FRAMEWORK FOR INTRODUCING A SECOND-PILLAR PENSION SYSTEM IN AZERBAIJAN

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ABSTRACT

This paper presents a possible framework for implementing the second-pillar pension system as called for by the Law "On Labor Pensions" of the Republic of Azerbaijan. The proposed option consists of a defined contribution plan, in which both employee and employer contribute on a regular basis, with partial support of government. Simulating the effects for representative workers shows that, even in the most pessimistic scenario, participants in the second-pillar system who reach pension age can maintain a viable standard of living at retirement. This result is even more pronounced for workers in the lowest income group, because of the redistributive effect of the proposed reforms.

Keywords: *Pension law; second pillar; income inequality, Azerbaijan.*