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**The Role of Reform of the Pension Insurance and Its Provision
System in the Economic Development of the Country**

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The scientific novelty of the work. One of the major aspects of the social-economic policy of the state is the issue of pension provision. In its social-economic essence, pension provision expresses the agreement of interests of those unable to work with the rest of the society who creates material welfare.

Despite the fact, that first pension system dates back over 100 years and has undergone number of reforms, problems connected to pension provision are still urgent in the developed countries. Georgia and its state pension system face the same problem. First of all, it is related to demographic factors that were not thoroughly taken into account while introducing reforms. Demographic situation in Georgia like in many developed countries (the USA, Europe, Australia), is nowadays characterized by the following peculiarities: the growth of the number of the working-age population is either slowing down or is decreasing. At the same time, there is a tendency of the rapid growth of the population over 60 years of age and even over 80 years of age, that leads to the potential increase in the number of the disabled people. Thus, the number of pensioners is growing up.

The development of economy and advanced standard of living of the population not only exacerbated the demographic factors both in developed and most of the developing countries, but helped the emergence of new factors affecting the pension system. Among them is a lifespan extension against the backdrop the decrease number of a birth rate, which causes imbalance between contributions and distributions; early retirement _ decrease of the employment period and the duration of the contributions; increase of dependency ratio related to working-age population and the growth of the workload.

From today's standpoint, Georgia, like other 'aged' states, may tend not to be able to provide its citizens with pension and medical or social assistance. Thus, the future pensioners might not be provided with dignified old age. According to the most pessimistic scenario _ problems related to the pension provision might cause global financial crisis by

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2050.³ As mentioned above, the study of the pension provision system is one of the urgent problems not only for us but for many countries all over the world. While trying to find the ways to solve the problem in this regard, it is desirable to rely on the best foreign experience and adjust it to our reality. It is also vital to remember, that apart from the government the relevant business institutions also play the main role in improving the situation. Therefore, dissertation deals with this issue.

At the current stage, there is a tendency of increased pension share in the state budget expenditures, which from our point of view, has become the basis for the need of the reform to reduce the scope of the distributive pension system and develop the accumulative system. First of all, it is necessary to create a favourable environment, which will be formed by means of the legislative and normative, socio-political and other factors. As the experience of different countries show, the reform of the pension system often leads to social discontent, as it is related to the growth of the pension age, or to the refusal of the preferential pensions, or to the increase of contributions to pension funds. That's why, together with the deliberate use of state mechanisms, it is vital to promote the activation of the micro-level that will balance the situation and will be based on the diversity of alternatives.

The transformation from the state distribution system to the mandatory accumulative system is starting in Georgia now. The current reform is characterized by acute problems, which lack the scientific study and research. That's why this research problem has been chosen for the dissertation, which determines its actuality as well.

The main focus in the dissertation is on the study of the information obtained from the foreign sources as well as the experience of the developed and developing countries, and the possibilities of considering them in the process of developing and reforming the pension system of

³ Georgia's Social-Economic Development Strategy. Georgia 2020 <https://naapl.gov.ge/source/%E1%83%A1%E1%83%A2%E1%83%A0%E1%83%90%E1%83%A2%E1%83%94%E1%83%92%E1%83%98%E1%83%90/ViewFile.pdf>

Georgia that directly affect the functioning of private pension funds and the development of business sector.

It is worth noting that, in local and foreign practices, the necessity of using synthetic analysis and complex approach when studying the problem has become obvious lately. The aim of the modern research is the following: the forms to reveal crisis in major pension systems of the world and selection of the management tools for more efficient detection of the important factors, being prudent in actions and reduction of the loss in terms of undesirable democratic trends and economies. All the above mentioned determined the main aim of the dissertation.

Current state of problem study. One of the main aspects of the social-economic policy of any modern country is the problem of population aging, growing number of pensioners and their social protection.

Population aging is an inevitable and predictable phenomenon. The majority of the population of transitional economies cannot afford to make savings for dignified retirement. Thus, the state should be ready to guarantee all the necessary conditions for the retired people.

In the developing countries with the improvement of the general life conditions lifespan has also increased. By 2050, the number of people in the world 65 and older will have doubled from 10 to 20%. In addition, by then 80% of the world's elderly people will live in low-income countries.

Are these countries set up to care for these forthcoming senior citizens and ensure they have the resources to live in dignity in old age? Will countries be able to ensure fairness between the generations and resources? Modern pension systems can't meet the needs of the society:

- Countries have become more urbanized and families have fewer children that leads to the break of long-term traditions of family-based care without any alternative mechanisms to replace it.

- Traditional employment-based pensions systems do not cover informal sector workers in developing economies. In some

regions, this sector accounts for two-third or more of working-age population. According to the World Bank Pension Database, even for those with formal sector jobs, pension coverage has been declining for people who've entered the workforce since 1990 in terms of years contributed over lifetime. It has a major impact on the amount of retirement income.

In the last decade, major changes have occurred in pension systems, including to dozens of unsustainable pay-as-you-go⁴ schemes throughout Europe and in other regions, as well as the notable global expansion of "social pension", which are cash transfers paid to the elderly.

It is clear that there is no universal solution of pension policy that will work for every country. Instead, we need some skills to combine emerging financial technologies with the insights from behavioral economics to figure out how best to extend pension coverage to the rising numbers of senior citizens and ensure they don't fall into poverty in their old age. International experience proves that it is possible:

- to use new techniques, such as auto-enrollment into pension plans to increase savings for retirement. Several countries already using such techniques. For example, in New Zealand and the United Kingdom more than 6 million people have joined an occupational pension plan for the first time in the last four years. Turkey is the most recent country to adopt this approach.
- to build on financial inclusion gains to extend pension coverage. Since transaction account enable people to store money, send and receive payments, they can also be used to help people access other tailored financial products, such as pensions savings.

⁴ Distributive state pension system

- By means of innovative financial-technical mechanisms short and long-term savings can be affordable, that enables people to set some money aside for pension. For example, India, Kenya and Mexico have set up mechanisms which rely on the local community groups to gather pension contributions from informal sector workers, use mobile phones to set up pension saving accounts, and allow additional contributions to pension savings accounts to be made at ATMs and retail outlets.

The study of the problem of pension provision reform and its adaptation in modern society does not have a long history in Georgia. There was no need to seriously look through the social provision system till the early 90s. There was no need to use the economic scientific achievements and practical experience of foreign countries was quite scarce in this regard. Incapacity of the pension provision to perform its basic functions independently, without others interference and support, led us to the serious difficulties and at the end of 90s of the last century the country turned out to be in crisis.

Options for solving similar problems are given in separate scientific studies dedicated to the analysis of the pension reform, the activities of the non-governmental pension funds and other interesting aspects in various countries. At present, periodical and scientific literature pays great attention to reforming and developing the pension system. Changes in the pension age, economic problems for non-working age population and other issues are also discussed in the work. Various results of the pension reform cause a lot of discussion both in and outside the country, which makes us feel that we need more detailed, systematic and complex approach towards this issue.

Despite the fact that, the scope of social policy in Georgia has been the object of study of many researchers for years, in fact there is no fundamental research regarding the experience of pension systems

reform. In the scientific publications, the issue of social sphere has been discussed several times, but the recommendations proposed by them were often unsystematic that created the basis for the feeling of insufficiency. The mentioned problem was researched by numerous Georgian (T. Beruchashvili, R. Gvelesiani, T. Verulava, I. Meskhia, G. Nikoleishvili, G. Uplisashvili, N. Chitanava, N. Khaduri, G. Ghavtadze, N. Shonia, T. Gugeshashvili and others) and foreign (A. Antonov, O. Berebiona, E. Zhukov, A. Dilnot, R. Disney, K. Mayer, P. Johnson and others) scientists and practitioner researchers. However, in the majority of works, the possibility of pension reform and the development of appropriate financial institutions were characterized by relatively narrow spectrum of research and focused only on some particular directions.

Based on the above mentioned, the presented work contributes to the consideration of the problems of the pension system reforms with less attention in different scientific studies. Besides, based on the study of foreign experience, in the presented dissertation the issues are discussed in a more complex way and as a result of a relevant analysis appropriate recommendations for pension system reform have been developed which include both macro and micro levels.

This again proves the topicality of the research problem, the value and importance of the work.

The aim and objectives of the work. The main aim of the work, on the one hand is to research functioning and reform stages of international pension provision systems and using their experiences to develop the business-subjects on a micro-level and on the other hand, the impact of pension reform on private pension funds in Georgia; to develop proposals for determining the role of relevant financial institutions in the course of pension reform and creating bases for the utilization of their potential through studying the economic basis of pension systems, main tendencies of reforms in developed and developing countries in the context of the changes in demographic conditions, analyzing the problems existing in Georgia.

In order to achieve the goals, the specific tasks have been fulfilled within the dissertation:

- To study and analyze main types of the pension system;
- To reveal determining factors of the pension system type and to show their impact on the current pension system;
- To study the activities of the pension funds and their impact on pension provision;
- To discuss and analyze pension reforms both in the developed and developing countries;
- To expose the possibilities of using foreign experience in the reform of the Georgian pension system and to confirm its necessity;
- To show the main direction of the pension system reform of Georgia and to work out the specific proposals of its development based on the role and importance of relevant institutions;
- Possible effect of pension reform on non-state insurance companies operating in Georgia.

Scientific novelty of the work. The scientific novelty is as follows:

- The main reasons for pension reform in Georgia and its influential factors are revealed based on the analysis, assessment and generalization of the study of scientific research conducted on the issues of pension insurance and provision;
- A new conception for the development of a comprehensive social policy and social protection system in Georgia is formed on the basis of a complex analysis of the theoretical and methodological approach existing on the essence, purpose and aim of social policy, as the most important instrument for determining the level of life of the

population:

- Basic tools and principles of European models for the future development of the Georgian social system and the growth of the level of well-being of the population are analyzed and the need of their implementation is confirmed.

The subject-matter of the research. The subject-matter of the research is the pension provision systems and the ways of their reform in the developed countries and the ones with transitional economies.

The object of the research are factors, that determine the types of the pension system and main peculiarities, which are met in various counties in different conditions of economic development.

Theoretical and practical significance of the work. The work has theoretical as well as practical significance. The research in the dissertation is conducted with the aim to select the optimal directions for reforming Georgia's pension system. Therefore, the proposals and conclusions presented in the paper may have the practical use in the formation and implementation of the relevant state policy, as well as in drawing up the outline for the development of separate institutions within the system.

Research methodology and contribution of the author. The theoretical and methodological basis for studying and researching the issues discussed in the presented dissertation are as follows: classical and modern economic theories, studies of Georgian and foreign scientists related to pension insurance systems, reports of international organizations, statistical materials of surveys, official statistical information, legislative and normative documents, other public information, etc.

Online survey to reveal public awareness about the ongoing pension reform in Georgia was conducted at Akaki Tsereteli State University.

The synthesis, analysis, comparative, historical, quantitative, graphic, statistical and other methods are used together with the general-scientific methods of research in the process of achieving the goals and objectives of the dissertation work.

The author's contribution to existing studies about overcoming modern problems in pension insurance and its provision systems is presented in the following scientific works:

1. Uglava D., Reform of Pension Systems in Developed Countries, Akaki Tsereteli State University, Second International Conference: Economic, Legal and Social Problems of Contemporary Development, 29-30 September, 2017, Kutaisi, pp. 103-104;
2. Uglava D., Pension Reform in Georgia, Journal Economics, # 3-4, Tb., 2017, p. 6-17;
3. Uglava D., The Social Security System and Its Development Tendencies in Georgia, Journal Economics #1, Tb., 2017, pp. 32-55;
4. Uglava D., State and Private Pension Systems, Prospects of Their Development in Georgia, Akaki Tsereteli State University Bulletin, 2016 N1 (7), Kutaisi, pp. 55-65;
Review on the Article "State and Private Pension Systems, Prospects of Their Development in Georgia" by Doctoral student Diana Uglava; Prof. Viktor Chuzhykov, vice-rector of KNEU, Kyiv, Ukraine; Centre of International Academic Mobility, Kyiv National Economic University named after Vadym Hetman.
5. Uglava D., Issues of Pension Reform in Georgia, Georgian Technical University, Akaki Tsereteli State University, Fourth International Economic Conference IEC-2016, National Models of Economic Development: Yesterday, Today, Tomorrow, Business Journal Engineering, #3, 2016, Tb., pp. 143-146;
6. Uglava D., Global pension crisis and reform challenge in Georgia, 12th International Academic Conference "Social Sciences for Regional Development 2017". 20.10.-21.10.2017. Daugavpils University. Daugavpils, Latvia

The volume and structure of the dissertation. The dissertation covers printed 183 pages. It consists of the introduction, three chapters, 9 paragraphs, conclusions and bibliography. The structure of the work is as follows:

Introduction

Chapter I. Theoretical bases of pension insurance system

- 1.1 The modern essence of the pension insurance system as a socio-economic category;
- 1.2 Classification and typology of system of pension provision
- 1.3 The expediency and major challenges of the social security and the reform of pension systems of the countries with transition economies;

Chapter 2. Establishment and development of economic mechanisms of pension systems in the world

- 2.1 World experience of the development of the pension systems;
- 2.2 Formation and gradual development of the state pension system of Georgia;
- 2.3 Pension funds as business organizations and pension system instruments;

Chapter 3. Reforming pension systems in the modern world: key tendencies and perspectives

- 3.1 Experience of functioning and reforming pension systems;
- 3.2. Problems and prospects of formation and development of private pension funds in Georgia;
- 3.3. Pension system reform in Georgia

Conclusion and recommendations

Bibliography

Brief summary of the dissertation. In the first chapter of the dissertation – **“Theoretical bases of pension insurance system”** – some issues of the pension insurance system are discussed, i.e. modern essence of the socio-economic category, classification and typology of the pension system used all over the world, the expediency and major challenges for the reform of social protection and pension systems in the countries with transition economies.

Two basic forms of pension provision are familiar in the world practice, based on principles of solidarity, redistribution or accumulation. During the last decades there is a tendency of a diffusion of these two systems and the application of the private and combined (state-private) systems of pension insurance is becoming more widespread. World experience is a good proof that the pension system is increasingly contradicting the socio-economic conditions associated with the demographic aging process.

The ratio between working age population and the elderly population is systematically decreasing while the average life expectancy age is increasing. Pension provision of the population requires greater share from country's gross domestic product. That is why social protection systems face the necessity to mobilize more and more financial resources, which poses a threat to the state financial stability and development prospects.

According to the November 2017 data, the number of families receiving subsistence allowances is 131 371, which is 12.2%⁵ of the population. That indicates the immediate need for the establishment of a sustainable social protection system. In addition, Georgia's integration into the European Union directly requires the implementation of the social policy and subsequent reforms based on the modern world standards, which is defined by the Neighborhood Policy Action Plan. The latter, was developed by the European Commission to ensure welfare,

⁵ Social Service Agency http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=1243

stability and security between the expanded EU and its neighbors, that proves support for the ongoing economic, social and political reforms in Georgia.

The nature of pension provision as an economic category can be qualified as a separate part of national income, with its specific character in contrast to other parts. In particular, it is directed to create normal living conditions for people incapable to work. The parties of this relationship are: - the state, - pensioners; - members of the society able to work; - regulatory bodies of pension contributions. The object of their relationship is the part of the created product which is separated from the general structure of national income and is directed to meet the needs of people incapable to work.

Different categories of people with disabilities make demands on the part of the national income, known as the Pension Fund's financial assets, who can be divided into three types according to the labor contribution: - people, who have developed productive work experience and have honestly achieved the pension age; - people, who lost their work capability in the process of labor activity; - people, who do not work due to different reasons (people with disabilities from childhood, children and people without breadwinners). The need of pension provision is common to all of them. The difference between them is the following: the representatives of each group have their own share of the pension provision which is determined by their participation in the creation of gross national product. This resistance is regulated by differentiation of pension payments between various groups. The mechanism of differentiation does not operate in the pension system of our country.

At this point of the research it can be concluded that pension provision as an economic category, is a set of economic relations for the formation and distribution of monetary funds, for the disabled part of the society.

From the second half of the 20th century, various models of pension provision operate in the world. In spite of the differences between them,

all these models can be divided into three large groups: 1. Model based on the solidarity principle of pension provision; 2. Model based on the accumulation principle of pension provision; 3. Model based on a mixed principle of pension provision.

The principle difference between pension systems is conditioned by their funding methods.

Distributive form of financing the pension system is based on the solidarity principle of the generations, when current income from employers and employees is used to cover the pension expenses. The given method is called PAYG (pay-as-you-go).

When using accumulative financing method of pension system special accumulative funds are created at the expense of pension contributions, which will provide pension expenditures both at present and in the future.

The mixed financing method of the pension system consists of the following: certain minimum provided by the government and a part of the pension that the future pensioner accumulates during labor activity.

In most developed countries, there are three level pension systems:

The first level - poverty protection, i.e. guaranteeing the subsistence level. This function is fulfilled by the distributive pension system of the state that covers all citizens or economically more active residents who stopped receiving income due to the termination of employment. There is no pension difference (according to years of work experience, labor contribution, wages) or the difference is minimal at this level.

The second level - ensuring a dignified old age. This level is intended for active workers to stimulate or compel their participation in the creation of additional pensions. This is implemented by mandatory pension system created and controlled by the state. It is possible to use the funds as well as accumulative financing principles, professional and other non-state systems, which will replenish the state systems and will be intended for additional income in case of termination of

an employment contract (together with the state pension) for different professional groups.

The third level – individual additional voluntary pension provision. This level is operated by insurance companies, banks, private and other pension funds. The state does not normally take part at this level, i.e. the pension provision in this case is the "free" space, where a person undertakes self-responsibility to create an extra income through an individual accumulation and private insurance.

In developed countries there are factors that connect state and private systems through creating more distinct legal framework for private systems. Besides, along with their development private systems acquire the characteristics of the main systems. It is noticed in many countries and especially in France.

According to the current pension system in Georgia, young citizens will have the opportunity not to be dependent only on the state social support when they reach a pension age, but they will be able to accumulate capital according to their desire and work activities and this will be the guarantee of welfare after they retire.

The state will significantly encourage pension contributions, i.e. a monthly amount of money will be accumulated in the employee's personal pension account, which will be invested in the economy.

The long-term resource of GEL will be created on the local market through the accumulative system that will support de-dollarization of the economy and the development of the capital market in the country. For these and other reasons, pension reform is very important for our country's economy.

Before creating a firm base for self-reliance of the population, in the countries with transition economies it is advisable to maintain state guarantees for free social services even at minimum standards, which are envisaged in the constitution and state legislation of these countries (free high school, professional education, basic medicine, social standard of housing).

Within the last decade, in terms of pension policy, international experience proves that there are serious problems in financial stability of the state pension systems and proper pension provision, which is associated with the rapid growth of the number of old-age population. It should be mentioned that among the population of the country the share of citizens who have reached retirement age is steadily increasing, but the number of people paying taxes in the pension system is decreasing. Therefore, it is impossible to issue an adequate amount of pension. Because of the mentioned problem, the state has to restructure and reform the pension system in order to eliminate the existing irrelevance between "financial sustainability" of the system and the "adequate amount of pension". Different countries have different experience in this field, depending on the available tactical mechanisms. Though strategic direction remains the same for every country: diversification of the state financial risks and providing citizens with more opportunities is necessary in order to receive extra money except for the state pension.

Pension reforms, in the countries of the transition economies, belong to the second generation of reforms. In the first generation reforms, privatization of the socialist economy and institutional construction were the most important issues in order to start the transition to the market economy, and the second generation reforms required the development of market relations and its integration in the global economy.

In the second chapter of the dissertation – 'Establishment and development of economic mechanism of the pension systems in the world' – the world experience of the development of the pension systems is deeply discussed; as well as the formation and gradual development of the state pension system of Georgia; pension funds are considered as the tools of business organizations and pension system.

Germany was the country where the system of pension provision was introduced. The aim of the system was to maintain the same level of living during the retirement as a person had while working. In the twentieth

century, pension systems of developed countries gradually reached the same level. In the countries where pensions were determined by insurance contributions (Germany), a guaranteed minimum pension did not depend on the amount of deposits. In countries where pensions were equal and the total taxes (state budget) were the source of financing, the poverty control was abolished, the material conditions of people were no longer considered as a precondition for their pension provision.

Pension provision system of the Western European countries is mainly based on so called Pillar System, where pension schemes vary according to the number of people involved in the system, the principle of funding and the level of protection.

Modern-day developed countries have already understood the necessity of reforming the pension system, which will be adequate to the financial, demographic and economic challenges that the civilized world faces today. From the 90s of the last century, the reform of pension systems became urgent against the backdrop of the increasing number of population, life expectancy and aging, increasing number of financial crisis and labor force reduction

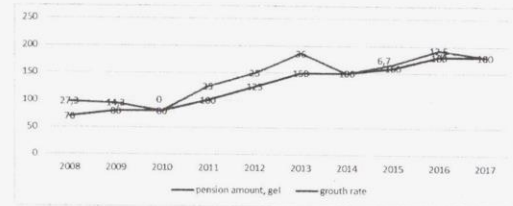
Three main ways to solve the existing pension system problems have been developed by the Organization for Economic Co-operation and Development (OECD): 1. to prolong the working period. 2. to concentrate on the most unprotected part of the state pension recipients, i.e. to change the internal redistribution schemes of state pension revenues by weakening the connection between pension contributions and payments. 3. to encourage public to make savings for their old age.

The research has proved that common direction for all reforms is the consistent and gradual transition from the distributive state system to the individual-accumulation system, based on the principle of personal financial responsibility of material security and capitalization of contributions made to individual pension accounts. At the same time, the distributive state schemes continue to exist but in a very limited way.

Within the last two decades Georgia's pension system has undergone several phases of reform, the most important of which was the introduction of social pension system in 1995. Initially, the amount of pension was determined by the amount of yearly revenues of the state pension fund that was divided by the number of pensioners. At that time the pension system was planned to be modified, but in the late 1990s, the economic crisis and the unstable fiscal environment prevented introduction and implementation of the reforms. The next wave of pension system reform commenced in 2004. Prior to that, state pension was financed by the State United Social Insurance Fund based on social contributions of employer and employee. From 2004 social programs became financed from the general budget revenues.

The state pension growth rate in Georgia was as follows: GEL 4 in 2004, GEL 10 in 2005, GEL10 in 2006, it increased by GEL 10 in 2009, the amount of pension remained the same in 2010, GEL 20 was the growth in 2011, GEL 10 in 2012 and GEL 25 for some pensioners.

Amount of Pensions and Growth Rate in % from 2004 to 2015
Chart 2.2.1



Source: <http://factcheck.ge/article/dimitri-khundadzis-thqmitb-pensiebis-zrdis-tempi-minimum-am-kuthkhith-tsina-khelisuphlebis-dros-arsebul-tempis-utoldeba/>

Pensions were not increased only in 2010 and 2014 in the period from 2005 to 2015. The amount of pensions equalled GEL 14 in 2004 whilst it amounted to GEL 110 or GEL 125 for certain group of pensioners in 2012. The pensions increased to GEL 125 for all pensioners in April 2013 and to GEL 150 in September 2013. The pensions did not increase in 2014 whilst they increased by GEL 10 in September 2015. In July 2016, it reached 180 GEL. Pension amount remained the same in 2017. Whether there will be an increase in the pension amount in 2018 is still discussed by the government.⁶

By the end of 2015 there were 707,7 000 old age pensioners registered in Georgia, and by 2016 their number increased to 720,2 000. This is the largest social protection program in the country. From September 1, 2015, the monthly pension amounted to GEL 160, from 2016 up to GEL 180. The main purpose of pension growth was bringing it close to subsistence minimum.

Macroeconomic indicators and budgetary priorities of the country, as well as the dynamics of the demographic picture indicate that social responsibilities are a burden for Georgia's economy and budgetary funds. According to the statistical data of 2008-2016, the share of current social expenditures in the budget is quite high, although this indicator has significantly increased in the last 3 years. In 2014-2016 social expenditure amounted to almost one third of the total expenditures. In addition, the social expenditures of the state budget in 2016 amounted to GEL 2 425 429. The biggest share of GEL 1 570 261 is spent on pension provision.

The Pension Fund as a business organization has a great influence over the country's economy, since its main objective is to make a successful investment in order to ensure the dignified quality of life for individuals participating in it by distributing funds at different times and space. A person is given a guarantee of keeping a certain level of life with the savings made in the past during work activities in a particular place where s/he resides.

⁶ www.ssa.gov.ge

Pension funds are the largest source of mobilized budget resources. According to the amount of money allocated for social purposes, pension funds are the largest. It reaches 50-60% of the total amount of funds allocated for social purposes in developed countries.

Management of Pension Funds includes:

- Intentional collection and accumulation of insurance premiums;
- Provision of pension financing;
- Organization of rehabilitation processes in case of loss of capacity for work, getting occupational and work-related disease, state disability;
- Capitalization of financing pension fund and attracting voluntary contributions;
- Control of receiving the insurance premiums timely and fully with the involvement of tax authorities;
- Organization of state database for all types of payers of pension fund;
- Providing population and legal entities with the information about the activities of the pension fund.

The pension fund has the base of revenues and defined directions of expenditures, budget. The revenues of pension fund are composed of the following sources:

- Employer's insurance contributions;
- Insurance premiums of self-employed citizens;
- Insurance premiums of other citizens;
- Allocations from the state budget;
- Voluntary contributions.

The expenditures of the pension fund are aimed at the following:

- Payment of pensions;
- Care for sick people;
- Providing material assistance to the elderly and disabled persons;

- Financial and logistical support of the fund activities.

The main source of income for the pension fund is insurance contributions. The insurance tax rate is determined by the state legislation and varies mostly from 10 to 30%. When calculating the contributions to the pension fund, the amount of income of the participant is taken into consideration and the taxes are excluded, such as:

- Payment in case of termination of labor contract;
- Monetary compensation of unpaid leave;
- Average income paid during the employment for temporary unemployed citizens;
- Benefits, compensation, material assistance.

The third chapter of the dissertation deals with the experience of functioning and reforming pension systems; the problems and prospects of the formation and development of private pension funds in Georgia are discussed and the current reform of the pension system in Georgia is presented.

The stability of the pension systems in the world and especially in the European countries is decreasing in accordance with population aging. In Europe employable population tends to take early retirement. In particular, 55% of people of pre-pension age (aged 55-64) make less contribution to the development of the European economy. Forecasts indicate that the number of people whose contribution will be less in the development of the economy will increase over the period of time.

In the majority of Western countries, governments have to increase pension age and lower pension levels due to slower population aging and rising life expectancy. Amendments also refer to the balance between private and state pension systems – the share of non-state insurance in active systems is increasing.

A natural person in Georgia is entitled to non-state pensions. According to the current legislation, pension schemes are divided into the following categories based on the amount of contributions and the

Activities carried out according to pension schemes in 2007;
Table 3.2.1

Name of organization	Pension contributions	Number of active pension agreements	The number of participants according to the active pension agreements	Number of participants who receive pensions	The amount of pensions paid	Current assessment of responsibilities	Pension reserves	Income from investment of pension reserves
National Bank of Georgia	727 614	510	510	55	150 872	4 311 139	0	0
ISC Georgian Pension and Insurance Holding	1 360 306	9 815	9 799	0	0	2 081 044	2 081 044	482 795
ISC Insurance Company Altagi BCI	851 972	154	3 916	0	0	1 202 089	1 202 089	-12 828
ISC International Insurance Company Imedi L.	46 750	7	38	0	0	148 139	148 139	15 257
Total	2 986 642	10 486	14 263	55	150 872	7 742 411	3 431 272	4

Source: www.insurance.gov.ge; website of LEPL Insurance State Supervision Service of Georgia.

amount payable: a) schemes, where the amount of contributions and the founder's obligation to build up participant's individual pension savings and to regularly pay a fixed sum according to the legal contract is defined; b) Schemes, where the amount of the pension payable is determined and the founder has to provide pensions, the amount of which does not depend on the amount of individual pension savings.

In the database information on Non-State (Private) Pension Funds in Georgia can be observed since 2007. At that time, there were 4 organizations operating on the market and the data on their activities are as follows: (See Table 3.2.1)

The analysis of this table shows that at the initial stage the number of pension contributions is quite high and the obligations towards the participants are big as well. The undesirable conditions can be observed in terms of investment which is the most impeding factor for the development of funds.

Development of private pension insurance is very important for a developing country like Georgia. It should also be noted that the population has a small stimulus for private pension insurance, which indicates its improper popularization. The best way for such insurance products is a large investment from the side of the company that will be directed to product promotion to make it more attractive to customers. That will encourage the growth of the private pension insurance market. In this case, the product will be attractive for other companies and the competition will increase correspondingly.

The current pension reform in Georgia leads to great interest and a variety of reactions in the society which is caused by past experience as well as preliminary analysis of future results of the reforms to be implemented. We believe that the new pension law will affect almost all areas, including the business sector. As already mentioned, non-state (private) pension insurance is not yet sufficiently developed in our country. According to the state law, the employer and employee undertake to make the pension contributions to the state pension fund

and this, in its turn, cuts off the path for the development of private pension funds.

It would be more profitable and effective for both state and private sector if the employee could choose the pension fund where s/he would put the pension savings and the employer and the state would credit their share to the same account. By such a decision, the employer, on the one hand, absolves the state from the future responsibility and becomes responsible for probable risks. On the other hand, such a system will facilitate the establishment and development of non-state (private) pension funds leading to the growth of the level of competition amongst them. As a result of the increased competition, first of all, the consumer will benefit, because each company will try to offer better conditions in order to involve them in their own pension program.

Employees should be able to move their own accounts from one pension fund to another. Because of this, companies will be constantly competing and will try to generate more income from investments, and will offer clients quality service and low commissions.

In the final analysis, in our opinion, the presented model will bring following positive results: a) the state shares the responsibility with the employee as the latter makes a choice which pension fund to join; b) employee chooses more acceptable conditions and the company, and entrusts the savings; c) the business sector develops through the activation of private pension insurance leading to the overall development of the country's economy.

Through the study of international experience the problems the Georgian pension system faces has been thoroughly analyzed. The result of this analysis are as: in the Georgian pension system, the principle of accumulation should be established and the role of a non-state (private) pension system should be increased in the country.

According to the draft of pension reform bill, accumulated pensions scheme is a pension scheme of defined contributions, where membership is mandatory for all employees and contribution represents part of the

income received in the form of a salary and is voluntary for all self-employed population and contribution represents part of the income of a self-employed individual.

It should be noted that in the future the pensioner will receive two types of pensions: social and accumulated pension. Social pension together with the accumulated one will provide a much more adequate replacement coefficient.

Analysis of the existing system reveals that increasing overall replacement rates for average working individuals cannot be done unilaterally through government financing only. Therefore, there is a need to introduce a contributory system based on financial incentives for participants that will offer an additional income stream for future generation of pensioners.

We considered it necessary to conduct a quantitative sociological survey for the given dissertation. Akaki Tsereteli State University was selected as a research location because it includes almost all age segments. The online survey can be found on the following [link](#)⁷ and the questions are presented below:

1. Please indicate your gender:
 - female
 - male
2. What age group do you belong to?
 - under 25
 - from 25 to 50
 - over 50
3. Do you know what type of pension model is currently operating in Georgia?
 - Yes

⁷ https://forms.office.com/Pages/ResponsePage.aspx?id=8YeznJ0ve0aW_6jCYRmcplFK3JE_POpMoo3vOLhpc-lUOU11STM4VU9CUIZES0xXUkVQVjRHUIE0SC4u

- No
- I'm not interested

4. Do you have information about the ongoing reform of the pension system?

- Yes, completely
- Yes, partly
- No

5. Do you know what kind of pension model will operate after the reform in Georgia?

- Yes
- No
- Partly

6. Have you used private accumulation pension system?

- Yes
- No

7. What do you think about the tendency of pension age growth?

- I support
- I am against

8. Which one do you consider to be the most effective option for Georgia?

- Private accumulative pension system
- Mixed model
- State distribution system

9. Are you planning to get involved in the accumulative pension system?

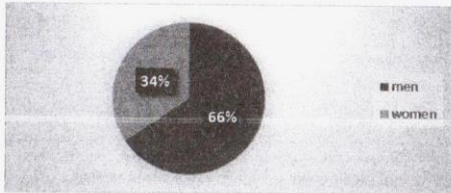
- Yes
- No
- I have not decided yet

It should be noted that the questionnaire has caused great interest and within 24 hours the number of participants reached 87. According

to gender, the number of respondents was unevenly distributed and amounted to 30 men and 57 women. (See diagram 3.3.4)

Diagram 3.3.4

1. Please indicate your gender



The age groups of respondents are as follows: under 25 years _ 49, from 25 to 50 _ 23 and above 50 _ 15. Students' interest in this topic is noteworthy. They represent the country's potential work force. Their awareness and engagement can only bring positive results. (See diagram 3.3.5)

Diagram 3.3.5

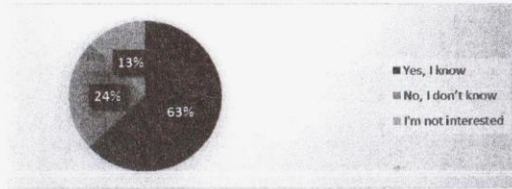
2. What age group do you belong to?



pension system in the country is quite high and is as follows: (See Diagram 3.3.6)

Diagram 3.3.6

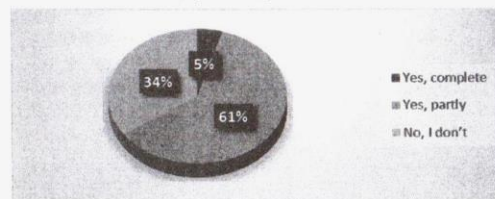
3. Do you know what type of pension model is currently operating in Georgia?



As expected, quite a small number of respondents are aware of the current pension system reform. (See the Diagram 3.3.7)

Diagram 3.3.7

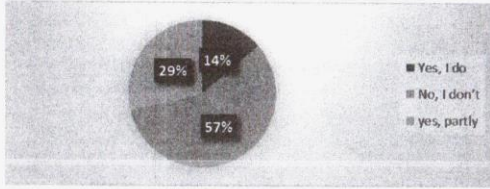
4. Do you have information about the ongoing reform of the pension system?



Only 14% of respondents are informed about the type of pension provision that will operate after the implementation of state pension reform. (See the Diagram 3.3.8)

Diagram 3.3.8

5. Do you know what kind of pension model will operate after the reform in Georgia?



The number of respondents who have used private accumulative pension system is very low. Only 4 people gave a positive response, while 83 people claim that they have never used this type of insurance. (See the Diagram 3.3.9).

Diagram 3.3.9

6. Have you used private accumulation pension system?



The growth of pension age is not planned in Georgia at this stage of reform, but since this is the tendency in the whole world we got interested in the opinions of the participants of the survey about the issue _ only 19 of them are in favour of pension age growth while 68 do not consider this change to be appropriate. (See the Diagram 3.3.10)

Diagram 3.3.10

7. What do you think about the tendency of pension age growth?



As for the future plans, most of the respondents think that the most effective pension model for Georgia is a mixed type model. (See the Diagram 3.3.11).

Diagram 3.3.11

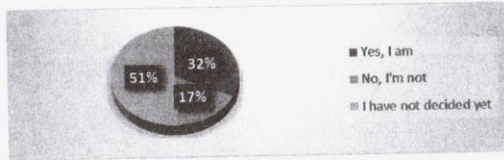
8. Which one do you consider to be the most effective option for Georgia?



The most important issue that conditions the efficiency and actuality of the future pension system is the number of people willing to participate. It can be said that the results of the survey in this respect are quite hopeful and more people will decide to participate in the pension reform if they are more informed. (See the Diagram 3.3.12)

Diagram 3.3.12

9. Are you planning to get involved in the accumulative pension system?



The results are interesting due to the fact, that evaluation of accumulative pension scheme is carried out through the generalization of the existing situation and past experiences rather than through their critical assessment (high level of unawareness contributes to that), which significantly increases the importance of information campaign.

Conclusion

Thus, successful implementation of the pension reform greatly depends on the formulation and implementation of corresponding state policy, as well as on the activity of private business organizations, financial institutions, as they need proper space and quality of freedom. The latter should still be the result of creating conditions for adoption and introduction of adequate state legislation.

The research conducted in the present dissertation gave us the opportunity to make conclusions about the role of reforming the pension insurance and protection system in the economic development of the country, to reveal the problems, to set the ways to solve them and as a result to make the following conclusions and recommendations for the on-going reform of pension provision system in Georgia:

1. The development of market economy is accompanied by the problems in the social sphere of the state, which is related to the different income rates of the population in different sectors of economy. The state should, in its turn, try to minimize the negative consequences of transition to the market economy and one of the most important directions, from this point of view, is the social protection of different social groups.
2. The establishment of market relations in Georgia is quiet intense. However, these relations have not firmly been established in the social sphere. The reason for this is an illusion that both economic and social problems can be solved in a parallel mode. The course towards the European Union already means the prospect of favorable development of the Georgian society, but only the efforts of European partners are not enough. New ideas and opinions about medium-term and long-term strategies for state development are needed.
3. The transformation process in Georgia has been delayed and

the social system along with other systems is still in the process of its development. As the experience of the highly developed countries of the EU shows, the social sphere requires constant renewal and reform, especially in modern conditions when changes in the socio-economic field are characterized by the fast pace.

4. Considering the fact, that the number of pensioners is growing and according to UN data by 2050 age pensioners will constitute 25% of the population of Georgia, the permanent increase in social expenditures will continue. Therefore, it is necessary to gradually move to accumulative pension system, which, in its turn, will reduce stress caused by unsustainable growth of basic pensions. It is also important to introduce the principle of linking basic pensions to inflation and focusing on pension rise of the poorest pensioners, which will secure purchasing power of a pension and retain the expectations at the acceptable level.
5. We believe that the pension system should be attractive because it plays an important role to stimulate generation changes. If the pension system is not attractive, the process of changing the generation is slow and painful. The efficient and modern pension system directly demonstrates how direct is the relationship between the income of the workers and the future pensions. For that reason, in the extended reproduction practice, pension provision acts as a real public need. Its material and economic base is constantly renewed at the expense of the growth of labour potential of the society, which increases the chance of the material welfare of people unable to work.
6. Analysis of the world experience of creating and operating the pension systems shows, that the state and private pension systems are coming closer. The Government of Georgia should be interested in creating a strong private institution for

additional pension provision in order to reduce the social load of the state.

7. The most common forms are distributive and accumulative pension systems. From our point of view, their use in one pension system will enable us to provide more reliable guarantee for avoiding various risks, including government or market crisis. Thus, one of the ways, to prevent the pension system crisis and to create the premises for economic growth, is transition to a mixed pension system.
8. The development of private pension insurance is very important for a developing country like Georgia. It should also be noted that the population has a small stimulus for private pension insurance, which indicates its improper popularization. The best way for such insurance products is to make a large investment from the side of the company that will be directed to product promotion to make it more attractive to customers. That will encourage the growth of the private pension insurance market. In this case, the product will be attractive for other companies, which, in turn, will increase the pace of growth of the private pension insurance market.
9. The Pension Fund as a business organization has a great influence over the country's economy, since its main objective is to make a successful investment in order to ensure the dignified quality of life for individuals participating in it by distributing funds at different times and space. In Georgia, pensioners are mainly dependent on the state pensions that are not sufficient. That's why, it is necessary to establish private pension funds and create favorable conditions for their functioning.
10. Pension reforms are often associated with painful economic and political changes. Such reforms are inevitable in Georgia in order to introduce an adequate pension system of modern challenges, which on the one hand, will be able to successfully

reduce the pressure on public finances and on the other hand, will ensure the dignified retirement of the population.

11. Georgia should undoubtedly share the experience that has been accumulated in various countries in this field. People should be entitled to pay their pension savings into individual personal accounts which are provided by rival private companies. These companies will invest pension savings in financial markets throughout the entire working activity of their client. In addition, citizens should have the right of choice. They should be allowed to put their savings both in the state pension system and private pension funds. At the same time, pension reform should be tailored to the specifics of the country.
12. On the basis of research on pension systems worldwide, experts have divided pension systems into two main groups: Defined Benefit Pension Plan (DB) and Defined Contribution Pension Plan (DC). The experience in the implementation of defined benefit and defined contribution pension plan shows that the most effective and financially stable way to ensure the stability and adequacy of pensions is the introduction of multi-model system.
13. Implementation of pension reform requires the change of mentality, views and behaviors of the population and business units. The recent global financial crisis teaches new lessons and gives us the opportunity to make significant conclusions.
14. The research of the international experience will allow us to analyze the problems that Georgian pension system is facing. The outcome of this analysis should be the development of a number of possible models of the system reform. Besides the differences in these models they should have several common features: the principle of accumulation should be established in the pension system of Georgia and the role of non-state (private) pension system should increase.

15. Introduction of a private accumulative pension system is the most optimal reform option that ensures long-term provision of the improvement of pension benefits. Analysis of the current system reveals that the replacement coefficient cannot be increased only at the expense of the state funding. Therefore, it is necessary to introduce a private accumulating pension system based on financial incentives and contributions of participants, which will become the important source of additional income for the pensioners of future generation.
16. The Government should fully support corporate insurance development by attracting hired workers, self-employed and private entrepreneurs that will enable them to ensure the state protection and support of insured individuals with high-paid and low-paid jobs even in case of reduced costs.
17. Inflation indexation of social pensions is necessary. It will strengthen the effectiveness and importance of pensions in terms of combating poverty, and at the same time it will strengthen the system's fiscal sustainability. Within the existing social pension there is no mechanism that protects the pensioner from inflation. The pension purchasing power will decrease over time and the absence of such a mechanism will make it difficult for the retired population to fight against poverty.
18. The functioning of the accumulative pension system will consistently be associated with employment and income indexes as the main source of accumulation of finances. However, these factors are especially important at the initial phase of the reform, since the more people will be given the financial opportunity to move to accumulative model the higher the probability of establishing positive attitude towards the new model will be. Against the background of negative attitude towards the current model, this will help the public to be interested in the reform.

Consequently, it will act positively on the level of awareness of the population, as well as the expansion of the scale of the accumulative system.

19. Employees engaged in accumulative pension scheme should be able to move their own accounts from one pension fund to another at their discretion. Because of this, companies will be constantly competing and will try to generate more income from investments, and will offer clients quality service and low commissions.
20. After the introduction of pension reform in Georgia, the sums accumulated by the pension fund should be invested in local and international markets. Along with investment regulation and diversification, a similar approach plays an important role in terms of managing the investment risk of the pension fund participant and promotes long-term profitability of the investment portfolio as well.
21. The State is required to conduct a relevant informational and advertising campaign and make a special emphasis on the corresponding segment. In carrying out this campaign, it is advisable to take into consideration that in popularization of the innovation (in this case, pension reform) private communication with acquaintances-friends, individuals with authorities, who have already got familiar with the novelty and are able to share their experience with their personal contact, is very important.