

IMPORTANCE OF PENSION REFORM TO IMPROVE SOCIAL CONDITIONS IN GEORGIA

POLICY PAPER SUMMARY



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Authors: Lasha Bliadze, Mariam Ozashvili, Tata Chitava



Eastern Partnership Civil Society Forum Georgian National Platform is an association of local and international non-commercial legal entities registered in Georgia, aiming to promote and implement the goals set by the Joint Declarations of the Prague, Warsaw and Vilnius Eastern Partnership Summits and the EU-Georgia Association Agreement of European Neighborhood Policy and other joint events.

Authors: Lasha Bliadze, Mariam Ozashvili, Tata Chitava

Editing by: Inge Snip

Summary

The EU-Georgia Association Agreement envisages cooperation in the social policy field, which aims at improving social security and social protection systems in terms of equality, accessibility and financial sustainability.

During the process of social policy implementation, one of the key aspects is pension provision. The largest state budget funds are spent on pension provision. The spending amounts to 16.2% of the whole budget. The fact that a significant share of the state budget funds is spent on pension provision, highlights its importance and the need to improve the rationality of spending.

Increase in life expectancy, reduction of the labor force due to emigration and an increase in the share of pensioners in the population, will become a heavy burden to the budget and future generations, who will constitute the labor force at that time. An increase in the number of pensioners should not constitute a threat to those people who work. The government must ensure the formation of the social environment on the basis of equality of rights for the labor force, as well as pensioners. In order to ensure a healthy process, the government should have a rational vision regarding this natural process to allow for a fair social environment for pensioners and the people who will sooner or later retire.

In order to ensure a decent pension and not impose a heavy burden on future generations, it is necessary to reform the pension system. Worldwide successfully functioning pension systems exist, which should lay as foundation to establish the most appropriate system for Georgia. Several developed countries, those who Georgia has potential to develop into, could serve as prime examples.

Georgia should introduce and implement a proper pension system, form the pension system that will be equally decent, fair and effective, human rights-friendly and favorable for both employed people and retirees, and which will further promote the European integration aspiration of the country. A strong pension system should be based on the principles of *insurance and solidarity*. Such a system should be sustainable and provide adequate benefits.

The formation of a powerful system requires promoting the idea among the population, political will, as well as public confidence and trust in similar systems. The main precondition of public trust and a sense of justice is properly provided information. It is essential to enable the society to make an informed choice and decide if they want to have a decent pension. In this process, the government plays an important role who should offer the population current alternatives. To ensure public interest and solidarity towards the pension system reform, it is also important to ensure fairness of contributions and benefits, effective management and full transparency of rules and benefits.

The research examines three alternatives among which the authors of this report consider the maintenance of a social pension as the most appropriate one, however, the second and third columns should be added as well.

The second column should be a Defined Benefit scheme, which will be mandatory for all employees and which will ensure 100% participation. The scheme should be based on the principle of insurance and provide pensioners with a pension until passing. In order to reduce poverty at the retirement age, pensioners should be provided with a decent pension throughout their life. According to this scheme, the amount of pension is determined by contributions made to the fund by the person, although the accumulated amount is not transferred by inheritance. It will ensure provision of pensions to all pensioners till death.

The scheme is financially sustainable and future generations will not have to provide retirees with pensions. The whole amount accumulated by one generation is distributed among themselves, ensuring no need for additional funds. Moreover, the invested money accumulated in the fund (the amount remained after incurred fund management expenses) increases the amount of pension.

The scheme provides for a variety of benefits to persons who need public support. These benefits include: the possibility for early retirement in cases of heavy or hazardous occupations; maintaining the pension regardless of temporal unemployment (for pre-defined maximum period), temporal disability and maternity leave, etc.

At the initial stage, only the government and employers should make mandatory contributions to the scheme. After the system gains popularity, employees may also join.

Besides the mandatory «Defined Benefit» scheme, the 3rd column. Voluntary Savings, should be added to the pension system. In this part of the scheme, participants will voluntarily contribute, and the accumulated amount - with accrued interest - will be their assets, having the right to dispose the money before reaching the age of retirement and deciding the number of years over which the amount will be distributed. Under this column, the amount will be issued until funds accumulated in a specific person's account are exhausted. If a beneficiary dies before the amount is exhausted, the remaining amount will be transmitted by inheritance.

EaP Civil Society Forum Georgian National Platform

Tbilisi, Georgia 0108
50, Rustaveli ave. II entrance, 4 fl.
Tel/Fax: +995 322 931128
Cell.: +995 599 551128
E-mail: np_events@ei-lat.ge
URL: <http://eap-csf.ge>