



# **Pension Attainability: Evaluation of the Latest Amendments to the Law on Labor Pensions**

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## Summary

The article reviews the new reforms of the pension system, new changes to the 'Law on Labour Pensions of the Republic of Azerbaijan' and its influence on the future of the pension system in the country. The new changes to the law are reviewed in detail, and written in a simple language, which makes it easier for ordinary citizens to understand.

On 10 March 2017, the Parliament of Azerbaijan adopted, in total, 98 changes to 22 articles of the 'Law On Labour Pensions of the Republic of Azerbaijan'. It creates a need for the review and analysis of the new pension system and presents comprehensible explanation. Hence, the article explains not only the newly introduced terms such as 'minimum amount of labour pension', but also structural changes to the legislation and pension system. The article also reviews the controversial points in introduced changes, such not correcting the pension period, the minimum amount of pension and introducing 25-year work-period barriers, despite the change of the minimum pension age. This is one of the negative aspects of the new legislation. The article also exposes the contentious points such as the less dependency of the pension fund from the state budget, however, the new legislation also has no stimulating effect on the accumulation of the pension payments, which at the end will lead to the possible decrease of the income to the pension fund.

At the end, the article proposes recommendations in order to decrease the negative effect of the changes to the pension security of the population and manage the equal distribution of the wealth.

## Introduction

Social protection is considered an important indicator of development level in modern societies. Thus, for modern times the concept of social protection is one of the fundamental human rights along with serving as a mechanism of protection against the most various risks encountered upon by human beings throughout their lives<sup>1</sup>. Developed social protection system should be able to protect the most various social groups of society from any type of risks. It is a fact that during the last century world countries made serious achievements with regard to enhancing inclusiveness of social protection system, assuring sustainable pension system and establishing the financial mechanisms capable of meeting growing social burden. However, financial sustainability of social protection system constantly face risks due to the causes such as continuous growth of population and middle age limit and reduction of the scope of state economy in contrast to improving living standards. Due to this reason, developed countries of the world have been trying to diversify the financial sources of the pension coverage system and apply various encouraging programs for social insurance contributions.

Alongside with all aforementioned global problems, the factors, such as extinction of social protection tools, transition to new economic system following collapse of the USSR in 90s of last century seriously weakened the pension coverage system in Azerbaijan. Although application of social insurance started in Azerbaijan beginning from January 1992, establishment of pension coverage for the people who worked during the preceding period was not possible without funding by state. At present, allocations from state budget constitute 38% on average in the pension coverage system of Azerbaijan. As a result of actuarial valuation the government has concluded that the pension system of Azerbaijan may experience lack of financial resources in future<sup>2</sup>.

Elimination of dependence upon state budget and establishment of a more sustainable pension coverage system requires important reforms. Just having taken these goals as a basis, the National Assembly of the Azerbaijan Republic adopted amendments to the Law of the Azerbaijan Republic on Labor pensions on March 10, 2017<sup>3</sup>. It should be noted that the

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<sup>1</sup> Ibrahim Atilla Acar, İsmail Kitapçı, “Demographic Aspect of Social Protection: Amendments to Turkey’s Pension System”, review date: 22.08.2017, pages: 77-78

[http://dergiler.sgb.gov.tr/calismalar/maliye\\_dergisi/yayinlar/md/154/6.ibrahimattilaacar.ismailkitapci.pdf](http://dergiler.sgb.gov.tr/calismalar/maliye_dergisi/yayinlar/md/154/6.ibrahimattilaacar.ismailkitapci.pdf)

<sup>2</sup> Trend News Agency, “SSPF: The pension system in Azerbaijan may experience lack of financial resources”, 28.09.2017 <https://az.trend.az/business/economy/2437614.html>

<sup>3</sup> Azerbaijan State Information Agency (Azertag), “The National Assembly adopted amendments to the Law on Labor Pensions”, 10.03.2017 <http://azertag.az/xeber/1042166>

amendments to the law were made at a time when the Action Plan in the document “2014-2020 Pension coverage System Reform Concept in the Azerbaijan Republic” approved by the Decree of the President of the Azerbaijan Republic, dated November 4, 2014 was being implemented. Thus, the legislative authority adopted 98 amendments under Article 22 of the Law on Labor Pensions on March 10, 2017.

The main purpose of this research is conduct comprehensive analysis of the amendments to the Law on Labor Pensions, expand the enlightenment activities in this direction and valuate the pension coverage system formed following new regulations.

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<sup>4</sup>Official internet page of the President of the Azerbaijan Republic, “2014-2020 Pension coverage System Reform Concept in the Azerbaijan Republic”, 04.11.2014 <http://president.az/articles/13330>

## Reforms in the pension coverage system

The government made the preliminary views on prospective criteria of new pension coverage mechanisms public with approval of the concept on reforming of the pension system in 2014. Thus, analysis of the concept indicate that the government tries to reduce the social obligations of state by all means. Also, it is attempting to shift the responsibility for prospective pension coverage level upon the citizens by means of increasing the dependence between real pension amount and economic environment. For this purpose, the concept has defined the obligation to conduct the activities in following directions mainly:

1. Reducing dependence of pension coverage upon budget funds (reducing the costs, which are not based on insurance principles, to the minimum level);
2. Increasing the functional dependence between the amount of social insurance premiums and amount of specified pension;
3. Specification of state obligations in funding pension coverage system;
4. Transition to the notion of “minimum pension capital” in parallel to “minimum age limit” and “minimum working life” as the factor establishing pension entitlements;
5. Establishing the opportunities for application of voluntary fee component in insurance;
6. Establishing the opportunities for arrangement of non-state pension funds (institutions);

It should be noted that in the government’s view application of market economy relations in the Azerbaijan Republic, entry of the socio-economic development into a new stage creates more opportunities for arrangement of the social protection of population based on the mechanisms complying with international standards. This necessitates comprehensive development of the insurance-pension system, which will unite economy and social life<sup>5</sup>.

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<sup>5</sup> The Ministry of Labor and Social Protection of Population of the Azerbaijan Republic, Decree of the President of the Azerbaijan Republic on Approval of “2009-2015 State Program on Development of Insurance-Pension System in the Azerbaijan Republic”, review date: 18.08.2017  
[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwj-QJS1r\\_nVAhUBbBoKHaaEBUkQFggnMAA&url=http%3A%2F%2Fwww.ssp.gov.az%2Fupload%2Ffile%2Fqanunvericilik%2Fferman\\_serancam%2Fnumber\\_111.doc&usg=AFQjCNH06nciqQjAD79-bFx2on-XS-z6ng](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwj-QJS1r_nVAhUBbBoKHaaEBUkQFggnMAA&url=http%3A%2F%2Fwww.ssp.gov.az%2Fupload%2Ffile%2Fqanunvericilik%2Fferman_serancam%2Fnumber_111.doc&usg=AFQjCNH06nciqQjAD79-bFx2on-XS-z6ng)

## Main directions of the amendments to the Law on Labor Pensions

### *Changes in the financing mechanisms*

It should be noted that reducing the budget dependence, assuring proportionality between the insurance fee and pension payments (increase of optimality) and augmentation of sustainability by way of improving the mechanisms for financing pension coverage system as stipulated in the pension reform concept have formed the essence of the amendments to the law. Consequently, transition from a 3 staged system to a 2 staged system of labor pensions took place in Azerbaijan effective from the second half of 2017. It should be noted that the discussions in this sphere started a long time ago. However, this issue turned into the subject of a real discussion, picked up speed and concrete changes were made at a time when economic trends were changing (state income was decreasing).

During analysis explanations are provided in some sections under the titles “*before the amendments*” and “*after the amendments*” for the purpose of comparative assessment and easy comprehension of changes in financing.

First of all, we should note that labor pensions are divided into 3 categories in the Azerbaijan Republic based on **old age**, **disability** and **loss of a family head**. All pension categories differ from each other due to its structure. The comparative compositional form of pension types is as follows.

<b>Before the amendments</b>	<b>After the amendments</b>
Old age pension: <ul style="list-style-type: none"><li>- base component</li><li>- insurance component</li><li>- funded component</li></ul>	Old age pension: <ul style="list-style-type: none"><li>- insurance component</li><li>- funded component</li></ul>
Disability pension: <ul style="list-style-type: none"><li>- base component</li><li>- insurance component</li><li>- funded component</li></ul>	Disability pension: <ul style="list-style-type: none"><li>- insurance component</li><li>- funded component</li></ul>
Labor pension for loss of family head: <ul style="list-style-type: none"><li>- base component</li><li>- insurance component</li></ul>	Labor pension for loss of family head: <ul style="list-style-type: none"><li>- insurance component</li></ul>

As one can see, *base component of the work pension* or first stage of the labor pension is removed in the new law<sup>6</sup> (Note: base component of the labor pension was considered the state provision for social protection of pensioners). In its turn, this means that amount of the pension for the citizens entitled to labor pension will not be financed from other sources, state budget being the primary, starting from the effective date of the new law on July 1, 2017. Amount of the pension shall be formed at the expense of a citizen's individual (obligatory component – Obligatory State Social insurance premium (hereinafter referred to as “OSSIF”)) and voluntary (funded component) contributions. The goal is to reduce cost loading of state budget and ensure compliance with various economic fluctuations by way of achieving pension coverage at the expense of individuals.

Thus, amount of pension shall be defined as follows in accordance with the requirements of new pension coverage mechanisms:

- 1) **Old age pension** = Insurance component (IC) of the old age pension + Funded component (FC) of the old age pension

*Where,*

- *IC – is the amount calculated as the proportion of the pension capital recorded in the insurance section of an individual account to the number of months in expected pension payment period (NOTE: Expected pension payment period is 144 months (12 years) subject to the Decree of the President of the Azerbaijan Republic on application of the Law of the Azerbaijan Republic on Labor Pensions, dated March 6, 2016<sup>7</sup>)*
  - *FC – is the amount calculated as the proportion of the pension capital recorded in the funded component of an individual account to the number of months in expected pension payment period;*
- 2) **Disability pension** = insurance component (IC) of the disability pension + funded component (FC) of the disability pension
    - *IC – insurance component of disability pension is the index derived by dividing the number of expected pension payment periods of the pension capital accrued in the insurance component of an individual account till that day to sum of the insurance continuity factor. In its turn, insurance continuity factor shall be*

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<sup>6</sup>E-Law, Law of the Azerbaijan Republic on Labor Pensions, **Article 4**, review date: 17.08.2017 <http://www.E-Law.az/framework/11566>

<sup>7</sup>E-Law, Decree of the President of the Azerbaijan Republic on Application of the Law of the Azerbaijan Republic on Labor Pensions, paragraph 2.11, 06.03.2006 <http://www.E-Law.az/framework/11617>



*defined as the proportion of the number of insurance service months required for disability pension to 192.*

- *FC - is the amount calculated as the proportion of the pension capital recorded in the funded component of an individual account to the number of months in expected pension payment period;*

3) ***Labor pension for loss of family head*** = Insurance component (IC) of the old age pension

Consequently, following new modifications the dependence between the amount of citizen's pension and his labor activity and insurance payments will be 100%.

Another change was made with respect to proportion of the obligatory state social insurance premium (OSSIF) accrued in individual account. Thus, subject to new procedures 90% of OSSIF paid by the insured persona is accrued in the insurance component of an individual account [See: *Law of the Azerbaijan Republic on Labor Pensions, Article 1.0.8*]. This index was 50% until July 1, 2017<sup>8</sup>. The other 50% portion of social insurance payment was spent on maintenance of the SSPF, payment of allowances and other directions.

Although the base component of labor pension has been liquidated, state budget shall further participate in funding of the system. Thus, in accordance with the amendments to the legislation, state budget shall be the main source of funding with respect to composition of following category of pensions. These include the following:

1. *Part of the insurance component of labor pension formed on the basis of the pension capital earned by January 1, 1992;*
2. *Supplements to the insurance component of labor pension (these supplements are made for the purpose of reinforcing the insurance component of the vulnerable persons, persons with physical disabilities and persons with special status (as family members of national heroes and martyrs));*
3. *Supplements to labor pension based on the length of service;*
4. *Funding the base component of the pensions of the citizens whose pension assignments were made before July 01, 2017.*

Thus, funding from state budget shall be conducted under special circumstances – provision of supplements to the insurance component of the amount of pension and labor pension for the length of service [See: *Law of the Azerbaijan Republic on Labor Pensions, Article 6, Article 19, Article 20*]. Consequently, the costs associated with funding the pension coverage system

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<sup>8</sup>E-Law, Decree of the President of the Azerbaijan Republic on Application of the Law of the Azerbaijan Republic on Labor Pensions, paragraph 2.9, 06.03.2006 <http://www.E-Law.az/framework/11617>

from state budget will be reduced significantly starting from 2018. Nevertheless, wide dissemination of illegal activity in labor market remains as a primary risk for pension coverage system.

**NOTE:** State Social Protection Fund (SSPF) is the central executive body carrying out management in the fields of obligatory state social insurance and labor pensions in Azerbaijan since 1992<sup>9</sup>. This body was established based on the Pension Fund of the Azerbaijan Republic and Social Insurance Fund of the Azerbaijan Republic (SSPF) by the Decree No. 233 of the President of the Azerbaijan Republic, dated September 30, 1992<sup>10</sup>. SSPF was included into the structure of the Ministry of Labor and Social Protection of Population of the Azerbaijan Republic by the Decree of the President of the Azerbaijan Republic, dated March 18, 2016<sup>11</sup>.

It would be expedient to take note of SSPF's financial indexes for the last years for more comprehensive description of the importance of allocations from state budget in funding the pension coverage system [See: Table 1].

**Table 1: SSPF's incomes, thousand manats**

Years	2014	2015	2016	2017(forecast)
Total income	2896849,02	2914655,46	3178053.65	3400000,0
Transfers from state budget	1142033,60	1100000,0	1246000,0	1270000,0
Special weight of transfers from state budget in SSPF's general income	39.4%	37.8%	39.2%	37.4%
Fund's own income	1754815.42	1814655.5	1932053.65	2130000,0
Including:				
- incomes from obligatory state social insurance premiums	1743743.42	1805133.75	1920994.79	2125000.0
Special weight of the income from obligatory state social insurance premiums in the SSPF's general income	60.2%	61.9%	60.5%	62.5%

**Source: Clearing House of the Azerbaijan Republic, 2017**

<sup>9</sup> State Social Protection Fund within the Ministry of Labor and Social Protection of Population of the Azerbaijan Republic, "Regulations on State Social Protection Fund of the Azerbaijan Republic, review date: 17.08.2017 <http://ssp.gov.az/view.php?lang=az&menu=17&id=327>

<sup>10</sup> E-Law, "Decree of the President of the Azerbaijan Republic on establishment of State Social Protection Fund of the Azerbaijan Republic", review date: 17.08.2017 <http://www.E-Law.az/framework/7782>

<sup>11</sup> "Decree of the President of the Azerbaijan Republic on the measures to improve management in the area of the social protection of population", review date: 17.08.2017 <http://www.mlsp.gov.az/az/pages/4/25/information/219>

As one can see, volume of transfers from state budget is sufficiently high in the incomes of the SSPF, which is considered one of the factors increasing the risks for pension coverage system while social income keep decreasing. In the best case the income from obligatory state social insurance premiums can recover 62% of the SSPF's costs.

At the same time, important difficulties persist in payment of the costs associated with labor pension at the expense of the obligatory state social insurance premiums. Thus, analysis show that in the best case, only 64% of these costs can be recovered, if there is no state support [See: *Table 2*].

**Table 2: Costs of paying labor pensions with the incomes from obligatory state social premiums, in a comparative form, thousand manats**

Years	2014	2015	2016
Costs of paying labor pensions	2736911.55	2797654.13	3042842.26
Including:			
- costs on the base component of labor pensions	1523955.63	1535380.76	1709496.81
- costs on insurance component of labor pensions	1212955.92	1262273.37	1333345.45
Incomes from obligatory state social insurance premiums	1743743.42	1805133.75	1920994.79
Special weight of OSSIF in costs of labor pensions <sup>12</sup>	63.7%	64.5%	63.1%

**Source: Clearing House of the Azerbaijan Republic<sup>13</sup>, 2017**

It becomes clear from 2014-2016 statistic analysis that 55.6% of costs of labor pensions on average are formed at the expense of its base component. Liquidation of this component in the new legislation will bring about reduction of the average amount of pension for subsequent years. Because, as noted above, conditions in the labor market are not favorable for formulation of a strong pension coverage. A great majority of population is still engaged in unofficial labor activities. It is sufficient to conduct a small analysis in order to evaluate the existing condition in this field.

Thus, according to official statistics number of employees people in Azerbaijan is 4 million 759 thousand as of end 2016 (SCSAR, 2017). Among these 1 million 514 thousand persons are engaged in waged labor in state and private sector of economy<sup>14</sup>. In other words, 32.4% of population in total is employed on the basis of an official labor contract, i.e., are covered by obligatory state social insurance. 685.4 persons have been registered as private entrepreneurs.

<sup>12</sup>Note: This index can be used to measure the financial sustainability of pension coverage system

<sup>13</sup>Clearing House of the Azerbaijan Republic, "Opinion on Execution of 2016 State Budget", 17.08.2017, p: 46 [http://sai.gov.az/upload/files/ICRA-2016-SON\\_FINAL.pdf](http://sai.gov.az/upload/files/ICRA-2016-SON_FINAL.pdf)

<sup>14</sup>State Committee of Statistics of the Azerbaijan Republic, "Azerbaijan in Figures 2017", review date: 17.08.2017, p: 31, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/](http://www.stat.gov.az/menu/6/statistical_yearbooks/)

The third group consists of the landowners, whose OSSIF contributions are sufficiently small in amount to be of a serious importance in future for pension coverage (*an extensive analysis will be carried out in following sections about the landowner's pension coverage*). We would also, like to note that at present application of voluntary social insurance is not developed, i.e., it would not be right to talk about the social insurance contributions by the persons, who are not officially engaged in a wage labor or entrepreneurship activity. Thus, it becomes clear that in the best case, 2 million 199.4 thousand persons among the citizens considered officially employed today (*if the persons registered by state as an individual entrepreneur are engaged in active activities*) or 46.2% are obligatory social insurance payers. In other words, in the best case, one of two persons considered officially employed contributes to pension fund. Another problem is that amount of the wages of those employed in wage labor in non-state sector is formalized several times less than usual. Interested parties in this matter are the employees as in such a way the employers can reduce the amount of allocations for obligatory social insurance. Growing supply in labor market against continuous decrease of demand during recent years has negatively affected the employees' environment to defend their rights, i.e., in majority of cases employee is obliged to accept the conditions dictated by the employer. In line with these shortcomings, as a result of control measures taken by Clearing House it has become clear that there is a problem with keeping record of obligatory social insurance payments of business entities actually engaged in activities and wage/salaries fund calculated for employees. So, there have been differences between the indexes recorded by tax authorities and SSPF indexes<sup>15</sup>. In its turn, it means that communication between two state authorities is not built based on clear mechanisms or serious shortcomings exist in administration.

Another problem of the pension coverage system is the deficiencies observed during pension assignment. So, in some cases citizens are observed using pension entitlement with no right thereto. The reason for this is inability to completely eliminate negative factors, such as bribery in the organization in charge of activities in this field. Consequently, thousands of citizens go on a pension on the basis of fake documents without the right thereto, i.e., without being compliant with any of the categories. Similar problems are observed during assignment of allowances, which ultimately, increases dependence upon state fund by increasing the SSPF's costs.

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<sup>15</sup> Clearing House of the Azerbaijan Republic, "Opinion on Execution of 2016 State Budget", 17.08.2017, p: 41 [http://sai.gov.az/upload/files/ICRA-2016-SON\\_FINAL.pdf](http://sai.gov.az/upload/files/ICRA-2016-SON_FINAL.pdf)

<sup>16</sup> Clearing House of the Azerbaijan Republic, "Opinion on Execution of 2016 State Budget", 17.08.2017, p: 47, 52, [http://sai.gov.az/upload/files/ICRA-2016-SON\\_FINAL.pdf](http://sai.gov.az/upload/files/ICRA-2016-SON_FINAL.pdf)

It should be noted that such facts have found their reflection even in the opinions of Clearing House<sup>16</sup>.

As one can see, government should, above all, try to legalize labor market by various means (promotion, application of strict sanctions, etc.) in order to strengthen social security service system and reduce financial dependence of the system (assure conformity between the income and costs). In this way, it is possible to increase the SSPF's incomes several times. Secondly, amount of the costs should be adjusted by way of assuring transparency of pension coverage mechanisms.

### *Amendments to the age and length of service requirements for acquisition of entitlement to pension coverage*

First of all, it should be noted that apart from being the main subject matter of public discussions, amendments to the age limit for acquisition of entitlement to pension coverage by the decision of the National Assembly, dated March 10, 2017 is one of the important causes of concern. Thus, conduct of a more extensive and comparative analysis in this direction may be important from evaluation of amendments point of view.

As mentioned above, amendments to the law on labor pension have reflected the issues, such as adjustment of costs and conformity to income most against new economic conjuncture. The goal is to increase the number of citizen making insurance contributions against one holder of pension by way of reducing the number of persons, who have acquired the entitlement to pension coverage for subsequent years, shortening the average pension coverage period and at the same time, increasing the number of OSSIF payers.

The last amendments with respect to the pension age limit have mainly covered the following two directions:

- I. right to acquire old age pension coverage;*
- II. right to acquire labor pension coverage on concessionary terms;*

We should note that the amendments to the terms and conditions for acquisition of pension entitlement in both directions have been of aggravating nature.

Minimum age limit for **old age pension** shall be increased by June 1, 2027 for women and June 1, 2017 for men under the stipulation that it is increased 6 months each year [*See: Table 3*]. So, men will acquire the old age pension entitlement upon completion of the age of 65 at the end of next 4 years and women will acquire the old age pension entitlement upon completion of the age of 65 at the end of next 10 years.

**Table 3: Dynamics of change in the minimum age limit for labor pension for subsequent years**

<i>Years</i>	<i>Men</i>	<i>Women</i>
01.07.2017-01.07.2018	63.5	60.5
01.07.2018-01.07.2019	64	61
01.07.2019-01.07.2020	64.5	61.5
01.07.2020-01.07.2021	65	62
01.07.2021-01.07.2022	65	62.5
01.07.2022-01.07.2023	65	63
01.07.2023-01.07.2024	65	63.5
01.07.2024-01.07.2025	65	64
01.07.2025-01.07.2026	65	64.5
01.07.2026-01.07.2027	65	65

**Source: Prepared by the author in accordance with the requirements of legislation, 2017**

We should note that prior to amendments this age index was 60 for women and 63 for men [See: *Law of the Azerbaijan Republic on Labor Pensions, Chapter II, Article 7*]. At the same time, the age criteria for entitlement to old age pension for women and men in Azerbaijan shall become equal for the first time in 2027. Government explains these changes by lengthening of average life period. However, comparative analyses show that new rules will reduce the expected pension payment period to a significant degree.

Statistic analyses of world countries reveal that at present, application of minimum age limit of 65 for old age pension is spread throughout the countries of the Northern and Southern America (Canada, Mexico, Brazil, Argentine, Chile, Peru, Ecuador, Bolivia) and European countries (Spain, Albania, Finland, Australia, Slovakia, Italy, Greece) most. Nevertheless, the age limit of 65 is applied in Nigeria, Congo and Chad among African countries, Japan, Taiwan and Hong-Kong among Asian countries and in Georgia<sup>17</sup>. Among the relevant indexes worldwide 70 is the highest age limit applied in Lesotho located in South Africa<sup>18</sup>. Women and men being equal, the age limit of 67 is stipulated in the countries, such as USA, France, Germany, Norway, Poland, Israel and England.

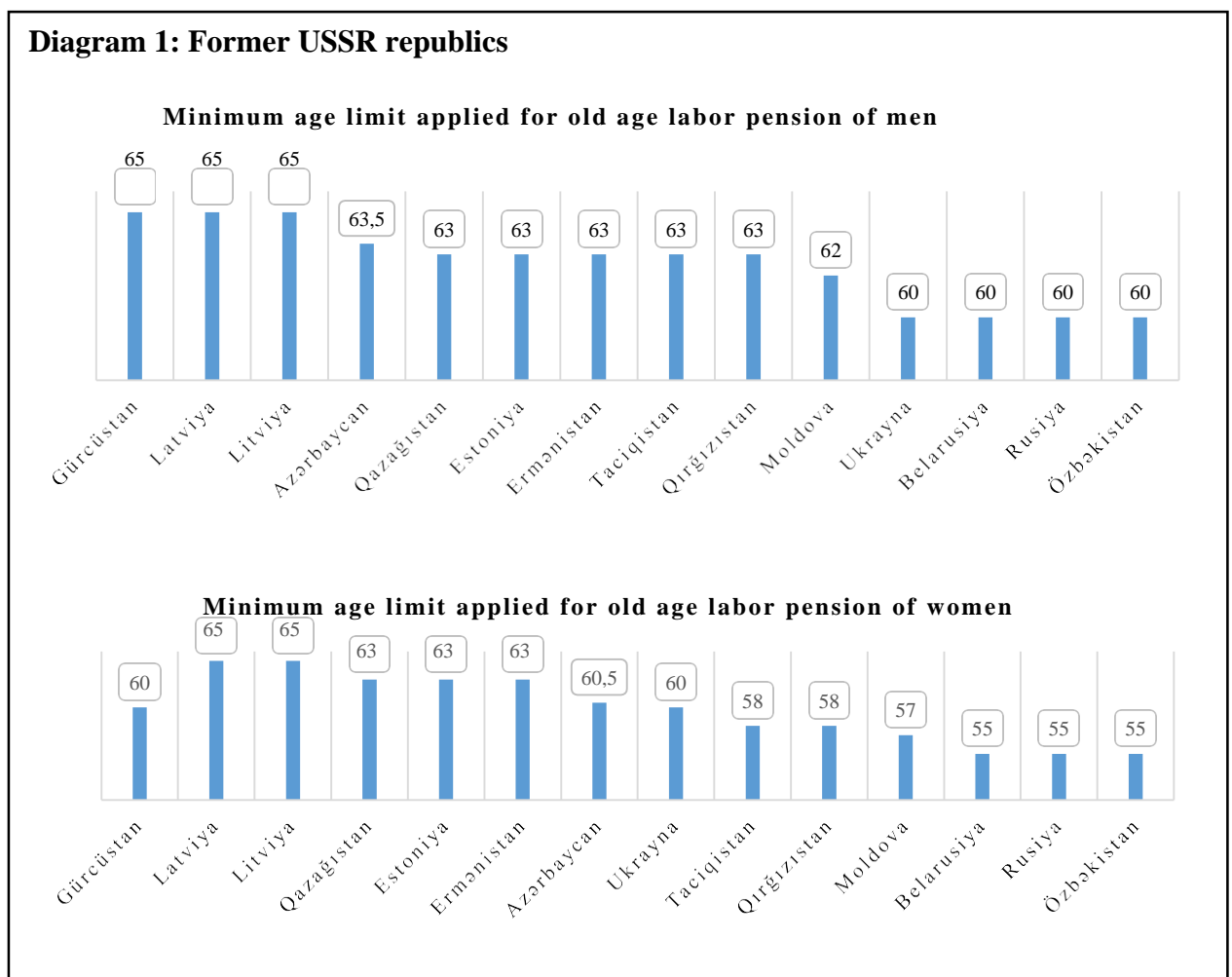
On the other hand, it should be noted that the number of countries, where the gender inequality with regard to minimum age limit applied for old age pension is increasing. At present, the relevant index for men and women in majority of Central African countries alongside with the US,

<sup>17</sup> Note: During comparison the minimum age limit applied for men has been taken as a basis.

<sup>18</sup> World Bank, review date: 17.08.2017 <http://wbl.worldbank.org/data/exploretopics/getting-a-job>

Canada, Mexico, Peru, Bolivia, Paraguay, Norway, England, France, Germany, Spain, Portugal, Sweden, Finland, Japan, India, Indonesia, the Philippines is the same for the representatives of both sexes<sup>19</sup>. In general, the number of countries, where gender difference is not applied nowadays, is over 130 [World Bank, 2017].

At present, the highest minimum age limit for labor pension applied in former soviet countries is in Georgia, Latvia and Lithuania (age 65). Further ranks are shared between Azerbaijan with the age of 63.5, Kazakhstan, Kirgizstan, Tajikistan, Armenia and Estonia with the age of 63. Relevant age limit in the countries, such as Russia, the Ukraine and Belorussia is 60<sup>20</sup>. In addition, gender difference with regard to age limit has been eliminated in 6 countries included in this group (Latvia, Lithuania, the Ukraine, Kazakhstan, Armenia, Estonia) [See: *Diagram 1*].



Source: World Bank, 2017

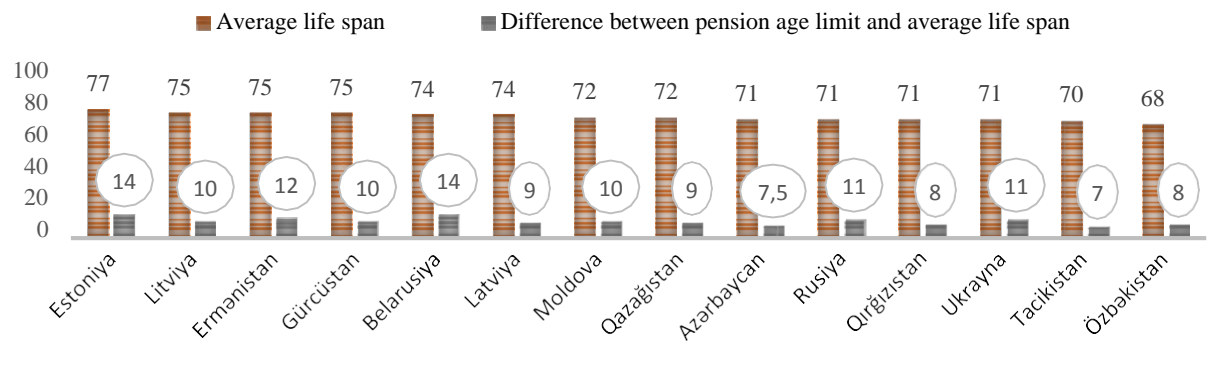
As seen from the figures, the minimum age limit required for old age labor pension in Azerbaijan is defined above the average level for the USSR countries.

<sup>19</sup> ChartsBin, “Difference Between Retirement Age: Men and Women”, review date: 17.08.2017 <http://chartsbin.com/view/2466>

<sup>20</sup> World Bank, review date: 17.08.2017 <http://wbl.worldbank.org/data/exploretopics/getting-a-job>

However, average life span is considered an important criterion for a more accurate comparison with regard to this indicator. Thus, growth of average life span is considered one of the primary factors while determining minimum pension age limit.

**Diagram 2: Difference between expected average life span at birth and minimum pension age limit**



**Source: Calculated by the author based on World Bank data, 2017**

Thus, during the comparative analysis it becomes clear that the period for obtainment of old age pension is the longest in Estonia and Belorussia among the former soviet countries. The relevant index is 14 years in both countries. Following ranks are shared among Armenia with 12 years, Russia and the Ukraine with 11 years. In Azerbaijan this index equals 7.5<sup>21</sup> years<sup>22</sup>. Reaching the age limit to 65 in following years shall further reduce the relevant index turning it into the factor bringing about weakening of the population's social security services. Also, short period of old age pension entitlement shall cause difficulties in conducting efficient policy of charges, as it does not stimulate the OSSIF's charges.

For comparison purposes, we should note that average old age pension entitlement period is 14 years in Germany, 17 years in Japan, 15 years in England, 18 years in Sweden and Switzerland, 15 years in Norway and 16 years in France [World Bank, 2017].

During the analysis, it becomes clear that there are serious shortcomings in the current mechanisms of the population's pension coverage with respect to the procedure of calculating the *expected pension payment period* (it shows the period one will receive pension on average and is considered the primary criterion used to determine the amount of pension). The average life span of population at birth is reflected in the following table:

<sup>21</sup> Note: If calculation is conducted based on local statistics, this index for Azerbaijan is still 11.5 years.

<sup>22</sup> Note: According to the SCSAR, 75.2 years of expected average life span at birth has remained unchanged during 2015-2016. However, according to World Bank's calculations, this index is 71 years ([http://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=AZ&name\\_desc=false](http://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=AZ&name_desc=false)). As the comparative data for all countries have been taken from World Bank, relevant indicators for Azerbaijan have been developed on the basis of the data provided by this organization.



**Table 4: Expected life span at birth (ages)**

Years	Cities and rural areas			Years	Cities and rural areas		
	Total	Including:			Total	Including:	
		men	women			men	women
<b>1970-1971</b>	70,9	66,8	74,3	<b>1994</b>	69,6	65,2	73,9
<b>1971-1972</b>	70,0	66,0	73,0	<b>1995</b>	69,1	65,2	72,9
<b>1972-1973</b>	69,7	66,1	72,6	<b>1996</b>	70,2	66,3	73,8
<b>1973-1974</b>	70,4	66,3	73,7	<b>1997</b>	71,2	67,4	74,6
<b>1974-1975</b>	69,6	65,3	72,6	<b>1998</b>	71,6	67,9	75,0
<b>1975-1976</b>	69,2	65,2	72,8	<b>1999</b>	71,6	68,1	75,1
<b>1976-1977</b>	69,7	65,7	73,4	<b>2000</b>	71,8	68,6	75,1
<b>1977-1978</b>	69,8	65,5	73,4	<b>2001</b>	71,9	68,6	75,2
<b>1978-1979</b>	68,7	64,4	72,2	<b>2002</b>	72,2	69,4	75,0
<b>1979-1980</b>	68,1	64,2	71,8	<b>2003</b>	72,3	69,5	75,1
<b>1980-1981</b>	68,6	64,5	72,2	<b>2004</b>	72,4	69,6	75,2
<b>1981-1982</b>	69,1	65,0	72,7	<b>2005</b>	72,4	69,6	75,1
<b>1982-1983</b>	69,5	65,5	73,1	<b>2006</b>	72,4	69,6	75,1
<b>1983-1984</b>	69,5	65,4	73,1	<b>2007</b>	73,0	70,1	75,8
<b>1984-1985</b>	69,5	65,3	73,1	<b>2008</b>	73,4	70,8	76,1
<b>1985-1986</b>	69,9	65,7	73,4	<b>2009</b>	73,5	70,9	76,1
<b>1986-1987</b>	70,2	66,0	73,7	<b>2010</b>	73,6	70,9	76,2
<b>1988</b>	69,9	65,7	73,5	<b>2011</b>	73,8	71,2	76,5
<b>1989</b>	70,6	66,6	74,2	<b>2012</b>	73,9	71,3	76,6
<b>1990</b>	71,1	67,0	74,8	<b>2013</b>	74,2	71,6	76,8
<b>1991</b>	70,5	66,3	74,5	<b>2014</b>	74,2	71,6	76,8
<b>1992</b>	69,7	65,4	73,9	<b>2015</b>	75,2	72,7	77,6
<b>1993</b>	69,5	65,2	73,9	<b>2016</b>	75,2	72,8	77,6

**Source: State Committee of Statistics of the Azerbaijan Republic, 2017**

As one can see, average life span or mean lifetime for those born before 1997 are forecasted at the age of 71 approximately. If we take into consideration that those acquiring pension entitlement in 2017 in accordance with applicable legislation are the men born in 1954 and the women born in 1957, we can see that the citizens of the country acquiring pension entitlement in Azerbaijan during next 43 years approximately will live 71 years on average meaning actual expected pension payment period shall be less than 144 months (12 years) determined by government. The pension shall for men and women shall be equalized and become 65 in 2027. Thus, expected pension payment period for the country shall become 72 months of 6 years in which case division of the pension capital to 144 months while defining the amount of pension means abuse of the citizens' rights. So, if the

period of expected pension payment is adapted to expected average life, citizen should receive 2 times more pension in comparison with the existing pension during next 40 years approximately.

**Example 1:** The citizen born in 1970 shall acquire the old age pension entitlement in 2035. If the minimum amount of pension is not changed, in that case minimum pension capital required from the citizen under present regulations is 15,840 manats. Monthly amount of pension specified for the citizen performing the obligation with minimum pension capital shall be 110 manats. However, average life span for the citizen born in 1970 is 6 years. Thus, such citizen shall receive pension in the amount of 7,920 manats during next 6 years, i.e., such citizen shall receive a pension in the amount of 7,920 manats, although OSSIF shall amount to 15,840 manats.

As is seen from the example, new rules to determine the old age pension may further weaken social insurance charges instead of stimulating them.

It should also, be noted that according to official statistics (SCSAR), as of the beginning of 2017, 10.2 percent of the country's population is attributed to over 60 age group of which 3.9 percent is 60-64 age group. Statistical analysis shows that 0.6 percent reduction has taken place in the special weight of the population over 70, although during the period following 2019, special weight of the 60-64 age population group has increased 1.6 percent (2.3%, 2010, SCSAR) and special weight of 65-69 age group has increased 1 percent (1.5%, 2010, SCSAR). This suggests that 65 age limit planned for old age labor pension shall accelerate serious decrease in the number of general pensioners. Thus, pension coverage mechanism shall demonstrate dynamics falling behind in terms of quantity.

**NOTE:** According to official statistics, population of the country has been 9 million 810 thousand<sup>23</sup> among whom number of pensioners has been 1 million 316 thousand<sup>24</sup> as of January 01, 2017. In other words, at present 13.4% of population are able to benefit from the labor pension entitlement. Thus, amendments to the Law of the Azerbaijan Republic on Labor

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<sup>23</sup> SCSAR, "Macroeconomic indexes of the economic and social development of country in January 2017", review date: 19.08.2017 <http://www.stat.gov.az/news/macroeconomy.php?page=7>

<sup>24</sup> Ministry of Labor and Social Protection of Population of the Azerbaijan Republic, "Report on activities of the Ministry of Labor and Social Protection of Population of the Azerbaijan Republic in 2016", review date: 16.08.2017, p: 11, <http://www.mlspp.gov.az/Senedler-2017/Hsabat-%C6%8F%C6%8FSMN-2016.pdf>

Pensions will have negative impact upon the other part of the population, who should utilize the pension entitlement in future, i.e., prospective social coverage of 86.6% of population approximately.

Raising the labor pension age limit to 63 for women within current terms and conditions, so that social protection policy of state is not shaken, would be more expedient. Under the circumstance, the fact that average life of women is relatively higher in relation to men will have relatively weak impact upon general indexes besides rationalizing the adopted decision. When taking into consideration the the inverse proportion between the age limit and employment, we can say that increasing the pension age may deepen the problems of low income and vulnerable group of population most. Especially, work capacity of the persons engaged in hard labor, including construction and agriculture weakens after a certain age period, which causes unemployment by reducing the demand to their labor. Increasing the minimum pension age limit shall have a negative impact upon prospective social welfare of the people included in the noted social group, as the difference between weakening work capacity and pension age limit deepen more.

Amendments to **the mechanisms of preferential labor pension** can be evaluated as the more appropriate step in comparison with the amendments associated with age limit. Thus, the criteria applied under the circumstance may improve prospective pension coverage period giving rise to longer employment of citizens during the work capacity period and thus, being able to make more social insurance payment. This will also, have a positive impact upon assurance of optimality between the number of social insurance payers and pensioners.

Amendments to the mechanisms of preferential labor pension have been made in following three directions mainly:

- I. *minimum age limit;*
- II. *length of service for required minimum labor activity period;*
- III. *requirement with regard to the volume of insurance component of an individual account (for the first time);*

Thus, minimum age limit for preferential old age pension entitlement due to labor conditions of the insured persons<sup>25</sup> engaged in underground activities and employed in special spheres of art and the areas, where labor conditions are especially hazardous and hard was increased for 3 years becoming 55 for women and 60 for men effective from June 1, 2017. However, under the circumstance the primary criterion is associated with the volume of the insurance component. Thus,

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<sup>25</sup> Note: List of the activity fields included in this category (production operations, professions, positions and indexes) shall be approved by relevant executive authority [See: Law of the Azerbaijan Republic on Labor Pensions, paragraph 9.1]

any person reaching the age and other criterion acquires the pension entitlement only when the pension capital accumulated in the insurance component of his individual account enables to determine the pension, which is not less than the minimum amount of the labor pension. Otherwise, this amount shall be increased in the form of a lump sum payment or assignment shall be moved to subsequent years. Also, subject to the amendments minimum pension capital requirement has been applied to those included in the civil aviation flight and landing crew.

Based on the amendments, the length of service required for preferential old age pension entitlement for those employed by procurator's office, justice, migration and emergency agencies has been increased from 25 up to 35 years. Thus, the citizens included in the specified group will be engaged in additional labor activities for 10 years and pay more OSSIF. In the end, this shall strengthen the financial coverage of the system by increasing the number of OSSIF payers per one pensioner. Also, this will enable to receive labor pension in a higher amount; however, pension period shall be reduced.

Civil servants working with prisoners and convicts in penal institutions, detention centers and health care centers specified for the persons deprived of freedom will earn the old age pension entitlement 5 years later (male civil servants at the age of 60 and women civil servants at the age of 55) in comparison with the previous groups. At the same time, the length of service required for this group has been determined as 25 for women and 30 years for men by increasing it for 5 years.

As we mentioned above, apart from being expedient, amendments to the terms and conditions of acquisition of preferential labor pension entitlement will increase the volume of insurance charges planning a positive role in assuring optimality between the income and costs of pension system.

### *Updates in definition of the minimum limit for labor pension*

One of the important elements applied in new pension system definition of ***“the minimum amount of labor pension”***. Minimum amount of labor pension shall hereinafter play the role of one of the criteria of the pension coverage system. Thus, the amount defined to the tune of 110 manats as of 01.07.2017 shall be indexed as per the growth rate of average monthly nominal wage throughout the country in later years [See: *Law of the Azerbaijan Republic on Labor Pensions, paragraph 29.1*]. We should note that prior to amendments indexation was carried out in accord with the annual level of consumption price index.

Minimum amount of labor pension shall apply to determination of minimum limit during definition of pension first. If the amount accumulated in the individual insurance account of the person with an entitlement to old age labor pension is less than the minimum pension amount, in that case right to pension shall not be recognized. Furthermore, if the proportion of the insurance amount accumulated in individual account to number of expected months of pension is not compatible with the minimum amount of the labor pension applicable then, when labor pension is defined on the basis of length of service or labor pension is defined for disability, deficient component shall be compensated. Also, in some cases volume of pension capital for the persons acquiring the entitlement to preferential old age labor pension will not be possible unless minimum pension requirement is met. It should be noted that this approach has brought about minimum pension capital indicator in its turn. Thus, it is possible to define the amount of minimum pension capital for that time by multiplying the minimum amount of labor pension by expected pension payment period. Minimum pension capital shall be calculated in the following form.

**General formula:**

$$MPC = MALP * T$$

- MPK - minimum pension capital required at the time of application
- T - expected pension payment period (at present existing index is 144 months)
- MALP – minimum amount of the labor pension applicable during the year of application

**Example 2:** Volume of the minimum pension capital as of the pension entitlement origination date for the women reaching the age of 60.5 and men reaching the age of 63.5 during second half of 2017:

$$MPC = MALP * T = 144 * 110 = 15840 \text{ manats}$$

- 144 – expected pension payment period

- 110 – minimum amount of the labor pension applied effective from 01.07.2017

It should be noted that minimum amount of labor pension shall be increased each year via indexing. Therefore, the amount specified in the aforementioned example shall be effective during 2017 only.

As one can see, within current terms and conditions a citizen may acquire pension, when amount of the minimum pension capital is over 15,840 manats as of the date on which entitlement to old age pension originates in 2017. Otherwise, a 25-year length of service shall be required as of the date on which right to pension originates. Such citizen will not be able to go on pension, if both are not

present. We should note that there was no requirement on minimum pension capital prior to amendments. Also, required minimum length of service was 12 years. If we take into consideration that illegal labor relations have developed extensively during last 25 years, this situation sufficiently restricts the opportunities for 25-year length of service as well as requirement on payment of minimum pension capital. Thus, during subsequent years a certain portion of population may not have an opportunity to make use the pension entitlement.

**NOTE:** According to official statistics, at present average monthly wage for the country is 522 manats at present<sup>26</sup>. According to applicable legislation, at present OSSIF has been specified in the amount of 25% of salary (provided 22% is paid by the employer and 3% is paid by the employee)<sup>27</sup>. Thus, approximately 130.5 manats are paid in care of average statistical employee 90% of which makes 117.75 manats, i.e., individual insurance account of average statistical employee increases 117.45 manats per month. This means 135 months or 11.2 years of legal labor activity with a provision that 522 manats per month is received.

### *Assessment of the status of landowners with respect to pension coverage*

The amendments made to law may further weaken the social protection of the region's population. Thus, 36.3% of employed population of the country is engaged in the agricultural sector. In other words, today the number of persons engaged in agricultural sector is over 1 million 730 thousand persons. The great majority of these people fall to the share of regions. 46.3 thousand persons in total (SCSAR, 2017) or 2.7% of the population engaged in agricultural sector are waged employees and 178,400 persons or 10.3% are individual entrepreneurs<sup>28</sup>, i.e., probably OSSIF shall be paid at their expense. Pension coverage of over 1 million 500 thousand employed villagers should most probably be calculated as per the arable agricultural land plots owned by these villagers.

The mechanism applied under the circumstance is as follows:

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<sup>26</sup> SCSAR, "Macroeconomic indexes of the economic and social development of country in January-July 2017", 15.08.2017

<http://www.stat.gov.az/news/macroeconomy.php?page=1>

<sup>27</sup> SSPF, "How should the persons engaged in entrepreneurship activity pay the obligatory state social insurance premiums?", review date: 22.08.2017

<http://www.sspf.gov.az/view.php?lang=az&menu=376>

<sup>28</sup> The Ministry of Economy of the Azerbaijan Republic, "Entrepreneurship of Azerbaijan in figures", review date: 22.07.2017, p: 4,

[http://www.economy.gov.az/images/pdf/sid\\_2016.pdf](http://www.economy.gov.az/images/pdf/sid_2016.pdf)

The arable agricultural lands of the country have been divided into 4 categories. Different degrees are applied for each category. The second indicator referred to then is the minimum salary level throughout the country. Thus, an amount of a villager's OSSIF shall be calculated in accordance with the percentage indication of minimum wage specified below:

- *1<sup>st</sup> quality group of lands -12 percent,*
- *2<sup>nd</sup> quality group of lands - 8 percent,*
- *3<sup>rd</sup> quality group of lands - 4 percent,*
- *4<sup>th</sup> quality group of lands - 2 percent.*

**Example 1:** Minimum monthly salary in 2017 was specified in the amount of 116 manats<sup>29</sup>. Thus, each person engaged in agricultural sector shall pay OSSIF in the amount of 13.92 manats (for the 1<sup>st</sup> quality group of lands), 9.28 manats (for the 2<sup>nd</sup> quality group of lands), 4.64 manats (for the 3<sup>rd</sup> quality group of lands) and 2.32 manats (for the 4<sup>th</sup> quality group of lands) appropriately in 2017.

During collection of minimum pension capital these indexes will be as follows:

- *1<sup>st</sup> quality group of lands - 94.8 years*
- *2<sup>nd</sup> quality group of lands - 142.2 years,*
- *3<sup>rd</sup> quality group of lands - 284.5 years,*
- *4<sup>th</sup> quality group of lands - 569 years.*

As is seen from example 1, it is not possible for a villager to accumulate minimum pension capital with the amount of monthly OSSIF payment specified above. This means that the only way for a villager is to go on pension with a 25-year length of service in which case the amount of his/her pension will be equal to the amount of his minimum pension. If a citizen has not a 25-year length of service, i.e., he/she has not been engaged in a labor activity at his/her own land plot, in that case he/she will not be able to benefit from the pension entitlement.

Thus, we can note that the latest amendments to the Law on Labor Pensions will significantly shake the villagers' social protection.

<sup>29</sup> Prezident.az, "Decree of the President of the Azerbaijan Republic on increase of the minimum monthly wage", 21.01.2017

<http://president.az/articles/22518>

## Conclusion

The following conclusions were made while evaluating the amendments to the Law of the Azerbaijan Republic on Labor Pensions, dated March 10, 2017.

- Application of a new pension coverage mechanism will weaken the dependence of the SSPF's budget upon state fund to a significant degree. Especially, liquidation of the base component the amount of pension shall reduce the volume of state budget transfers significantly during next 6 years.
- The conformity between social insurance charges and pension payments shall increase, an opportunity shall arise to bring the SSPF's costs in conformity with its incomes which may increase financial sustainability of the pension coverage system.
- Application of minimum pension capital shall reduce accessibility of labor pensions. Thus, applied criteria shall become the primary obstacle for accumulation of minimum pension capital required within current terms and conditions. Accumulation of the minimum pension capital of over 1 million 500 thousand landowners assuring their employment based on their own arable land plots will not be possible.
- The demand to increase the contribution record required for assurance of the labor pension entitlement from 12 to 25 years shall significantly reduce the accessibility of labor pensions, since extensiveness of the scope of illegal labor market restricts the opportunity for citizens of the country to collect insurance contribution record.
- Application of new mechanisms shall give rise to establishment of an insurance group incapable of using the pension entitlement in subsequent years. Thus, part of population not capable to collect minimum pension capital or 25-year insurance record will not be able to use the right to labor pension. This shall especially, become a characteristic condition in the regions.
- Determination of *the expected pension payment period* as (stable) 144 months weakens the principle of justice with respect to the pension coverage system. Real evaluations suggest that the actually expected pension payment period is approximately twice shorter or 72 months. However, upon definition of monthly pension amount a citizen's pension capital is divided into 144 months instead of 72, which serves as the factor severely reducing the monthly pension amount.
- Application of new pension coverage procedures shall reduce the level of participation in social contribution – reduction of real pension period, definition of terms and conditions for use of pension entitlement and application of minimum pension capital criteria will



reduce the public interest to social insurance payments by weakening accessibility of pension.

- Amendments in pension coverage mechanism will result in weakening of the social protection of population in the years to come.
- The inverse proportion between the age limit and employment has not been taken into consideration while developing new procedures. The work capacity of the persons engaged in hard work, especially, construction and agricultural areas weakens after a certain age period resulting in unemployment by reducing the demand in their labor in the labor market. Increasing minimum age limit for pension shall result in weakening of the social coverage by increasing the unemployment and pension free period of the persons included in the aforementioned social group.

### **General opinion**

The Law of the Azerbaijan Republic on Labor Pensions, which became effective on July 1, 2017, shall weaken the social protection of population significantly apart from improving the financial sustainability of pension coverage system and the social welfare indexes of population will deteriorate in the years to come and a part of population shall be not be able to benefit from the pension entitlement.

## Recommendations

- 1) *Assuring optimality between the specified pension payment period and average age limit* – for this purpose the primary criterion shall be taken as the age limit required for old age pension. Expected pension payment period shall be defined as follows:

*For men*

**01.07.2017-01.07.2018 –  $7.5*12= 90$  months**

**01.07.2018-01.07.2019 -  $7*12 = 84$  months**

**01.07.2019-01.07.2020 -  $6.5*12= 78$  months**

**01.07.2020-01.07.2021 -  $6*12 = 72$  months**

*For women*

**01.07.2017-01.07.2018 –  $7.5*12= 126$  months**

**01.07.2018-01.07.2019 -  $7*12 = 120$  months**

**01.07.2019-01.07.2020 -  $6.5*12= 114$  months**

**01.07.2020-01.07.2021 -  $6*12 = 108$  months**

**01.07.2021-01.07.2022 –  $7.5*12= 102$  months**

**01.07.2022-01.07.2023 -  $7*12 = 96$  months**

**01.07.2023-01.07.2024 -  $6.5*12= 90$  months**

**01.07.2024-01.07.2025 -  $6*12 = 84$  months**

**01.07.2025-01.07.2026 –  $7.5*12= 78$  months**

**01.07.2026-01.07.2027 -  $7*12 = 72$  months**

[NOTE: During calculation total average age limit, not the average age limit for men and women separately has been taken as a basis. However, application of different age criterion for old age labor pensions at present has caused difference with respect to the indexes]

We think that application of differential “*expected pension payment period*” may increase the public trust in pension coverage system and stimulate the social insurance payment.

- 2) *Assuring difference in calculation of minimum pension capital* – under the circumstance the expected pension payment period specified in *the 1<sup>st</sup> recommendation* should be applied and thus, the criteria for minimum pension capital should be specified both for women and men for different years.

*Example:*

**Amount of minimum pension capital for the period of 01.07.2017-01.07.2018:**

**Men – 9900 manats**  
**Women – 13860 manats**

The relevant index shall be defined as different amounts, since it dependent upon the modifications in the expected pension payment period and minimum amount of labor pensions each year. We think that a citizen should be confident that he/she will be able to benefit from the amount accumulated in the pension capital to the maximum degree when the right to pension is acquired for establishment of a pension coverage system with sustainable social insurance. Only in this circumstance will the population become interested in the social insurance system.

- 3) *Required 25-year insurance record should reduced down to 12 years, required insurance record shall be reached to 25 years in 2029 provided it is increased 1 year in each subsequent year* – increasing the insurance record in stages shall provide the citizen with time to adapt to the new requirements of labor pension system. In its turn, this shall strengthen the mechanism for the impact of employee upon employer in the labor market and shall stimulate insurance payment and provide favorable conditions for arrangement of a more robust pension coverage in future.
- 4) *Reducing OSSIF percentage* – the terms and conditions for payment of present applicable OSSIF (entrepreneur pays 22% and employee pays 3% of salary subject to the Law of the Azerbaijan Republic on Social Insurance) forms a serious financial load on entrepreneur, which is considered one of the primary obstacles for legalization of the labor market. It would be best to apply 10% (entrepreneur) + 4% (employee) mechanism during payment of OSSIF in non-state sector. In parallel, the amount of sanctions applied to illegal activities of business entities may be increased 5 times.

Legalization of labor relations during subsequent periods in spite of some reduction in the SSPF's income during the first years shall increase the country's total payroll fund several times, which may assist the fund in compensating the losses. The problems with funding may be eliminated at the expense of the transfers from the state budget and loans and grants received from international financial institutions.

It should be noted that reducing OSIF load upon business environment shall give rise to proper coverage for the country citizens during pension period apart from playing an important role in legalization of labor relations.

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