

# MODERN PENSION SYSTEM IN AZERBAIJAN: CHALLENGES AND REFORMS

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*Šio straipsnio tikslas – išanalizuoti Azerbaidžano Respublikos valstybinio socialinio draudimo pensijų sistemos teisinio reguliavimo nuostatas ir naujausias reformas, nulemtas ekonomikos krizės bei demografinių ir socialinių iššūkių, ir pateikti išvadas atsižvelgiant į valstybės socialinių garantijų išsaugojimo kontekstą. Straipsnyje nagrinėjamos pensijų sistemos problemos ir pateikiama išvadų bei rekomendacijų tolesnėms reformoms Azerbaidžane.*

*The aim of this article is to define the legislation Azerbaijan state social security pension system and latest reforms, influenced by the recent economic crisis and demographic – social challenges, and to provide with the conclusions in the state social guarantees context. In this paper author analyses challenges and presents conclusions and recommendations for further pension system reforms in Azerbaijan.*

## Introduction

Population ageing, changes in the social structure, increasing the social partnership importance, economic downturns, globalisation and technological development encourages reforms in the pension field. Following challenges, which impacts the modern social security systems, could be mentioned: changes of social values (globalization, economic crisis, the development of new technologies affects the state social security guarantees); the significant role of international organizations (World Bank, International Monetary Fund promotes liberal ideas for emerging economies); the welfare state crisis (principles of the universality, equality, redistribution, which have been based in social protection over the past fifty years, cannot be sufficiently applied because of the financing gap); the development of global competition (which impacts the traditional understanding of the social solidarity principle; nowadays, private funded pension insurance operates in the close relation to the state social insurance schemes)<sup>1</sup>.

The aim of pension system reforms in Azerbaijan – to increase the efficiency, to ensure the adequacy and to consolidate the financial sustainability of the pension system. The recent pension system's reform in 2017 focused on the system's sustainability and introduced measures against to the economic shocks. On 1 May 2017, Azerbaijani President signed a decree, approving 98 amendments to the Law on labour pensions and the Azerbaijani Parliament approved this law on March 10, 2017<sup>2</sup>. According to amendments, the length of the work experience has been increased, with the exception of

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<sup>1</sup> DUPEYROUX, J. J.; BORGETO, M.; LAFORE, R. *Droit de la sécurité sociale*. Paris: Dalloz, 2008, p. 80–87.

<sup>2</sup> *The Law of the Azerbaijan Republic on the labour pensions* No. 543-VQD [interactive. Review date 02.11.2017]. <<http://www.E-law.az/framework/11566>>. This law came into force by 1 July 2017.

police and military personnel. Another change covers the transfer to the individual account of a citizen of a bigger part of the paid contributions for compulsory state social insurance.

It should be noted, that problems of pension system reforms in Azerbaijan were examined in the related papers of international organisations: European Union, International Monetary Fund, International Social Security Association, World Bank, Asian Development Bank, United Nations and others. Some authors analyse the construction of Azerbaijan pension system: I. Atilla and I. Kitapçı (demographic aspects), A. Tretyak and F. Durin (challenges and construction of the pension system), N. Studer (fight against poverty), F. Lida and N. Habibov (social protection and poverty); however, the complex analysis of social insurance pension development in Azerbaijan (including analysis of economic, social and demographic indicators and latest reforms), has not received enough scientific attention in the Azerbaijani legal doctrine improving the efficiency, adequacy and sustainability of the pension system.

The article focuses on the legal regulation of the pension system and pension system's challenges and problems and provides recommendations for future reforms. The analysis of scientific research and international organisations documents, Azerbaijani legal acts, comparative papers, statistics and other sources and documents of law has been carried out. In order to fully disclose the problematic of pension reforms in Azerbaijan, this article deals with the systematic analysis (legal concepts and provisions in the scientific literature), descriptive and document analysis scientific methods. The analysis starts with the description of the construction of the Azerbaijani pension system challenges (section 1); the pension system construction before 1 July 2017 (section 2); the study of the latest pension system reform in 2017 continues in the section 3; finally, recommendations for the future pension system reforms and conclusions are drawn.

## **1. Construction of the Azerbaijani pension system and challenges**

The Republic of Azerbaijan has achieved rapid economic progress during the last fifteen years until 2015 economic crisis. In the gross domestic product (hereinafter – GDP) structure, the industrial sector remained important and the public budget revenues have been multiplied by eight between 2004 and 2014. During the period between 2006 and 2017, the basic part of pension increased 4,4 times, average monthly pension amount increased 6,4 times, social insurance budget increased 5,8 times and old-age pension replacement rate grew from 28 percent to 43.1 percent<sup>3</sup>. The labour force significantly increased in absolute terms during last years: while in 2000 there were 4,4 million economically active people, in 2016 their number reached 4,9 million.

In the most recent Human Development Index (2016), Azerbaijan ranks 78th and finds itself in the “high human development” group (in 2015 Azerbaijan ranks 77th). The gross national income per capita in 2015 recorded at 16.413 US dollars<sup>4</sup>.

Nevertheless, the recent financial and economic crisis, which started in 2015, showed problems in the field of the social insurance system's sustainability. We could note main challenges for the social protection system in Azerbaijan: the relatively low level of social benefits; the relatively low collection of the social insurance contributions (because of the significant level of the informal economy) and ageing population in the near future. The statistical analysis of economic, demographic and social trends clearly marks changes and the evolution of Azerbaijan economic-social portrait.

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<sup>3</sup> Ministry of labour and social protection of population of Azerbaijan, 2017.

<sup>4</sup> United Nations Development programme. *Human development report 2016*. [interactive. Review 09.11.2017]. <<http://hdr.undp.org/en/composite/HDI>>.

## 1.1. Legislation in the field of the pension system

The article 16 of the Constitution of the Republic of Azerbaijan<sup>5</sup> indicates that the unemployed persons have the right to receive social allowances from the state and the article 38 foresees that everyone has the right for social protection and most vulnerable persons must get support, in the first place, from members of their families. In addition, the Constitution indicates, that everyone has the right for the social protection on reaching special age, in case of illness, disability, and loss of breadwinner in the family, due to unemployment and in other cases envisaged by legislation; the state creates possibilities for development of charitable activity, voluntary social insurance and other forms of social protection.

The law “On the Social insurance”<sup>6</sup> regulates relationships in the area of social insurance, defines legal, economical and organisation grounds for social insurance in the Azerbaijan Republic. The definition of the social insurance is indicated in this law and means the form of the security, intended for compensation of lost right to work, profits and extra expenses of citizens and for prevention of such losses. Following social insurance principles indicated in the law: state guarantees of continuity of the social insurance; overall character of the social insurance; provision of social insurance in all cases of disability of the employee; equality of legal subjects of social insurance; compulsory state social insurance; guaranteed participation of public organisations in control over obligatory social insurance. The social security covers following risks and fields: the reaching pension age; the disability; the loss of breadwinner; the temporary incapacity at work; the pregnancy and confinement; the child’s birth; the care of a child; the death; the need in recreation.

The law “On personal accounts in the state social insurance system”<sup>7</sup> regulates the management of the personal individual pension accounts, financing and person’s rights.

The law “On the regulation of the checks which are carried out to areas of entrepreneurs, and protection of the rights of entrepreneurs”<sup>8</sup> regulates rules of the organization and conducting the inspections which are carried out in the field of entrepreneurship, the right and obligation of inspection bodies, their officials during check, the requirement in connection with protection of the rights and interests of entrepreneurs.

The law “On the Labour pensions”<sup>9</sup> foresees the construction of the pension system. This law defines the grounds for creation of citizens’ pension rights in the Republic of Azerbaijan, the rules for exercising these rights and the system of pension provision. Labour pension means a monthly payment, fixed under the procedures and conditions prescribed by the law “On the labour pensions”, compensating for the wage or another type of income that the persons insured within the framework of mandatory state social insurance were receiving prior to assignment of labour pensions, or the income lost by the family members of the insured person after his/her death.

The social protection system in Azerbaijan comprises from labour pensions (the old-age labor pension; disability labor pension; survivor’s labor pension) and other social insurance benefits

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<sup>5</sup> *The Constitution of the Republic of Azerbaijan* [interactive. Review 09.11.2017]. <[http://azerbaijan.az/portal/General/Constitution/doc/constitution\\_e.pdf](http://azerbaijan.az/portal/General/Constitution/doc/constitution_e.pdf)>.

<sup>6</sup> *The law of the Azerbaijan Republic on the social insurance* No. 250-IQ of 19 February 1997 [interactive. Review 09.11.2017]. <<http://www.azerb.com/az-law-social.html>>.

<sup>7</sup> *The law of the Azerbaijan Republic on personal accounts in the state social insurance system* No. 221-IIQ of 27 November 2001 [interactive. Review 09.11.2017]. <<http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/90132/103706/F-597043027/AZE90132.pdf>>.

<sup>8</sup> *The law of the Azerbaijan Republic on the regulation of the checks which are carried out to areas of entrepreneurs, and protection of the rights of entrepreneurs* No. 714-IVQ of 2 July 2013 [interactive. Review 09.11.2017]. <<http://cis-legislation.com/document.fwx?rgn=64236>>.

<sup>9</sup> *The law of the Azerbaijan Republic on on the labour pensions* No 54-IIIQ of 7 February 2006 [interactive. Review 09.11.2017]. <<http://www.E-Law.az/framework/11617>>.

(financed from the autonomous social insurance budget), non-contributory social assistance benefits and targeted social aid to low income benefits (financed from the state budget). All payments are being realized through the Social protection fund under the Ministry of labour and social protection of population. The amount of the insurance part of labor pensions formed on the basis of a pension capital accumulated by January 1, 1992, as well as the supplement shall be financed through the state budget, while all other amounts through the mandatory state social insurance contributions and social insurance reserves. In the event of deficit of funds in one of the mentioned sources, adequate costs shall be financed from another source. If person not fulfills requirements for the labour pensions, the social assistance benefits shall be paid.

## 1.2. Economic trends

Azerbaijan can be characterised as a country with large share of the formal agricultural employment, high share of GDP in the oil sector export (the oil sector in Azerbaijan represents between 30 and 50 percent of nominal GDP), relatively high informality in the labour market and threatening public revenues, due to the relatively low tax and social insurance contributions collection.

The GDP growth and balance of the government budget has evolved negatively since the recent economic crisis in 2015, leaded by the large non-oil imbalances in the state budget (the part of oil in the export of goods comprises 87 percent), higher public deficit and public debt, higher degree of the informal economy. The European Commission's analysis reported a share of 25 percent of the unregistered employment in the private sector in 2011 and the informal sector (inside the GDP of all sectors) consisted of 34.4 percent in 2015<sup>10</sup>.

The last economic crisis affected various indicators of the national economy. According to the Statistics committee of Azerbaijan, the GDP growth during recent economic crisis decreased remarkably: the growth of GDP (as percentage of the previous year) in 2005 was 126,4; 105 in 2010 and 96,9 in 2016<sup>11</sup>. The economic crises and devaluation of Azerbaijani manat<sup>12</sup> decreased the income of population almost twice from 2014 to 2016<sup>13</sup>. The annual growth of the labour productivity in Azerbaijan in 2015 decreased and was minus 0.4 percent<sup>14</sup>. In addition, due to the fall of the oil prices, the income of the State Oil fund of Azerbaijan was 34.5 percent less in 2016 in comparison to the year of 2015<sup>15</sup>.

According to the data of the International Monetary Fund, the growth in Azerbaijan declined precipitously from 5.8 percent of total GDP in 2013 (1.1 percent of total GDP in 2015) to negative 2.4 percent of GDP in 2016 (in constant prices); however, the growth of total GDP (at constant prices) is projected in the future: 1.4 percent in 2017; 2.3 percent in 2018; 2.9 percent in 2019 and 2.5 percent

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<sup>10</sup> European Commission. *Social protection and social inclusion in Armenia, Azerbaijan and Georgia: synthesis report*, 2011; National statistics committee of Republic of Azerbaijan, 2017 [interactive. Review 11.11.2017]. <<http://www.stat.gov.az/>>.

<sup>11</sup> In comparison to the region countries, this indicator in 2016 was 100,2 in Armenia, 101 in Kazakhstan, 103,8 in Kyrgyzstan, 104,1 in Moldova, 107,8 in Uzbekistan, 99,8 in Russia, 106,9 in Tajikistan, 106,2 in Turkmenistan, 102,3 in Ukraine and 102,7 in Georgia. *Source*: Statistics committee of Azerbaijan, 2017.

<sup>12</sup> 1 Azerbaijani manat approximately is 0.5 euro.

<sup>13</sup> The income of population (in US dollars per year and per capita) was 401,9 in 1997; 1972,1 in 2007; 2894,7 in 2008; 5344,7 in 2014 and 2951,2 in 2016 (source: Statistics committee of Azerbaijan, 2017).

<sup>14</sup> In 2014 the annual growth of the labour productivity was plus 1.0 percent, in 2013 – plus 4.0 percent, in 2010 – plus 3.7 percent, in 2007 – plus 23.5 percent, in 2006 – plus 32.9 percent. *Source*: Eurostat. [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Annual\\_growth\\_of\\_labour\\_productivity,\\_2005%E2%80%932015\\_\(%25\)\\_ENPE16.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Annual_growth_of_labour_productivity,_2005%E2%80%932015_(%25)_ENPE16.png)>.

<sup>15</sup> Presentation of the State budget for 2017 [interactive. Review 12.11.2017]. <<http://www.maliyye.gov.az/sites/default/files/presentation-2016.pdf>>.

in 2020. It could be marked, that the GDP in the non-oil sector fallen from 9.9 percent in 2013 to minus 3.6 percent in 2016 and the growth is projected to 2.4 percent in 2017 and 3.4 percent in 2020<sup>16</sup>.

### **1.3. Labour market trends**

Azerbaijan recorded a relatively low unemployment rate during last decades; however, the labour market of Azerbaijan affected by the recent economic crisis and the level of the informal economy is significant in Azerbaijan. According to the State Statistical Committee of the Republic of Azerbaijan (2015), the part of informal sector inside the GDP consists of 34.4 percent of all sectors and 28.2 percent inside GDP without agriculture sector<sup>17</sup>.

National statistics indicates, that the unemployment rate in 2005 was 7.3 percent; in 2010 – 5.6 percent; in 2015 – 5 percent and in 2017 – 5.4 percent. The total employment rate in 2016 was 62.7 per cent from the active population (the total number of active population in 2016 consisted 5,013 million).

The change of the employed population (in percent to the previous year) grows slowly: in 2005 the change was 101.1 percent; in 2010 – 101.3 percent; in 2015 – 101.5 percent and in 2016 – 101.9 percent. As the result of this growth, the total employment rate in Azerbaijan in 2017 reached 67 percent<sup>18</sup>. In addition, we could stress that 32.4 percent of the total population in 2017 has been employed on the basis of labour contract and covered by the mandatory social insurance, 21.4 percent has been registered as private entrepreneurs and 46.2 percent – as land-owners<sup>19</sup>.

### **1.4. Financing of the social security system and beneficiaries**

Public spending for the social protection is relatively low in Azerbaijan and it's increasing slowly (from 2.77 percent of GDP in 2004, to 5.6 percent of GDP in 2013 and to 7.3 percent of GDP in 2016). In Azerbaijan, the main political priority is the combating poverty; however, due to the construction of the pension system (with high rate of disability pensions and special state pensions for different social groups), the largest part of the social protection expenditure is dedicated to pension benefits (about 95 percent of the Social protection fund of Azerbaijan is allocated to pensions).

In Azerbaijan, the number of social insurance pensioners in 2017 comprised of 1,315 million persons (old age, disability and survivors benefits receivers). In comparison to the total number of population (9,568 million), the number of pensioners consists of 13.7 percent of the number of the total population and it is relatively low (because of the significant young generation in the demographic pyramid and the lack of the mandatory qualification requirements for the social insurance benefits)<sup>20</sup>.

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<sup>16</sup> International monetary fund, 2016 [interactive. Review 11.11.2017]. <<https://www.imf.org/external/pubs/ft/scr/2016/cr16296.pdf>>.

<sup>17</sup> In comparison, the part of informal sector (except agriculture field) was 16.5 percent in Bulgaria, 20 percent in Kazakhstan, 27.5 percent in Kyrgyzstan, 12.3 per cent in Moldova and 12.9 per cent in Ukraine. *Source*: Statistics committee of Azerbaijan, 2017.

<sup>18</sup> In comparison, the total employment rate in 2017 in Armenia was 52.7 percent, in Belarus – 81.3 percent, in Georgia – 63.8 percent, in Moldova – 44.5 percent, in Ukraine – 66.1 percent. *Source*: Eurostat [interactive. Review 09.11.2017]. <[http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Employment\\_and\\_unemployment\\_rates\\_2005\\_2010\\_and\\_2015\\_\(%25\)\\_ENPE16.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Employment_and_unemployment_rates_2005_2010_and_2015_(%25)_ENPE16.png)>.

<sup>19</sup> Center for Economic and Social Development. *Pension attainability: evaluation of the latest amendments to the Law on Labor pensions*. Baku, 2017 [interactive. Review 09.11.2017]. <[http://cesd.az/new/wp-content/uploads/2017/10/CESD\\_EU\\_UNDP\\_Policy\\_Paper\\_Pension\\_Sistem\\_in\\_Azerbaijan\\_eng.pdf](http://cesd.az/new/wp-content/uploads/2017/10/CESD_EU_UNDP_Policy_Paper_Pension_Sistem_in_Azerbaijan_eng.pdf)>.

<sup>20</sup> In comparison, the number of pensioners per 1000 inhabitants in 2017 in Azerbaijan was 135, in Belarus 276, in Armenia 157, in Kyrgyzstan 123, in Kazakhstan 155, in Moldova 196, in Russia 295, in Ukraine 268, in Tajikistan 75. *Source*: Statistics committee of Azerbaijan, 2017.

According to the national statistics, the average amount of pension (all types – old age, disability and survivors) in 2017 was 192,2 manats (213,8 manats for old-age pension, 163,2 manats for disability pension and 153,4 for survivors pension). The average evolution of subventions from the state budget (2015–2017) was 2.6 percent for old-age pensions; 4.1 percent for the disability pensions and 6.2 percent for survivors pensions. The pension's system budget in the period from 2006 to 2017 increased from 589,5 million manats to 3,401 billion manats<sup>21</sup>. The average pension replacement rate represents between 38 percent and 45 percent compared to the average salary<sup>22</sup>.

### **1.5. Population and demographic trends**

According to the national statistics, the population in Azerbaijan in 2017 comprised of 9,568 million, the population growth per year is average 0,8 percent. The share of population of 18-54 years was 83.6 percent in the total population, 55 years and over – 16.4 percent.

The ageing in Azerbaijan will be significant in next decades: the part of the population over 65 years will increase from 5.7 percent (of total population in 2015) to 17.3 percent (of total population in 2050)<sup>23</sup>. The old-age dependency ratio<sup>24</sup> in Azerbaijan in 2015 was 8, in 2020 projected 10, in 2030 – 17 and in 2050 – 26<sup>25</sup>.

Dependency ratio (the proportion of the number of the active population and number of social insurance pensioners) was relatively high and it was 3,8 in 2017. Dependency ratio (the proportion of the number of insured persons per one pensioner) in 2017 consisted of 2,65 insured persons per one pensioner.

The fertility rate declines yearly and in 2016 was 2 live births per woman. In comparison, the fertility rate in 1959 was 5, in 1994 – 2,5, in 2002 – 2,8 and in 2011 – 2,4 live births per woman. According to the United Nations projections, the fertility rate in Azerbaijan from 2,1 (in 2010–2015) will raise to 2,04 in 2015–2020 and will decline to 1,94 in 2025–2030 (in comparison, the fertility rate in Europe in 2010–2015 was 1,6, in Asia region – 2,2)<sup>26</sup>.

The life expectancy at birth grows: in 1971 was 74,3 years for women and 66,8 years for men; in 1990 – 74,8 years for women 67 years for men; in 2000 – 75,1 years for women and 68,6 years for men; in 2010 – 76,2 years for women and 70,9 years for men; in 2016 – 77,6 years for women and 72,8 years for men<sup>27</sup>. According to the United Nations projections, the total life expectancy at birth will growth up to 72,1 in 2015–2020 and to 75,7 in 2045–2050<sup>28</sup>.

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<sup>21</sup> Ministry of labour and social protection of population of Azerbaijan, 2017.

<sup>22</sup> *Universal pensions in Azerbaijan* [interactive. Review 11.11.2017]. <<http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53948>>.

<sup>23</sup> United Nations. *World population prospects*, 2017 <[https://esa.un.org/unpd/wpp/Publications/Files/WPP2017\\_Volume-I\\_Comprehensive-Tables.pdf](https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_Volume-I_Comprehensive-Tables.pdf)>.

<sup>24</sup> The proportion of the number of active population and number of pensioners, per 100.

<sup>25</sup> United Nations. *World population prospects*, 2017 <[https://esa.un.org/unpd/wpp/Publications/Files/WPP2017\\_Volume-I\\_Comprehensive-Tables.pdf](https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_Volume-I_Comprehensive-Tables.pdf)>.

<sup>26</sup> United Nations. *World population prospects*, 2017 <[https://esa.un.org/unpd/wpp/Publications/Files/WPP2017\\_KeyFindings.pdf](https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_KeyFindings.pdf)>.

<sup>27</sup> The comparison of the life expectancy at birth to the other countries shows that this indicator (in 2016) is relatively low (despite the growth): in Georgia life expectancy at birth was 79 years for women and 71 years form men; in Turkey – 79 years for women and 75 years for men; in Israel 84 years for women and 80 years for men; in the United Arab Emirates – 79 years for women and 76 years for men; in China – 78 years for women and 75 years form men; in Japan – 87 years for women and 80 years for men; in Denmark – 82 years for women and 79 years for men; in Lithuania – 80 years for women and 69 years for men. *Source*: United nations, 2017.

<sup>28</sup> United Nations. *World population prospects*, 2017 [interactive. Review 11.11.2017]. <[https://esa.un.org/unpd/wpp/Publications/Files/WPP2017\\_KeyFindings.pdf](https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_KeyFindings.pdf)>.

The analysis of economic, social and demographic indicators shows the need for the further social and labour market reforms in Azerbaijan: to decrease the informal labour market, introducing more flexible labour relations; to revise conditions for the eligibility of a social insurance pension (reducing access to the early retirement and better controlling disability issues); to implement in the practice incentives for the voluntary funded pension insurance; to reduce exceptions for special social groups.

The recent economic crisis was an additional financial shock for the pension system among continuous problems since last decades: slowly ageing society (longer life expectancy, better health conditions, lower fertility, higher dependency ratio etc.), relatively high informal economy, engagements of the pay-as-you go pension systems (raising costs of pension system, including pensioners without sufficient work record and grants for special social categories), non-functioning of funded pension pillar (the implementation of funded pension scheme has been postponed because of downturns in financial markets and national economy).

### ***1.6. Political commitments for the social insurance system reform in Azerbaijan***

In order to ensure adequate pensions, changes in the pension system should be directed towards efficiency by improving administration, transparency, information for system's participants, balancing the ratio between current payments and income.

The pension system's concepts, programs and action plans in Azerbaijan constructed according to the recommendations of the international organisations. For example, Organization for Economic Co-operation and Development (OECD) and International Labour Organisation (ILO) indicated that the short-term responses to an economic crisis – macroeconomic stabilization, trade policies, financial sector policies and social security – could not ignore longer-term implications for both economic development and vulnerability to future crises<sup>29</sup>. International Social Security Association (ISSA) marked, that the key policy in the field of pension reforms is to stabilize pension system finances and to increase pensionable age, choosing different options to link pension benefit levels more closely to life expectancy and to introduce mechanisms to stabilize pension system finances by reducing benefits automatically as population ageing causes the ratio of workers to pensioners to decline<sup>30</sup>.

The *Development concept "Azerbaijan – 2020: the vision of the future"*<sup>31</sup> indicates main goals that should be reached by the public authorities, including the improvement of the social protection system, the improvement of the insurance-pension system introducing voluntary social insurance and realisation of measures for activities of non-state pension funds and the implementation of electronic audits of insurers conducted.

In the first *concept of the pension reform in Azerbaijan Republic* (adopted in 2001)<sup>32</sup> it was indicated to implement the pension reform in accordance with the following principles: payment of the mandatory social insurance contributions by all employers and employees; establishment of the pensions corresponding to the minimum living standard of the citizens; fulfilling the social security right of the citizens established in the Constitution; exercising public control in order to provide

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<sup>29</sup> International Labour Office. *Worlds social security report 2010/2011: providing coverage in times of crisis and beyond*. Geneva: International Labour Office, 2010, p. 119.

OECD. *Pensions at a Glance. Retirement – income systems in OECD countries*, 2009 [interactive. Review 09.03.2015]. <[www.oecd.org/els/social/pensions/PAG](http://www.oecd.org/els/social/pensions/PAG)>.

<sup>30</sup> International social security association. *Dynamic social security for Europe: choice and responsibility: developments and trends*. Geneva: International social security association, 2010, p. 8.

<sup>31</sup> Development concept „Azerbaijan – 2020: the vision of the future“ [interactive. Review 12.11.2017]. <[http://www.president.az/files/future\\_en.pdf](http://www.president.az/files/future_en.pdf)>.

<sup>32</sup> *The concept of the pension reform in Azerbaijan Republic*, approved by the order of the President of Azerbaijan Republic No 767 of July 17, 2001 [interactive. Review 11.11.2017]. <<http://sspf.gov.az/view.php?lang=en&menu=76>>.

transparency in administration of the social security system; creating equal conditions for operation of pension organizations regardless of the form of ownership; protecting proportionality between the mandatory state social insurance contributions paid by employers and employees.

*The State Programme on Development of the Insurance-Pension System in 2009–2015* was approved by a Presidential Order in 2008<sup>33</sup>. It aims at developing a viable system and ensuring its continuous improvement, and to guarantee a proper pension provision, ensuring sustainable and dynamic development of the system and to further improve pension provision of citizens. Main tasks stipulated in this Programme are as follows: strengthening of the insurance principles in the insurance and pension system and improving regulatory mechanisms of non-insurance payments; full automation of management as well as wide coverage of personal accounting system.

New *Concept on the Pension Provision Reform in Azerbaijan in 2014–2020*, which has been approved by the Presidential Decree of 4 November 2014<sup>34</sup>, aims to ensure long-term financial sustainability of the pension system. The Concept makes it clear, that it is vital to establish pension system through strengthening insurance principles and establishing balancing mechanisms between the obtained pension rights and paid contributions; establishing mechanisms based on actuarial analyses for the long-term development of pension provision system; improving regulatory mechanisms for non-contributory payment, as well as differentiating state obligations; implementing voluntary funded component of labour pensions as well as establishing and developing non-state pension institutions.

On 12 September 2017, the President of Azerbaijan signed a Decree on approval of the “*Rule for use of the Social Insurance Reserve*” what regulates the use of the social insurance reserve in accordance with the Law on labour pensions. This funds formed in the amount remaining after deduction of the portion directed to the insurance part of personal account and to administration costs, from mandatory state social insurance contributions paid for the insured, as well as directed to expenses spent to bring the labour pensions to the minimum amount of labour pensions, to finance the benefits and other payments through the mandatory state social insurance contributions.

As the conclusion of the first Chapter, we could underline that a major challenge of Azerbaijan pension system is to strengthen the link between career and benefits, to improve the pension level and to implement wider social insurance coverage for the population. The development of the voluntary funded pension schemes and other non-governmental pension schemes can be additional relevant measure.

## **2. Pension system before the reform of 2017**

### **2.1. Transition period**

Azerbaijan had initiated implementation of structural and institutional reforms at the beginning of the 1990s, which resulted in macroeconomic stability and economic growth. However, while significant advances in structural policies and management of public resources had taken place, poverty remained a critical development issue in the country. In 2001, despite abundant natural resource wealth, about 50 percent of the population was considered poor, of which 17 percent were classified as extremely poor<sup>35</sup>.

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<sup>33</sup> *The State Programme on Development of the Insurance-Pension System in 2009–2015*, approved by a Presidential Order in 2008 [interactive. Review 11.11.2017]. <[http://sspf.gov.az/upload/file/pensiya\\_islahati/pens\\_ref.PDF](http://sspf.gov.az/upload/file/pensiya_islahati/pens_ref.PDF)>.

<sup>34</sup> *2014–2020 Pension coverage system reform concept in the Azerbaijan Republic“ of 4 November 2014*. Official internet page of the President of the Azerbaijan Republic [interactive. Review 12.11.2017]. <<http://president.az/articles/1330>>.

<sup>35</sup> World bank. *Implementation, completion and results report*, 2011 [interactive. Review 09.11.2017]. <<http://documents.worldbank.org/curated/en/588501468220796583/pdf/ICR20410P049890Official0Use0Only090.pdf>>.

Although the Social protection fund was established in 1991, the basic information for management of pension system was missing: employment records and employment periods, income levels for workers who used to live in other soviet republics. Furthermore, the situation was worsened by socio-political and economical cataclysms of the early 1990s and large number of internally displaced persons. Starting from the beginning of 2000s, the country's economic positive results set conditions for improvement in the socially oriented policy of the state. The social protection become a development priority of the government and the provisions are made in order to bring extremely low but universal social benefits close to subsistence minimums<sup>36</sup>.

Following the pension legislation from 1993 to 2001, eligibility criteria included a minimum insurance period of 20 years for women and 25 years for men with the retirement age of 62 years for men and 57 years for women. Early retirement was allowed for many reasons, depending on the number of children, specific workplaces, or granted as certain privileges. The pension amount was determined by the type and length of employment as well as the previous earnings: the pension formula provided for 60 percent of the average monthly earnings in the last two (of five best) years plus 2 percent for each year over the minimum employment period (in 2005, the reference period was extended to six years)<sup>37</sup>.

## **2.2. Pension system since 2006**

In 2001, with support of international organisations, the government adopted a three-pillar pension system reform concept, including a reinforcement of basic pay-as-you-go component, an additional mandatory insurance part, and a third voluntary scheme. The second pillar was actually implemented in 2006 with introduction of individual accounts. This reform is intended to render more comprehensive the pensions system through better coordination between labour pensions and social allowances for the same categories of peoples.

In 2006, the new law "On the Labour pensions" adopted and the calculation of pensions changed. The labour pension comprised from the basic part, insurance part (which is determined by the notional capital on the individual person's insurance account; notional account is credited with a notional increase each year equal to the consumer price index) and voluntary part (however, not implemented in practice).

Under the law "On the Labour pensions", the Government approves the basic pension part amount<sup>38</sup>. The basic pension amount corresponds to the minimum standard and progressed during last years in order to reach progressively the subsistence minimum for the persons who are incapable of work. This subsistence minimum for different categories of population is reconsidered every year based on basket of selected commodities and services. However, despite a contraction in the contributory base, the proportion of the population over the legal retirement age receiving a pension remained high: in the mid-2000s, over 9 in 10 potentially eligible older people were receiving a state pension in Azerbaijan.

*Old-age labour pensions.* Since 1 January 2010, the retirement age is 63 for men and 59,5 for women (63 years for women in 2016), with possibilities of early retirement. Persons, not eligible for a labour pension, are entitled to social pensions at the age of 67 for men and 62 for women. The social contribution rate was reduced to 25 percent (22 percent pays employer and 3 percent pays employee;

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<sup>36</sup> Universal pensions in Azerbaijan [interactive. Review 09.11.2017]. <<http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=53948>>.

<sup>37</sup> European Commission. *Social protection and social inclusion in Armenia, Azerbaijan and Georgia: synthesis report*, 2011; National statistics committee of Republic of Azerbaijan, 2017.

<sup>38</sup> In 2016, the basic pension amount is equal to 110 manats.

12.5 percent of the totality of contributions is transferred to the individual notional accounts). The obligatory period getting labour pension was 12 years of employment.

Old-age labour pension comprised from two components: a basic flat-rate component and an insurance component. The insurance component has two parts: a benefit, based on the number of years of employment prior to January 1, 2006, and a benefit based on the value of contributions since January 1, 2006 (the obligatory employment period cannot be less than 12 years). The basic flat-rate benefit is adjusted on an ad hoc basis, according to changes in the consumer price index.

*Early labour pension.* The retirement age for men was 57 years with 25 years of covered employment, including at least 12,6 years of work in unhealthy or arduous working conditions. The retirement age for women was 52 years with 20 years of covered employment, including at least 10 years of work in unhealthy or arduous working conditions.

*Old-age social allowance (social assistance)* benefit is paid for unemployed persons at the age of 67 years (for men) or at the age of 62 years (for women), who are ineligible for the old-age labour pension.

*Disability labour pension.* For getting the disability pension, person shall have at least five years of the employment and four months of the employment for each full year of work since age 15. The pension is paid according to three assessed degrees of the disability.

*Survivor labour pension* can be paid if the deceased person had at least five years of covered employment plus four months of covered employment for each full year of work since age 15 (general rule). Survivor's social assistance benefit can be paid to a dependent survivor, if the deceased person was ineligible for an old age or disability labour pension.

Main challenges for the new pension reform in 2017 was to ensure social protection of population based on the long-term financial sustainability, to realise the social justice principle in the field of the pension appointment and to achieve sustainable balance between revenues and expenses of the pension system.

### **3. New provisions of the labour pensions since 2017**

The aim of the new pension reform was to eliminate non-contributory liabilities in the pension system, to set-up pension rights on the basis of adequate insurance provision, to optimize the financial burden of the system, to restructure the basic part of labour pensions, to introduce the new concept of minimum pension and to fix the pension age into compliance with demographic indicators, to the social insurance budget, to decrease the level of the state subventions 25-year work record introduced without the change of the minimum retirement age.

The main principle of the pension reform was to separate state budget liabilities from the social insurance budget liabilities (at present, allocations from the state budget constitute 37.4 percent on average in the pension coverage system in Azerbaijan<sup>39</sup>). In the contrary to the old pension system, the state budget finances only pensions, granted for the periods prior year of 1992 and pension supplements (contributory liabilities will be financed only from the social insurance fund). It should be noted, that the transition from three-pillar pension system took place to two-pillar pension system since July 2017. Three types of pensions (old age, disability and survivors) not changed; however, the basic component in all three types of pensions were removed and basic component will be financed from the state budget. Persons without obligatory social insurance record and without minimum pension capital

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<sup>39</sup> Center for Economic and Social Development. Pension attainability: evaluation of the latest amendments to the Law on Labor pensions, Baku, 2017 [interactive. Review 09.11.2017]. <[http://cesd.az/new/wp-content/uploads/2017/10/CESD\\_EU\\_UNDP\\_Policy\\_Paper\\_Pension\\_System\\_in\\_Azerbaijan\\_eng.pdf](http://cesd.az/new/wp-content/uploads/2017/10/CESD_EU_UNDP_Policy_Paper_Pension_System_in_Azerbaijan_eng.pdf)>.

can apply for the minimum state social assistance benefit at the age of 67 years (before amendments of 2017, there was no requirement on the minimum pension capital). Such persons could get social insurance pension at the retirement age in case if they voluntarily and additionally contribute to the individual pension account (for the purpose to reach the minimum pension capital) because of the low rate of social insurance contributions for such persons.

### ***3.1. General approaches of the new pension system***

On 1 July 2017, the amendments to the law “On the labour pensions” came into the force. The law has several changes in the composition of the labour pension system.

*Three groups of amendments* can be identified:

- changes of the insurance part of the individual account: person shall acquire the social insurance pension rights only when the pension capital was accumulated;
- changes in the minimum work record: the length of service has been increased from 25 to 35 years (for persons, working in the prosecutor’s office, justice, migration and emergencies agencies) and from 25 to 30 years (for persons, working with prisoners and convicts in penal institutions, detention centres and health care centres for persons deprived of freedom);
- the minimum age limit revised (the minimum retirement age increased up to 60 years for men and up to 55 years for women for persons, worked under the hazardous labour conditions, working with prisoners and convicts in penal institutions, detention centres and health care centres for persons deprived of freedom).

This Law indicates the definitions of *insurance part and funded part* of labour pension. Insurance part of labour pension is the amount calculated as the ratio of the pension capital recorded in the insurance part of personal account to the number of months of expected pension payment period. Funded part of labour pension described as the amount calculated as the ratio of the pension capital recorded in the funded part of personal account to the number of months of expected pension payment period.

*Financing sources of labour pensions.* The amount of the insurance part of labour pensions formed on the basis of a pension capital accumulated by January 1, 1992, as well as supplement shall be financed through the state budget, while all other amounts through the mandatory state social insurance contributions and social insurance reserves. In the event of deficit of funds in one of the mentioned sources, adequate costs shall be financed from another source. Determination and payment of the funded part of labour pension shall be carried out when adequate funds are available in the funded part of personal account of the insured person.

*Pension capital.* The pension capital is accumulated in the persons individual account. According to the legislation, the pension capital is amount recorded in the insurance part of a personal account and accumulated in the funded part of a personal account accordingly. Persons can contribute voluntarily in order to get minimum social insurance pension or to get higher labour pension (there is no limits for the maximum pension).

In the new pension system, 90 percent of paid contributions will be transferred to the notional pension capital in the individual account (previously it was 50 percent) and voluntary payments will be transferred to the special individual personal account (the amount of the insurance part of labor pensions formed on the basis of a pension capital accumulated by January 1, 1992, shall be financed through the state budget). 10 percent of paid contributions will be destined for the administration costs of the social protection fund (2.5 percent) and to reserve fund (7.5 percent). This new rules will be valid also for non-used individual pension capital. The value of the annuity goes from 1.04 percent to 1.88 percent. In addition, pension capital will be divided into 144 months after retirement age without requirement on the work record (previously it was necessary to reach retirement age and to have not

less than 12 years of working record) and basic pension will be cancelled (only minimum pension guarantees will be provided from the state budget). If the calculated pension amount is less than 110 manats, the state provides *minimum pension guarantee* of 110 manats with the requirement of 25-work record. However, in the law “On the Labour pensions” there is no statements on the accumulated pension’s capital property rights.

*Types and structure of a labour pension.* The following types of a labour pension shall be identified: old-age labour pension; disability labour pension and survivor’s labour pension. Old-age labour pension shall consist of the insurance part and funded part. Disability labour pension shall consist of the insurance part and funded part. Survivor’s labour pension shall consist of the insurance part. Only one type of pension shall be granted, at their will, to individuals, who have the right to different pensions.

*The retirement age* until 1 July 2017 was 63 years for men and 60 years for women. As we mentioned above, multiple derogations exist – anticipation of a few years for family expenses: 60 years if 12 years and six months under hard work conditions; 35 years of activities for many civil servants; shorter duration for pilots and military – 15 to 20 years; 47 and 42 for some categories of disabled. In addition, disabled persons have the same type of benefits and therefore the general provisions on retirement age have only a limited impact. The reform that took place on 1 July 2017 provides for a 6-month retirement age increase every year and the retirement age will be 65 for women (in 2027) and for men (in 2021).

*Minimum amount of labour pensions.* The Law on the labour pensions indicates, that the minimum amount of a labour pension shall be fixed at the amount of 110 manats from July 1, 2017 and subsequently indexed as per the growth rate of the average national monthly salary.

*Indexation rules.* The insurance part of labour pension and the pension capital recorded in the insurance part of personal account shall be indexed once a year in accordance with the annual increase of the average monthly national salary by the relevant executive authority based on the decision of appropriate executive body (previously, the indexation was carried out in accordance with the annual level of the consumption price index).

Qualification conditions for *the pension supplements* changed. According to the legislation, second and third disability groups excluded from the list of criteria granting the right for the pension supplement (except for military servicemen’s) and new requirement on minimum length of service for members of Parliament, Election Commission, Accounts Chamber (half of term of office) introduced. In addition, the minimum length of service for judges, prosecutors, civil service members’ and other categories is increased from 5 years to 15 years (for 15 years 50 percent of salary is granted and 3 percent for each extra year of service (maximum 80 percent) is granted).

### **3.2. Old-age labour pensions**

The person, who have reached the retirement age, shall have the right to an old-age labour pension when the pension capital recorded in the insurance part of the personal account allows for the pension provision not less than the minimum amount of a labour pension, regardless of the insurance seniority, or if there is at least 25 years of insurance seniority (except for the persons, to whom an old-age labour pension was assigned by July 1, 2017) when the pension capital doesn’t allow for pension provision.

There are different exceptions for women with multiple children, mothers of children with disabilities, fathers raising their children alone and guardians. Exceptions exists also for other persons entitled to a labour pension on preferential terms: for person, who worked under harmful and heavy working conditions, persons holding positions in the flight and flight-testing crew in civil aviation, employees of prosecution or judicial authorities, migration authorities, employees of the emergency response authorities etc.

The amount of the insurance part of an old-age labour pension shall be determined by the following formula:  $SH = PSK/T$  (where: SH – the insurance part of an old-age labour pension; PSK – the pension capital recorded in the insurance part of a personal account of the insured by the date of assignment of a labour pension (including the pension capital recorded in the insurance part of a personal account of the insured); T – the number of months of expected pension provision period). The amount of insurance part of an old-age labour pension shall be paid by bringing to the level of the minimum amount of a labour pension, in case it is less than the latter. The amount of the funded part of an old-age labour pension shall be determined, in all cases, by the following formula based on the age limit:  $YH = PYK/T$  (where: YH – the funded part of an old-age labour pension; PYK – the pension capital recorded in the funded part of a personal account of the insured by the date of assignment of a labour pension; T – the number of months of expected pension provision period).

### ***3.3. Disability pensions***

A disability labour pension shall be granted in relation to limited ability to work due to mental or physical disabilities caused by illness or injury of the insured. The relevant executive authority in accordance with the legislation shall define disability groups, the reasons and duration of disability and health limitations under the age of 18.

A disability labour pension to the disabled of first group shall be assigned if there is 4-month insurance seniority for each full year of working age, with an overall insurance seniority not less than 5 years. A disability labour pension to the disabled in second and third groups shall be granted in presence of an insurance seniority, if the pension capital recorded in the insurance part of a personal account allows for pension provision not less than the minimum amount of labour pension. Special conditions exist for the military service members', including the war-disabled in the first group of disability, performing active military service (except for military servants deprived of military ranks and other military service members performing active military service).

### ***3.4. Survivors labour pensions***

The following family members (who were dependants of or supported by a deceased head of family as a source of permanent and major resources for their own survival) dependent on the head of family, who passed away or died, shall be entitled to a survivor's labour pension – children of those, who passed away or died (under the age of 18; the disabled above the age of 18, whose health limitations were determined up to the age of 18; those, enrolled in correspondence departments of education institutions, but not exceeding the age of 23; if the father, mother, husband, wife attained the retirement age, or are the disabled of first or second disability group; if one of the parents or husband (wife), or grandfather, grandmother, sister, brother, regardless of the age and working capacity, looks after the children, brothers, sisters, grandchildren under the age of eight of the head of family, who passed away or died, and is not employed).

### ***3.5. Taxation in the social security field***

The law “On the Social insurance” indicates social insurance contributions rates<sup>40</sup>. Social insurance contributions finance pensions, sickness and maternity benefits, temporary disability benefits, the funeral grant, unemployment benefits, and childcare benefits.

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<sup>40</sup> The law on the social insurance No. 250-IQ of 19 February 1997 [interactive. Review 09.11.2017]. <<http://www.azerb.com/az-law-social.html>>.

The law “On the Social insurance” and the law “On the unemployment insurance” specifies the social insurance contributions level for several categories of persons. The employer (elected bodies and enterprises; offices and institutions, their branches and representations etc.) pays 22.5 percent of the calculated work payment and other incomes involved in compulsory social insurance. In addition, employee pays 3.5 percent social insurance contributions of their salary (persons, appointed to a position by the decision of the National Assembly; the officials; persons elected to a paid position; military personnel and persons with a rank; prosecutors, deputies and assistant prosecutors, investigators of prosecutors; persons working under labour contract).

If persons use on their property land suitable for agriculture (with the exception of those who have created a legal person and members of the family farm business) for each family member with the capacity to work (including support enterprises and other enterprises on behalf of the property and land received) the percentage of the minimum monthly national salary<sup>41</sup> is determined at country level by each hectare of land: for the first quality lands – 12 percent; for the second quality lands – 8 percent; for the third quality lands – 4 percent; for the fourth quality lands – 2 percent. In addition, each member of the farmer’s family pays a mandatory contribution of 6 percent of the minimum monthly national salary.

Lawyers, special notaries, independent auditors, independent accountants pays 20 percent of their income. Persons working under author agreements pays 15 percent of the income under author agreement. Persons working under civil contract (with the exception of the self-employed) pays 25 percent from the income. Persons under the labour contract for the home service (housekeepers, nannies, personal secretary etc.) pay 20 percent of their salary.

Citizens of the Republic of Azerbaijan, working abroad under labour contracts or as self-employed pays (if they not pays social insurance contribution in Azerbaijan) pays 80 percent of the minimum monthly national salary.

The basis for the payment of the social insurance contributions for self-employed natural persons, executing activity in the fields of trade and construction is 50 percent of the minimum monthly national salary. The basis for the payment of the social insurance contributions for self-employed persons, executing activities in other fields, is 20 percent of the minimum monthly national salary. The contributions rate depends on the execution of activities: 100 percent in Baku; 90 percent in Gandja and Sumgayit; 80 percent in other important cities of the Republic; 60 percent in the centres of the region, other cities and towns; 50 percent in rural places.

The Tax inspectorate of Azerbaijan can execute the control of payment of the social security contributions from 2015 under the law “On the Suspension of inspections of entrepreneurship activities”<sup>42</sup>. According to the actual legislation, inspections in the area of entrepreneurship have been suspended until 1 January 2021.

The income tax rate deducted from the monthly income of natural persons is 14 percent (for income less than 2500 manats). If the monthly income is more than 2500 manats, the income tax consists of fixed 350 manats plus 25 percent of the total income.

As conclusion, we could note that the level of social insurance contributions is relatively low and there is no health insurance contributions. Following challenges can be identified in the field of the financing of the social insurance: revision of the social insurance coverage for the population, revision of exemptions in the system, introduction mandatory health insurance contributions (revising existing health insurance system), closer relation of income and benefits by social insurance branches.

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<sup>41</sup> The national monthly salary in 2017 is 105 manats.

<sup>42</sup> The Law of the Azerbaijan Republic on the Suspension of inspections of entrepreneurship activities of 31 October 2017 [interactive. Review 11.11.2017]. <<http://cis-legislation.com/document.fwx?rgn=80309>>.

## Recommendations and conclusions

Today's economic-social situation in Azerbaijan shows that, in order to achieve the sustainability and adequacy of the pension system, effective labour market regulation is also necessary. Extension of retirement age, tightening of pension conditions without changes in other branches of the law, causes social tensions, increases the number of elderly people living in poverty, and does not promote the implementation of the principles of solidarity between generations and social justice in the legal system. Future aging of the population (including the growth of the number of elderly people) means that the state social policy must be aimed not only at reducing the social security budget deficit, but also by legal means to encourage older people to remain in the labour market.

Article analysis leads to the following conclusions:

1. The main change in the legislation is the transition from the three-pillar pension system to the two-pillar pension system since July 2017. Three types of pensions (old-age, disability and survivors) not changed, except stricter pensions qualification requirements. In addition, the basic component in all three types of pensions were removed and basic component will be financed from the state budget.
2. The pension system reform of 2017 introduced measures, balancing future burden of pension financing: stronger links between paid contributions and benefits; raising the retirement age; closer relation between the pension capital and pension benefits; introduced state minimum pension guarantees. However, the future pension reform should be implemented ensuring social protection of population based on the long-term financial sustainability and reducing exceptions for special social categories.
3. Due to the relatively low social insurance contributions' level, requirements for the social insurance seniority and minimum pension capital, labour social insurance pension scheme remains unattractive for self-employed persons and landowners. Such persons could get social insurance pension at the retirement age in case if they voluntarily and additionally contribute to the individual pension account (for the purpose to reach the minimum pension capital) because of the low rate of social insurance contributions for such persons. This legislation raises the question on the insufficient rate of the social insurance contributions.
4. Persons without obligatory social insurance record and without minimum pension capital can apply for the minimum state social assistance benefit at the age of 67 years. The retirement age in 1 July 2017 was 63 years for men and 60 years for women; this means that persons can not get any social support until 67 years if they not fulfil minimum social insurance record's and pension capital's requirement.
5. The pension capital is accumulated in the individual pension account and the pension amount depends on the accumulated pension capital. However, in the law "On the Labour pensions" there is no statements on the accumulated pension's capital property rights. Because persons can voluntarily contribute to the individual pension's account, the definition of the property rights to the accumulated pension capital is crucial.
6. Future pension system's reforms in Azerbaijan should be related to the changes in the labour relations (introducing more flexible labour relations, such as part-time employment, more labour forms, labour incentives for young persons and older generation, opportunities for longer career, etc.), revision of the eligibility for the social insurance pensions (decrease the access to early retirement, more targeted granting of the the disability pensions), introduction of the mandatory health social insurance scheme (financed from health insurance contributions), introduction of the incentives for the voluntary pension insurance, implementation in practice funded pension schemes, revision of exceptions for special social groups.

7. Main challenges of the social protection system in Azerbaijan is relatively low share of total GDP for social benefits, relatively low collection of the social insurance contributions, relatively high informal economy and ageing population in the near future.
8. Government should encourage the participation in the additional voluntary pension and occupational pension schemes, assigning a certain part of liability for his own welfare to a person himself. Legal aspects and practice of organization of strategic planning mechanisms of voluntary insurance systems in accordance with the international practice should be analysed and the need to improve the existing legal framework and practice should be evaluated.

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## ŠIUOLAIKINĖ AZERBAIDŽANO PENSIJŲ SISTEMA: REFORMOS IR IŠŠŪKIAI

**Audrius Bitinas**

S a n t r a u k a

Šio straipsnio tikslas – išanalizuoti Azerbaidžano Respublikos valstybinio socialinio draudimo pensijų sistemos teisinį reguliavimą ir naujausias reformas, nulemtas ekonomikos krizės bei demografinių ir socialinių iššūkių, ir pateikti išvadas atsižvelgiant į valstybės socialinių garantijų išsaugojimo kontekstą. Straipsnyje nagrinėjamos pensijų sistemos problemos ir rekomendacijos, skirtos tolesnėms pensijų reformoms Azerbaidžane.

Valstybinis socialinis pensijų draudimas ir kitos socialinio draudimo sistemos reformos Azerbaidžane vykdomos dėl demografinių, ekonominių, politinių ir socialinių reiškinų pokyčių, įgyvendinant pensijos sistemos reformų koncepcijų nuostatas. Šiandien galime identifikuoti tokius iššūkius Azerbaidžano valstybinio socialinio pensijų draudimo sistemai: įtvirtinti didesnę asmeninį pasirinkimą ir atsakomybę, plėsti socialinio draudimo aprėptį, didinti pensijų išmokas, neutralizuoti ekonomikos krizės poveikį, siekti pensijų sistemos adekvatumo ir tvarumo, didinti socialinio draudimo įmokų mokėtojų skaičių, įtvirtinti realų socialinio draudimo fondo biudžeto nepriklausomumą nuo valstybės biudžeto.

Naujausia pensijų sistemos reforma Azerbaidžane įvykdyta siekiant neutralizuoti ekonomikos krizės padarinius, užtikrinti pensijų sistemos adekvatumą ir tvarumą, suteikti pensijų sistemos dalyviams galimybę įgyti didesnes teises į pensijų išmokas. Ateities valstybinio socialinio pensijų draudimo sistemos reformos ir veiksmingas pensijos sistemos valdymas turėtų būti įgyvendinami analizuojant geriausią kitų šalių patirtį (įvertinus konkretų socialinį, ekonominį ir politinį kontekstą Azerbaidžane) ir nustatyti tvarias priemones, užkertant kelią galimiems finansiniams sukrėtimams.

Įgyvendinus pensijų sistemos reformos koncepcines nuostatas, Azerbaidžano valstybinio socialinio pensijų draudimo sistema turėtų garantuoti pakankamas valstybinio socialinio pensijų draudimo garantijas ir užkirsti kelią finansiniam pensijų sistemos disbalansui dėl ateities įmokų mokėtojų skaičiaus mažėjimo. Straipsnyje nagrinėjama Azerbaidžano pensijų sistemos sandara bei socialiniai, ekonominiai, demografiniai ir politiniai iššūkiai (1 skyrius), pensijų sistema iki 2017 metų (2 skyrius), naujausia 2017 m. pensijų sistemos reforma (3 skyrius), taip pat pateikiamos rekomendacijos ir išvados ateities pensijų sistemos reformoms.

*Įteikta 2017 m. gruodžio 18 d.*

*Priimta publikuoti 2018 m. balandžio 30 d.*