

“We should double and expand it”: How shall we proceed about the operations of the Insurance Foundation for Servicemen in the new realities?



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They defend our right to life, and the price they pay is their life and health. We have a responsibility to build up the homeland they have imagined and defended. The least we can do is to ensure a decent standard of living for them and their families. We have a responsibility and we are certainly ready to take on this responsibility.

Since 1 January 2017 the Insurance Foundation for Servicemen provides monetary compensation to servicemen with disability of 1st or 2nd category acquired as a result of suffering an injury, and to the family members of servicemen deceased or declared missing. In case of a deceased serviceman or a serviceman with a disability of the 1st category the compensation comprises AMD 10 million as an upfront lump sum payment and monthly disbursements of about AMD 200,000-300,000 throughout 20 years. For servicemen with a disability of the 2nd category the compensation comprises half of the sum mentioned above. As of October 2020 compensation was provided to 416 servicemen or their families. The total amount of the compensation provided is AMD 2.5 billion, and the Foundation has a commitment to pay monthly disbursements for the next 20 years.

The initial model underlying establishment of the Insurance Foundation for Servicemen relies on the actuarial assessments in the aftermath of the April War. Obviously, the previous actuarial model aimed at overcoming the consequences of the April War cannot be applicable to the current one, Thus, there is a need for urgent changes in the so-called ‘1000 dram’ concept in order for us as a nation and society to be able to continue applying the approaches we have adopted.

There are options

The war that broke out in September has changed and will continue changing our lives. First and foremost it has left a pronounced impact on the public mentality. The first issue we need to address is finding ways to support the heroes with disabilities and the families of the deceased heroes in these new realities. The current actuarial assessments show that in order for the Foundation to fully meet its commitments, it will need additional funds worth of ten billions and a larger pool of current inputs. Therefore, solutions are needed to both issues. Different options to address those are possible: for instance, increase AMD 1000 to AMD 2000 or 3000; introduce progressive taxing leverages and additional responsibilities for the employers; encourage the increase of monthly donations; seek new mechanisms for engaging the resources of the Diaspora on a more regular basis; expand the pool of mandatory payers of the stamp duty in Armenia and so on. The more fundamental and long-term solution is certainly to transform the Foundation into a life insurance institution. This implies a constitutional amendment, conditioned specifically by the fact that except the tax liabilities, it will be necessary to introduce and define other kinds of responsibilities.

1000 * X

We need to remember that the concept of ‘1000 drams’ was initially selected because first, it facilitated the relevant administration, and second, it emphasized the principle of equal participation of all. If we adhere to this approach, it is perhaps best to increase the current AMD 1000 to 2000 or



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3000. However, this option does not seem sufficient and sustainable. The approach needs to be more comprehensive. The initial actuarial assessments show that increasing the stamp duty rate from AMD 1000 to 2000 will not be enough to generate sufficient funds. It would be more realistic to address the present challenge if the rate is about AMD 3000-3200. Doubling the current rate of AMD 1000 will suffice only if other instruments and approaches are introduced as well, which need to be interlinked and will require a joint application in order to ensure a comprehensive solution.

600 000 * Y

It is obvious that in a long term, we need to expand the pool of the mandatory payers of the stamp duty. Currently, about 600,000 employees pay AMD 1000 to the Foundation. The principle should be 'a small amount, many people' and the stamp duty should be perceived as a duty not a tax. The pool of the payers can include those employed in the informal sector, for instance, those engaged in the agricultural activities and taxi drivers. Even pensioners can be included in the pool of mandatory payers. This will certainly entail issues regarding the expansion of the system and tax administration. However, at the core of this approach should be the above-mentioned principle: it is the nation that defends the country, not only the taxpayers. Indeed, expanding the pool of stamp duty payers and including the informal sector, will significantly complicate the administration of the duty collection. Still, specific measures can be introduced to address these challenges. For instance, the payments of those engaged in agricultural activities can be deducted from their land tax.

Z

Indeed, nothing can replace the mechanism of mandatory payments. However, this should be complemented with ardent fundraising efforts. A targeted campaign to work with employers may be effective. For instance, they can double or triple the monthly payments of their employees. Perhaps it will be necessary to develop and convey new messages, for instance, "To win the war and overcome its consequences will require mobilisation of the resources of all 10 millions of Armenians". Significant work is needed with Diaspora communities in order for this message to transform into a lifestyle. To this end, for instance, a stamp duty of 50 cents might be added to the exported Armenian products, or other similar mechanisms can be elaborated.

1000 * X + 600 000 * Y + Z

Let's summarise the above-mentioned with the following highlights:

- It is essential for the Insurance Foundation for Servicemen to have the principle of life insurance as its fundamental and guiding principle.
- In a short term it is crucial to increase the stamp duty rate to at least AMD 2000.
- It is important to enlarge the pool of target groups that make mandatory stamp duty payments, and to gradually reduce the administrative burden that will inevitably accrue.
- It is necessary to increase the fundraising effort.

The policy brief is elaborated based on the results of the online off-the-record discussion "The Necessity of Changing the Stamp Duty Rate to Ensure Compensation for Harm Caused to Life or Health of the Military during the Defence of the Republic of Armenia", held on 25.10.2020. The online discussion brought together members of the National Assembly, state officials, independent experts and representatives of the international development partners. The opinions expressed in this policy brief are ICHD's and do not reflect the views of the UNDP.