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PENSION SYSTEM FROM STATE PENSION TO PRIVATE ACCUMULATION SYSTEM

Despite of the fact, that Georgia is developing its market economy with a normal growing rate, it has never had such pension system that could give enough pensions to pensioners for stable life conditions. The work is focused on Georgian cumulative pension schemes. We review what problems and shortcomings are in Georgian private pension schemes than we try to distinguish and pick up main points.

The history of private pension is derived from the establishment of insurance companies, but due to the difficult economic conditions, it has not been able to develop. The current reform in the pension system will be the mechanism for mitigating the economic and demographic burden of the country.

Keywords: social security, social insurance, pension system, private pension

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ПЕНСИОННАЯ СИСТЕМА ОТ ГОСУДАРСТВЕННОЙ ПЕНСИИ К ЧАСТНОЙ НАКОПИТЕЛЬНОЙ СИСТЕМЕ

Несмотря на прогресс экономических реформ в Грузии, в стране до настоящего времени отсутствует пенсионная система, которая могла бы обеспечить пенсионерам достойные условия жизни. Настоящая статья посвящена исследованию грузинского накопительного пенсионного страхования и в частности нами анализируются основные существующие проблемы и недостатки грузинских частных пенсионных страховых схем.

Исторически частное пенсионное страхование обеспечивалось страховыми компаниями, но из-за сложных экономических условий оно не может сегодня развиваться. Проходящая реформа пенсионной системы в стране должна смягчить существующее экономическое и демографическое бремя.

Ключевые слова: социальная защита, социальное страхование, пенсионная система, частное пенсионное страхование

Introduction

The social security system consists of the following mechanisms: social assistance, social insurance, social security. It's obvious that influence object for each mechanism is human being, who becomes disabled due to different reasons: disability, illness, old age and the circumstances related to child delivery and care.

Each beneficiary at first glance is the subject of care of State Social Policy, but if we take into account the fact that the existence of the state is related to the use of income received from each

citizen in his/her period of capacity for work in order to perform its goals and objectives. It is easy to understand that the state pension is affected by the following factors: the level of economic development, the average salary, pension fund provision, the aging index, employment, tax legislation. Citizen who in his/her period of capacity for working was marked by a high level of life, forcing him/her to continue to live in the minimum wage in accordance with the retirement age. Such an approach, in our opinion, puts a person's psychological and moral damage shot. This, in turn, reduces the risk of concealment of income growth and employment incentives. In Countries of developed economy, there is almost no relevance to the subsistence minimum pension.

1. Experience of Foreign Countries

In most cases to minimum standards relevant pension is added labor retirement pension and according to private pension schemes accumulated financial resources and as a result, can be achieved 20–70 % salary with pension replacement ratio. For example, 20 % of the average wages in the UK – is the state pension, and labor pension is at the expense of contributions of about 20 %. In France 50 % of average wage, in Sweden 70 % (Якобсон et al: 2003).

In majority of countries (USA, Norway, Ecuador, Japan, and Great Britain) the pension system is two or three-level system, resulting in high levels of financial support for the old age is reached. It should be noted that those countries are involved in the formation of the pension fund and pension contributions for all employees on the basis of the principle of solidarity by previous generations of funding. Such an approach is known as "fair system".

2. State Pension Mechanism in Georgia

In our opinion, the minimum wage equal pension goes beyond the framework of the pension system and looks like social security mechanism. As you can see Social Security system cannot be the way, the recipients who receive it may deem themselves as worthy citizen. In Georgia the average salary is 773,1 GEL (<http://geostat.ge/>), 20 % of which is 155 GEL, It is actually in compliance with developed countries I level pension system state retirement pension system replacement coefficient, as for II level of the pension system, labor pension is as follows: Georgian Government Resolution № 181 of August 28, – according to the work experience determines approved state pension supplements. According to the aforementioned resolution of September 1, 2007, the old age person in case of work experience, by submitting work experience document to receive additive as follows (Resolution № 181, 2007, 29 August of the Government of Georgia):

- a) for the pensioners with the total work experience up to 5 years – 2 GEL;
- b) the pensioners with the total work experience from 5 to 15 years – 4 GEL;
- c) the pensioners with the total work experience from 15 to 25 years – 7 GEL;
- d) the pensioners with the total work experience 25 years and more – 10 GEL.

The above information is based on the unfair principles as the difference between the additives is beyond any criticism.

Multilevel pension system allows citizens by saving their income in old age ensure high pension. Key element is the pension fund, and in its formation takes part the government, and employer and employee by determining mathematically calculated retirement allowance, as for private pension schemes, in the former Soviet Union countries it turned into financial pyramid and lost the trust of the population. There is no perfect pension system, that's why all countries according to above factors has established the own model of the pension system, which cannot be effective if it will be copied by other countries. Analysis of the factors influencing the pension system in Georgia gave the following picture: according to GDP per capita between 180 countries, Georgia ranked 112th, the average annual income of GEL 6000, the employment level output 85,4 %, among them the self-employed – 61 %. The developed Western countries (Germany, France, Italy) 16–20 % of the total population of pensioners. In Georgia, this ratio is 15 %. According to these data as if should be provided happy old age, but the number of employed citizens (1712,1 thousand) and the number of retirees (686 700) compared we see that for 1 employee comes 2,5 retired. It is hard to imagine since the income tax of employee is a major source for

pension provision. The pension system, which is based on income tax receipts, stimulates not savings but corruption and shadow economy as a part of income tax because regardless the amount of the deposit the result is the same after retirement age (<http://geostat.ge/>).

3. Private Pension Schemes in Georgia

Twenty years independence period of Georgia is created with the hard history of pension system. In Georgia today actively operates "Aldagi BCI" pension scheme. "Aldagi BCI" pension fund preserves its leading position in pension scheme market of Georgia. It is the largest pension fund in Georgia, jointly managed by "Abby Asset Management" and JSC "Aldagi BCI". According to The National Bank of Georgia results of the fourth quarter of 2012, the fund remains the undisputed leader on the pension market of Georgia. According to the publication, "Aldagi BCI" pension scheme market share is 79,0 % (<http://www.aldagibci.ge/pensionfund/>).

The second pension scheme, that operates in difficult conditions is GPI holding pension scheme. GPI Holding was established in 2001 as the first private pension fund in Georgia.

**Information about the activities carried out by
pension schemes founders during 9 months of 2018**

The name of organization	Pension contributions	Number of contracts	Number of contracts	Number of contracts	Number of contracts	Number of contracts	Number of contracts	Number of contracts
"Aldagi"	2 650 845	622	10 223	–	–	2 873 002	19 181 853	1 348 772
"GPI Holding"	100 148	11 517	11 517	–	–	2 984 133	3 155 122	204 207
"Sakaeronavi- gatsia"	2 199 414	535	535	–	–	37 082	4 728 373	255 477

S o u r c e: Insurance Supervision Service, 2017–2018.

In 2008 there were 7 pension schemes in Georgia, and by 2018 their number decreased to 3, decreased yearly coincided agreements and increased the number of people leaving the scheme. The reason for this is the lack of motivation, which means that none of the pensions have been issued from these schemes till today.

Despite the fact that today Georgia has two-column pension system, still, it doesn't give desired result to the population. The first component is the state pension, and the second component – work and merit-based pension supplement and the third voluntary pension savings system, which is virtually developed in negligible pace.

In a situation when the state pension system becomes deficient, old age makes it difficult to maintain decent living conditions. For private pension system establishment, the government should start a private saving pension scheme promotion and popularization.

Nowadays attempts to modify the current model cannot meet the challenges, which are apparent and increasingly inadequate to the realities of life existing retirement system.

4. Recommendations for the Creation of a Perfect Pension System

The current pension system is inherently instrument of social assistance, which only mitigates the condition to vulnerable pensioners, but can not guarantee the basic living needs.

Therefore, a number of steps necessary to ensure that the pension system is an effective mechanism, to involve private initiative and not remain subject of responsibility for inflexible state mechanism.

In order to provide these changes it is necessary to consider and implement the following recommendations:

- create transparent and clear rules of the game in the country's pension funds, asset management companies establishment and activities, in order to minimize the risks and strict supervision;
- identifying problems of the transitional period and take the appropriate measures for minimizing risks;
- retirement, using savings and their own individual accounts management and clearly determining possibilities of flow;
- minimal state pension and its usage guarantees determination and legalization;
- the formation of a complex pension system for citizens with various income;
- directions for investing pension assets, given that the stock market is still in the embryonic stages in Georgia;
- enacting the practice of pension insurance.

The savings system allows a more easy solving regarding the number of the working population which is related to the problem of distribution system: Together with aging of the population, decreasing the number of employees who have to provide one retired. In the conditions of the savings system, the employed population doesn't have to keep pensioners. On the contrary, unlike the distribution system, intergenerational conflict disappears without any basis and the possibility of bankruptcy of the entire system. In new system we will not have unfulfilled pension obligation by government, still many countries face this problem.

The pension reform planned in Georgia is presented as a mixed model, which provides the equal participations as for employee as employers. This reform has both a mandatory and voluntary character; the system is mandatory for employers less than 40 years in the part of the income received as a wage, and those who have been over 40 years old and self-employed have the right to make pension contributions voluntarily. The new model implies payment of 20 % (in the form of income tax) to the state budget by the employee engaged in the system, from which the state undertakes to apply to the accumulated income of 2 % of the employer's unpaid income. At the same time, 2 % of its non-taxable income the employee transfers to the pension fund, as for employer transfers 2 % in addition. Consequently, we receive a model where the sum of 6 % of the salary goes to the accumulated account of the employee managed by private financial institutions. In case of self-employer, contributions will be made through the following proportions: Self-employed 4 % of non-taxable income and 2 % of the state.

At first glance, it seems that the model is much more justified because it takes into consideration the individual factors – the contribution of people to social life and the economic development of the country. More importantly, in this case, the age of human care is less dependent on the government's vision and assessment of the pension amount. However, there are people who are left outside of the system, because of cannot get into the labor market and hence he has not been able to accumulate pensions. That is why there are two types of pensions: social and accumulated. Other risk factors are also accompanied by reform. For example the issue of stability of the national currency in the future, the growth rate of inflation, the lack of confidence in the investment council.

The population remembers the financial crisis of the nineties of the last century and the hyperinflation that led the Georgian economy to the edge of the abyss.

In spite of the above-mentioned risk factors, the accumulated pension system in the developed countries is effectively working. Exactly on the example of European developed countries was developed the accumulative pension system in Georgia. As well as the it was used the examples of neighboring countries of Georgia.

For example, the private pension system in Turkey has been launched since January 1, 2017. Involvement in the system is obligatory for those employed under the age of 45. Monthly pension contribution is 3 % of income; the state adds 25 % of the total amount. The new pension system in Azerbaijan was launched on July 1, 2017, and the employers taking part in the pension fund pay 3 % to the pension fund. Armenia's pension system has been launched since January 1, 2014. It is obligatory for employers under the age of 40. They pay 5 % of income to the pension account and

the state adds 5 % itself. People over 40 years have the right to voluntarily join. In Russia, the reform will be launched in 2019.

The pension reform developed in Georgia is based not on the practices of one particular country but is presented in mixed form.

Conclusion

In any state, the social security system is focused on perfection of the pension system. The study of developed countries has become clear that the pension system is less dependent on state revenues and its gravity will gradually transfer to the future pensioners' income, which is accumulated in the pension fund. Retirement models are always adapted to the country's socioeconomic position, its history and culture. From the point of view that Georgia is a country of rich traditions in terms of dependence on parents and children, it is difficult to perceive caring for the pension with own income. The forecast is undesirable for providing elderly with a decent pension. Consequently, it should be considered as justified by the government to implement the accumulated pension reform initiated.

Based on the study materials, we believe that the reform has many risks since the first pension must be paid after 20 years and the economy assumed as unstable provokes doubt.

The survey conducted, predicting the future pension rate we consider is reliable. As for the risks, we believe that the risk should be added to the change of the legal regulation and that what should be adopted today should not be changed with respect to the pension fund management.

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