

About the Project

In 2019, Konrad Adenauer Stiftung (KAS) together with the Economic Policy Research Center (EPRC) launched a joint initiative and establishes an economic discussion platform – Eagle Eye Talks - **KAS EPRC Economic Arena**. The platform is a long-term initiative the aim of which is to hold discussions on ongoing social and economic issues and foster research based policy dialogues. KAS EPRC Economic Arena shall enable policymakers and stakeholders to present argument grounded positions on the ongoing economic policy issues.

As part of the platform, analytical documents will be produced for the policymakers and wider society to better comprehend the impact of the initiated and in some cases already implemented policy decisions. The opportunity to view the current stance on various issues from diverse perspectives, analyze the experience of European and other emerging country experiences, will support the policymakers to present well-grounded positions.

On May 10th, 2019 the first discussion was held dedicated to the pension reform – ***Pension Reform: Mandatory or Voluntary?*** The discussion was moderated by Nino Evgenidze, Executive Director of EPRC. Panelists of the first discussion were: Levan Surguladze – Head of the Pension Agency; Zurab Tchiaberashvili – Member of Parliament of Georgia; Vato Lejava – Rector of Free and Agricultural Universities; Archil Mestvirishvili – Vice President, National Bank of Georgia.

The abstract below presents a summary of the policy document written on the ongoing pension reform in Georgia.

Abstract – Pension Reform in Georgia: Mandatory or Voluntary?

With the expected demographic and economic developments, reforming Georgia's existing Basic (solidarity based) pension system became the prerequisite for avoiding the potential implications in the State's social policies. Even with belief, that the changes were inevitable, choosing the appropriate pension system sparked the considerable dispute among the Georgian citizens, and politicians. Georgian government chose to implement the Private pension system. However, this decision has been highly scrutinized by the opposition and civil society.

The basic pension system was based on the “principle of solidarity” and did not differentiate recipients' income or length of service. Everyone was getting the fixed amount of age-based pension, making the one's contribution to the state economy insignificant.

The cost of the Basic pension system is expected to be 1.9 billion in 2019, while the cost is estimated to grow further.

Since 2018 the new changes have been adopted into the Georgian pension system. The State developed a new mandatory Private pension saving system to coincide with the existing basic pension model. However, to encourage and support Georgian society's adaptation with the new pension model, it also set up the contribution scheme splitting the income's 6% into 2%+2%+2% respectively by employee, employer, and government. (Government's contribution can be reduced to 1% or 0% in coordination with the annual income of employee 24 000 and 60 000 GEL respectively).

The debate regarding the pension reform is still ongoing. The topic is still scorching and before any tangible results are delivered, it is least likely to cool down. Meanwhile, both, the supporters and the opponents of the reform, provide arguments and predictions to strengthen their ground and shift the trajectory of development of the Georgian pension system into the direction of their belief.

Supporters of the reform actively emphasize the advantages of the Private Pension System compared to the existing Basic one. A common belief among them is that Private Pension system will be able to provide "dignified elderhood" and will be able to do it with a lesser contribution from the youth. However, the opponents firmly believe that one of the most significant issues with the reform is that it lacks the "common good." They believe that forcing people to save for tomorrow when they lack today is the wrong approach. According to them, reform carries more fiscal and economic nature rather than social.

According to the statistic, the number of people over 60 is growing, and there is no sign that the trend of growth will be changed. Simultaneous growth of retired population and reduction of the working population, increases the load on the single employed person to support the pensioners. With this trend, proponents of the reform argue, that at some point the load on the single person will become unbearable and the Private Saving Model can solve this challenge. Meanwhile, the opposition believes that the consequence of the Private Model will be more expensive workforce which will be translated into higher unemployment, affecting the economic security of the present and future generations negatively.

Low level of trust and reform's mandatory nature are also commonly used arguments to critique the Private Saving Pension Model. However, it should be noted that most of the European or OECD countries have similar pension schemes already for generations, and they are delivering well, ensuring the economically secure retirement. Hence, best practice shows that if the system is well polished and the state economy is stable than Private Pension Systems work fine.

Except for the consequences in social policies, it is expected, that Private Pension Model will positively affect the Georgian capital market and potentially these effects will be translated into additional 3-4% economic growth.

Meanwhile, the opposing side has many questions regarding the potential of the Private Pension Systems capability to affect capital market. Arguments offered by the opposition to justify these questions are the following: Georgian capital market will not be able to fully absorb the resources generated by the Pension System, and it will be reinvested abroad. Lower interest rate as compared to international investors' means neglecting international economic threats. State bodies have a record of ineffective investment policies: the case of Georgian Co-Investment Fund which in consolidation with KPMG ended 2018 fiscal year with a loss of 481 million GEL.

Other criticism of the Private Pension Model is related to its limited information campaign, which left society without a clear understanding of how the system works.

As the Private Model has already been adopted and there is no going back from here, now the best what should be done is to make it work as smoothly as it does in other more developed and advanced economies. To achieve this aim, the following recommendations should be taken into account:

- The efficiency of allocations is the most important. It can be achieved only under the management of the efficient managing body and monitoring mechanisms. It is essential that the Investment Board and its decision-making processes are transparent;
- Every decision and actions should be transparent. Recipients should be offered detailed information regarding the decisions. Such actions will positively affect trust in the system and potentially the number of voluntary involved people will grow;
- Transparency of investments: investment reports should be offered to people involved in the pension system. It is possible to offer consumers the possibility to choose the investment opportunities/portfolios as it is a widely spread practice;
- It is possible to place the limits for domestic and International investments (to be protected from currency threats);
- The inflation rate should be taken into account so that the investments annual profits at least break even with the inflation rate;
- New reforms: Support the development of the capital market; Enable the insurance instrument for pension payments;
- Reconsideration of the retirement age and equalizing of sexes are also possible actions which can be taken into account.