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PROS AND CONS OF PENSION REFORM- GEORGIAN CASE

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Abstract. The paper studies pension reform in Georgia which has been going on since the 1990s, evolving over time and taking a modern look. The axiom is that the pension system in our country needed to be upgraded. The discussion on the current issue has been going on for a long time and the topic does not lose its relevance today. The establishment of a liberal economic environment can be considered as the basis for the accumulation of «accumulated pensions» in our country. Like all recent reforms, there are supporters and opponents of the reform, but unfortunately, for a number of reasons, the public expresses distrust and views the reform as a step backward. It is clear that pensioners' reliance on the basic state pension is a heavy burden for the country's budget.

KEYWORDS: PENSION REFORM, MONEY ACCUMULATION, STATE BUDGET.

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INTRODUCTION

The pension system is one of the important contributors to the economic and social development of the country. Pension reform in Georgia has been going on since the 1990s, with time it developed and has taken a modern shape. It is the axiom that the pension system in our country required modernization. The discussion on the current issue has been going on for a long time and even today the topic does not lose its relevance. The establishment of a liberal economic environment can be considered as the basis for the introduction of the «accumulative pensions system» in our country. As with all novelties, the current reform also has its supporters and opponents, but unfortunately, for a number of reasons, the public expresses distrust to it and thinks the reform needs certain improvements. It is obvious that the dependence of pensioners on the basic state pension is a heavy burden for the country's budget.

According to the 2011 data on state budget, expenditures exceed GEL 7 459 billion, of which about 987 million are

spent on pensions, i.e. 13.23% of the budget expenditures. (See Table 1)

The current 13.23% (Table 3.1) is quite high, though it is still not enough to satisfy the needs of the pensioners, given the large number of pensioners. According to the Geostat data on the number of age pensioners in 2011, 2012, 2013

Table 1. State Budget

Year	2011	2012	2013
Total Expenditures (million lari)	7 459	7 806	8 748
Pensions (million lari)	987	1 068	1 146
Share in the total budget expenditures (%)	13,23%	13,68%	13,1%

Source: own elaboration

Table 2. The number of pensioners

Year	2011	2012	2013
Number of Age Pensioners	662 288	666 367	682 886
Share of age pensioner in total population	14.9%	14.9%	15.1%

Source: own elaboration

and their share in the total population were distributed as follows. (See Table 2)

An increase in the number of pensioners and an increase in the amount of money spent on pensions from year to year led to the obligation to introduce some novelty. Today a pensioner receives only the basic pension, and the length of his/her service is not taken into account, with the exception of data for 2012, according to which only 350 people received labour pensions. The reason that the accumulative pension system is not working today may be the events and processes taking place in the country. Both the amount of remuneration and the number of employees working under the official contracts are small. In addition, a considerable part of the country's population is self-employed or unemployed, and another considerable part continues to work abroad.

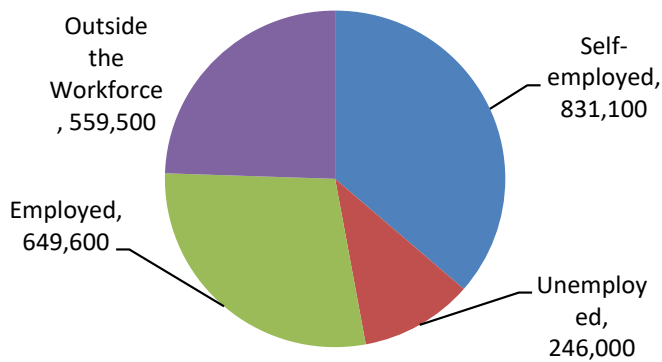


Figure 1. Working-age Population (self made approach)

It is important to raise public awareness and take a number of measures that will make it more attractive to participate in the pension scheme; for example, the introduction of tax benefits, as was the case in the Czech Republic. The current model is quite interesting but in my

Table 3. Revenues from International Travels (Thousand USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	659,245	954,908	1,410,902	1,719,700	1,787,140	1,868,479	2,110,709	2,704,340	3,222,074
I.qtr.	100,686	163,990	235,930	302,818	315,461	305,180	342,590	425,673	550,730
II.qtr.	136,565	222,250	330,827	426,525	429,690	409,470	497,441	629,854	809,969
III.qtr.	231,913	326,569	487,721	604,202	649,775	742,849	813,161	1,078,274	1,210,561
IV.qtr.	190,081	242,101	356,423	386,156	392,215	410,979	457,517	570,538	650,814

Source: The National Bank of Georgia

opinion it needs certain improvements, given that in our country prices are volatile, I think the current accumulated pension savings will not be enough to guarantee secured old age of people after retirement. Another additional problem is the constant pressure on public finances which is an additional burden on the state budget.

Introduction of the reform and turning it into reality is an important step forward, although the distrust on the part of the society is so great that people to whom the law gives the right to choose after reaching a certain age are massively leaving the compulsory pension scheme. The reform, if it continues to be renewed, can be seen as a break in the clouds for the next generation.

Challenges of the Accumulative Pension System in Georgia. The new pension system introduced in Georgia and reflected in Georgia's Social-economic Development Strategy - Georgia 2020, should respond to current global economic processes.

When discussing the challenges, it is important to discuss the given issue in the context of economy.

Nowadays, the economic development in our country is on the decline. Tourism is one of the mechanisms to reduce poverty and it is gradually evolving. Revenues from international travels show increase from 2010 to 2018 and look as follows (See Table 3)

In order to succeed in reform, it is important that people have high-paying jobs to make it possible to invest large sums in their individual portfolios. All these are directly linked to the pension to be received in the future, and this is one of the challenges of combating the poverty. The role of the social pension and its impact are important in this regard (See Table 4). The World Bank statistical analysis for 2010 shows that a pension of GEL 100 reduced poverty by 15% across the country.

The public interest in the reform of the pension system is high, and before the reform was introduced and implemented, there were ongoing discussions on various

Table 4.

	A pension of GEL 100	Without a pension of GEL 100
Total poverty rate	22,9	38,1
Urban	17,7	29,5
Rural	28,2	46,9

Source: The World Bank Evaluation

Table 5. Pension Systems of Georgia, Germany and the Czech Republic

No		Georgia	Germany	The Czech Republic
1	Precondition for awarding the pension	Application on a claim for a pension shall be submitted to any territorial unit of the LEPL Social Service Agency	-	-
2	Documents required for the award of a pension	List requirements here		<ul style="list-style-type: none"> • Applicant's passport and his/her spouse's identification code if he / she is already receiving a pension; • Document of education (certificate, credential, diploma); • Contract on Labour Relations; • Birth certificates of children; • Employer Confirmation in accordance with Law No. 582/1991; • An Extract from the Registry of Private Employers (if the person is a private entrepreneur); • Confirmation from the Labor Exchange (if the person received unemployment allowance) if necessary; • Completed Application;
3	The grounds for the origination of entitlement to a pension	<ul style="list-style-type: none"> • Retirement age – men are entitled to a pension from the attainment of the age of 65; women are entitled to a pension from the age of 60; • Identification of the disability status; • Death of a breadwinner of a family. 	<ul style="list-style-type: none"> • Pensioners - persons reaching retirement age; • Disabled persons - Persons who have lost their ability to work in whole or in part; • Close ones of a deceased person - relatives or children of the deceased; • Seriously ill and disabled people - rehabilitation costs 	<ul style="list-style-type: none"> • For old age; • For early retirement; • For disability; • For widows / widowers and orphans;
4	Amount of a Pension in Monetary terms	GEL 200	Monthly Pension = Pension Points (Entgeltpunkte) X Payment / In Advance Payment (Zugangsfaktor) X pension value per item (Aktueller Retenwert) X Interest factor (Rentenfaktor)	Pension = Basic Part + Labour Part + Insurance Part
5	The Source of Funding for a Pension	The State Budget of Georgia is the source of funding for pensions	<ul style="list-style-type: none"> • 75,07 % - Pension Contributions; • 0,12 % - Various Incomes; • 0,02 % - Property Taxes; • 0,27 % - Various Accruals from the Budget; • 24,51 % - Contributions Accrued from the Budget; 	<ul style="list-style-type: none"> • Basic (minimum) part; • Pension Insurance (depends on the salary); • Accumulative (Savings in Pension Funds);
6	Retirement Age	Attainment of the retirement age of 65;	From 67 to 68 years old	65 for men 62-65 for women

Source: own elaboration

television channels or at private meetings. But there is still a problem of raising public awareness in this regard. Despite the active participation of NGOs, there is still no full awareness. And the goal of the reform is to better protect pensioners and ensure high retirement income for future generations, which will be directly related to the income received by them during their work years and the transfers made to the fund.

Comparative analysis of the pension systems of Georgia, Germany and the Czech Republic. When it comes to pension systems, it is important to understand that each country should have in place its own pension system that would adequately respond to the problems it faces. The current pension system in our country can be considered as a modified system. The table below shows what the Georgian pension system has in common and how it differs from the pension systems of leading European countries (See Table 5). At this stage, we observe more differences than similarities; these differences are conditioned by the different sizes of the countries, their development paths, population, levels of economic development, etc.

CONCLUSIONS

In the baseline scenario in order to create a successful pension system and reform in Georgia, it is necessary to take into account the features that are particular to the country, both in terms of economy and demography. The political environment, the participation of international financial institutions and taking into account their opinions, conducting quantitative and qualitative research and constant interaction

with the public are important for the successful reform. In our opinion, since the Georgian state and its citizens want to join a large European family, this reform is a step forward. As of July 30, 2019, the State Pension Fund had 896 526 unique members, including 686 374 from the private sector and 210 152 from the public sector. As of today, a total of 161 353 unique members have left the Pension Fund, including 119 269 from the private sector and 42 084 from the public sector.

In Georgia, from the 90s to the present day, a pensioner receives only a basic pension and does not have a working period;

There is high public interest in reforming the pension system. However, due to the volatile prices in the country, they are pessimistic about the accumulated pension system;

Until 2018, the population was not informed about the essence and significance of the accumulated pension;

In our view, as the Georgian state and its citizens want to join Europe's large family, pension reform is one step forward.

An analysis of the Czech and German pension systems shows that the system has undergone considerable evolution. In this respect, Georgia is at the initial stage of ongoing reform;

As of today, the reform has not yielded the results that already exist in the countries under discussion, so new ways are needed.

There is a high public interest in the reform of the pension system. However, because of the volatile prices in the country, they are pessimistic about the accumulated pension system.

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