified December 31, 2014. <http://news.am/arm/news/246600.html>.

Thompson, Laura. *Pension Reform, Political Pressure and Public Choice- the Case of France* . Oxford: Blackwell Publishing, 2008.

Valdés, P., and Salvador Cifuentes. *Previsión Obligatoria para la Vejez y Crecimiento Económico*. Instituto de Economía Pontificia Universidad Católica de Chile, 1999.

Vittas, Dimitri. *Institutional Investors and Securities Markets: Which Comes First?. El Salvador*, 1998.

Vittas, Dimitri. *Pension Funds and Capital Markets*. The World Bank, 1996.

Walker, Eduardo. *Pension Reform and Capital Markets: Are there any (Hard) Links?* 2002.

"Why a Pension Reform was required?" Accessed May 11, 2015. http://www.epension.am/am/funded/overview/funded_pension_necessity

APPENDIX

Interview Questionnaire

1. What are the main causes of delay of the implementation of the reform in Armenia?
2. What made the public react so fiercely and negatively to the changes in the pension system?
3. What income groups you think mostly oppose to the reform?
4. How does the government assure the citizens that they will get back their contributed money after retirement?
5. Is there anything that you now think should have been done, that the government did not do before the implementation started?
6. Has enough information been provided to the society about pension reform before its implementation?
7. If the mandatory aspect was not imposed at the beginning of the implementation, would this mitigate negative reaction from the public?
8. Anyway, there are people who pay 5% 'voluntarily', how would you comment on this. Did they make free and unbiased decision?
9. If the government's budget cannot further afford paying pensions, and the public is against the new reform, then what should the government do to overcome the problem?