

The Necessity of Assiduity in the Current of Phase of Enacting the New Pension System



International
Center for
Human
Development

a Think Tank

The Most Expensive Commodity: Trust

The business world has long appreciated the value of trust: people are ready to pay more for a known brand as it represents the trust shaped throughout years. Today intelligent companies sell trust: they know well that once their customer feels cheated, they will lose them, and most probably not only them. An error in weighing a product in a shop or market means the customer will not want to go back there again. Interruptions to water or energy supply at home? We immediately call the hot line to find out what the matter is and when to expect a restored supply.

Trust is even more important in the public sector. We usually talk of the state-citizen relations, talk of the trust towards the state and of the faith and hope in the future. The discourse of a politician or a state official should be accurate in order for people to be able to make a decision, to clearly express their agreements and disagreements. The law should be trusted as well. People should be confident that if a decision has been made, it should be consistently enforced. However, today there is no trust not only towards what a state official says, but also towards the law and even the Constitution. People are all equal before the law. Are they? The Republic of Armenia is a welfare state. Is it? You build trust drop by drop, and it is accumulated and reserved as the most significant capital of a state. However, even a slight blow of an axe may shatter it into pieces, and trust exists no more. Especially today when the political situation has drastically changed, trust should be built anew, drop by drop.

The Good Fortune of Strong Institutions

During the Velvet Revolution various calls to the public were made. For instance, some were urging people not to pay tuition fees, others utility bills, yet the third not to pay taxes and loan interests. People's response was interesting: "Whatever you do, pay your interest, because otherwise there will be more penalties, people will be blacklisted and will face more problems in the future." And this response was not induced by the fear of banks, because back then many were ready to stake everything personal: we could not really blame people for the lack of audacity in April.

The reason was rather different: the financial and banking sector in Armenia has been well-established for quite some time. It is a sector where the law rules; where there are functional standards; and where the Central Bank supervises everything. There is ACRA, a credit bureau determining people's credit worthiness; and there are contracts with private banks. Finally, people are aware that by not paying interests, they harm others that have savings, and eventually, their actions may damage the whole system, thus irrevocably jeopardising the economic future of the country. It was because of this awareness that neither the leaders of the revolution, nor the reasonable citizens heeded to the calls mentioned above, and refused to cut the branch, aka the reliable system, on which we all sit.

How about Taxes?

Is there a similar awareness and trust towards the paid taxes and what becomes of those? Does the one who avoids paying tax realise how the public budget operates, and are they certain that the taxes they pay will be used effectively towards the common good of Armenia and for the RA citizens? How about enforcement of law? The answer is that people believe that the taxes they pay are wasted money, which they will never get back. It becomes a public resource and therefore, they do not make the same claims as they would for the money they paid at a store.

Dream of a Good Pension System

We cannot claim the same about the funded pension system. This reform does not make people pay for the state, but instead saves for these people's secure old age. This is exactly why trust towards the pension system is paramount. People have been compelled to pay from their salaries, and they want to see the money they have saved; they want to see the share contributed by the government; people want to see the interests paid. People have questions, which need to be heard and answered promptly.



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Initially trust towards the reformed pension system was almost non-existent. People were aware of the negative consequences of similar reforms in Russia. They have lost savings after the collapse of the Soviet Union. People have not faith in and hope for the future. Trust towards the pension system equals trust towards the future of Armenia, and we cannot afford to lose it. On the contrary, we need to restore it drop by drop. As people did not believe in not paying interests, similarly they should not imagine that it would be possible not to fund their pensions: this should be the benchmark of trust.

Issues of the Present

While planning to introduce the new pension system, it was intended that people should be able to see their savings. However, implementation of the plan reveals shortcomings. How is it implemented? First, it happens in an environment characterised with a serious deficit of communication. One joins the system without being duly notified about it. Moreover, as revealed recently, there are even cases when people born before 1 June, 1974 have joined the system, have paid their shares, but in their respective reports the share of the government is reported as zero. This means that the technical aspect of the implementation does not comply with the legal requirements. This is the gap between the talk and the walk, aka the law and its enforcement; a gap that exacerbates the lack of trust.

If we consider this a technical issue, the next phase of restoring trust should be communication. People expect an answer, an explanation, but what do they get instead? A call to hotline of the Ministry of Labour and Social Affairs which redirects them to the relevant official, who in their turn informs them that this is an issue to be addressed to the tax authorities. The next call is to the hotline of the taxing authorities, which is followed by a new phone number to contact a more relevant official who redirects you to the depository. Meanwhile, you also learn that if the issue is still not resolved, you should readdress it to the Ministry of Finance. This is the well-known bureaucratic loop, a process which might be procedural and not-corrupt, a process which is might be handled by customer-friendly officers, yet it is one which makes people lose trust towards the system.

Moreover, today we face a serious inconsistency regarding dates: there is discrepancy between the dates when a payroll deduction is made, and those when these sums are recorded, at least according to the reports. There are even cases when the discrepancy comprises months. If this can be explained, there should be proper communication about it: people need to be explained about this inconsistency. There is another issue as well. When the pension fund manager acquires assets, its price calculated according to the profit curve, automatically drops: funded pension is not a classical deposit and by accepting the short-term damage, it ensures that one has a long-term income. This is a simple question, and there are many such simple questions people ask. They are concerned and they are waiting for answers which need to be provided.

Solutions Are Many

Certainly, the major issue is to facilitate the bureaucratic procedure. The key mission of a public servant is to provide a quality service to the citizens, rather than blindly following procedures. However, this is a long-term process. At the moment it is necessary to regularly record and collect all the concerns people have about the new pension system and to consistently address these concerns. Any question regarding the system should be addressed professionally through hotlines, and if necessary, at this phase a dedicated hotline should be launched. Instead of sending people to a post office to check their pension accounts and get the necessary information, it might be possible to open their personal accounts and explain anything that is not clear, and if there is any error, explain when it will be addressed.

We deal with people's money, with their hope for the future and we should be rather careful about answering all their questions and addressing all their concerns. People should start receiving their pension funds at least 20 years from now, and it is crucial to go through this time together, meanwhile learning how to trust each other.

It is essential that at least several institutions cooperate towards this end: Ministry of Labour and Social Affairs; Ministry of Finance; the Central Bank; Depository and bank managers. All the involved institutions need to understand that they provide services to thousands of citizens, and the quality of the services needs to be improved. Communication should be more trustworthy, questions should be answered promptly, and reports should be more detailed and easily explicable. Let's not forget the golden rule of the business world: the customer is always right!

This paper has been elaborated based on the opinions passed by the participants of the round table "Current issues of introducing mandatory pension system", which took place on 23 October, 2018. The round table was attended by independent analysts, experts, beneficiaries of the pension system. It was organized within the project "Improving Communication Strategy of the Monetary and Financial Sector".