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## **ACCUMULATIVE PENSION SYSTEM AS PART OF SOCIAL POLICY**

In the modern era any pension reform of developed and developing countries is related to economic and political (often painful) changes, but the implementation of this reform is inevitable for all States regardless of their level of development. The main reason for this is that the implementation of an effective social policy requires the introduction of an adequate pension system that, on the one hand, should alleviate the pressure on public finances and, on the other hand, be a guarantor of decent old age.

The goal of any social policy is to promote the creation of a political, economic and social system based on social justice, equality and solidarity. Human well-being should be the effective implementation of the social policies proposed by each state. The goal of the majority of developing countries, including Georgia's declared economic policy, is to implement economic reforms that will ensure and create a modern, inclusive, and liberal economic environment that will be compatible with the existing international economic shifts and the growing financial crisis. The accumulated pension system serves the purpose of realizing the above goals in socio-economic politics.

The pension system researchers often talk about the goodness or badness of accumulated pension system. The principle of their main controversy and mutual contradiction is the mechanism of realizing the accumulated pension system and how to achieve a targeted social effect. Nevertheless, they agree that the correctly accumulated pension system is closely linked with the positive impacts which should ultimately provide social effects.

The social condition of the population is in some way the face of economic development of this or that country because the pension system is an important part of the social system, it directly influences the development and perfection of the country's economic environment. Therefore, when selecting a model of pension system we should use the national economic environment specificity to take into consideration the effectiveness of the economic policies implemented by the country and the country's financial condition and in this regard the mechanism of the specific pension system.

Georgia has already started accumulating pension system since January 1, 2019, whose mechanism-related relationships are implemented independently from state pensions and state compensation. The main essence of this relationship is to summary and manage accumulate pension assets within the accumulated pension scheme in accordance with the interests of the participants.

Georgia's current pension system consists of two disparate elements, each of which includes independent parts:

1. The state pension system, which is based on the redemption principle and the fixed pensions are issued from the state budget;
2. Non-state (private) pension system, which has a small segment of the entire market, does not have the necessary legislative base for operation and is at the initial stage of development;

The state pension system is more closely related to a social fixed allowance that grants the state social equalization to a certain part of the population, with budgetary resources mobilized from a taxpayer rather than resources that should be done for the social effects of the population. The accumulated pension system, on the one hand, independently from the private and state pension system, reduces the budgetary social pressure and promotes social effect on the other hand. Social pressure is quite large on our country's budget, considering such a developing country like Georgia, it is characterized by the growth trend of recipients of pensions and social packages.

**Table №1.**

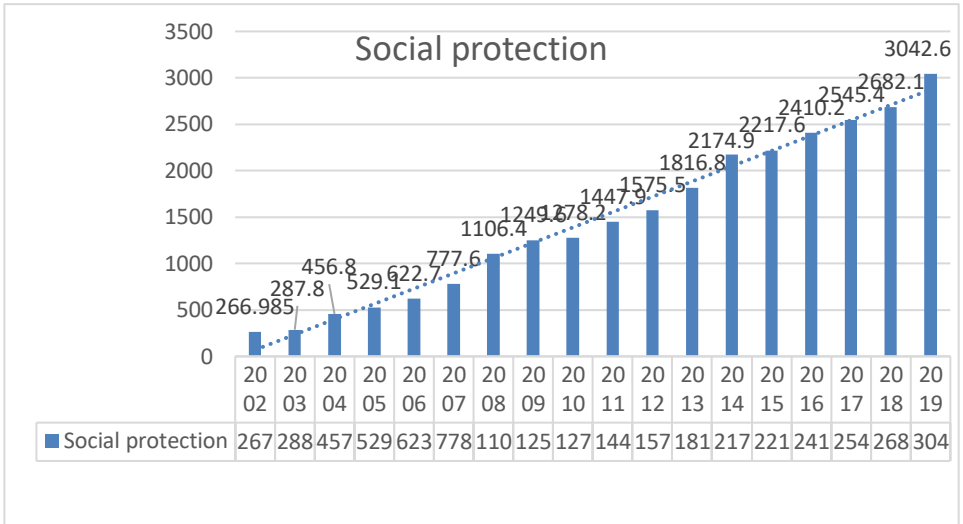
|   | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Persons receiving pension and social package, total, thousands</b> | 826.8 | 857.0 | 857.0 | 866.2 | 874.9 | 887.3 | 898.1 | 910.0 |
| <b>Persons receiving pension package (old age), thousands</b>         | 666.4 | 682.9 | 686.7 | 697.2 | 707.7 | 720.2 | 732.1 | 745.0 |

SOURCE: National Statistics of Georgia

The main reason for the increase in the number of pensioners is the increase in access to health care by the population, which has rised the population's viability, and the main factor in increasing the number of social packages is the growth in

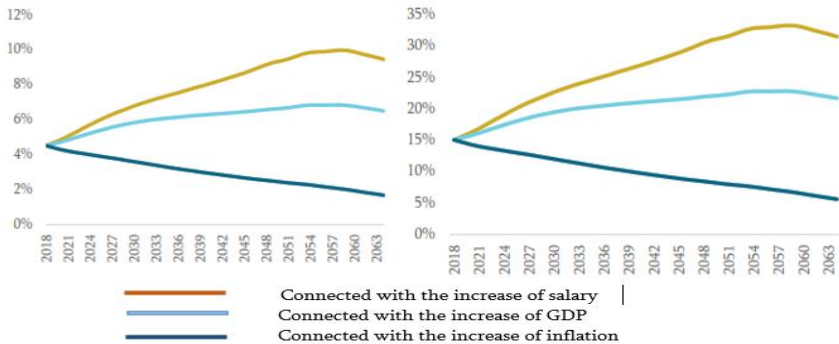
poverty level and number of people without living minimum. Also, if we look at the data, the dynamics of the number of social pensioners are characterized by a steady growth trend.

One of the significant portions of our country's budget expenditures is social expenses, which is constantly growing every year. Statistical data also confirm this



**Scale №1 PENSION REFORM OF GEORGIA**

Source: Ministry of economy and sustainable development of Georgia



**Scale №2. EXPENSES OF SOCIAL PENSION ( GROSS DOMESTIC PRODUCT %; BUDGET EXPENSES - %) GROSS DOMESTIC PRODUCT %**

SOURCE: Ministry of finance of Georgia

Based on the analysis of the above data, it is estimated that if the amount of social pensions will increase in proportion to the average wage, the pension expenditures

will be significantly increased in terms of the expected change of demographic structure and by 2060 it will reach 10% of GDP, which will be 33% of the total budgetary expenditure. In the case of similar scenario, important increase of tax revenues will be necessary to finance age pensioners. Increasing fiscal pressure will negatively impact on other state projects and liabilities, otherwise, a significant growth in tax revenues will be required through tax increases or formalization of workforce in respect of GDP.

Social pensions need to be indexed to inflation, which will strengthen the effectiveness and importance of pensions in the fight against poverty, which at the same time will extend the system's fiscal sustainability. Within the existing social pension there is no mechanism that protects the pensioner from inflationary events. In the absence of such a mechanism, the purchasing power of the pension will fall over time, which will complicate the task of fighting with the poverty at the pension age population.

Activation of inflation processes and their ignorance with regard to accumulating pension is one of the most important problems of accrual pension reform offered by project makers. On average, the trend of increasing the inflation rate from 2013 to 2018 is boosted by 16%, which is somewhat a threat to the current pension fund's purchasing power while reaching retirement age (eg 30 years later) and how much of the social impact will be expected.

"The mechanism proposed for accumulative pension reform today is corresponding with the legislation on accumulated pensions and includes following:

- In case of issuing salaries, an individual pension account of an employee performs a pension fund by means of an electronic system in the amount of 2% of taxable salaries to be paid to the employee;
- Employer is engaged in an employee's personal pension account on the behalf of an employee by means of an electronic system using a pension fund of 2% of taxable salaries to be paid to the employee;
- The participant self-employed carries a pension fund of 4 percent of its annual income;
- In favor of a State Party, the Individual Pension Account is included in the Individual Pension Account of 2 per cent on the volume of taxable salaries and / or self-employed income of the employee which does not exceed the sum of the annual wages and / or self-employed by 24,000 GEL or 1 per cent if the participant By salaries and / or self-employed The amount earned by EBL in the amount of GEL 24 000 is 60 000 GEL. The state portion of contribution shall be made after the pension agency's notice that the individual pension account of the participant reflected the pension contributions (s) provided for by the legislation. The state does not make a pension allowance for the taxable annual salary of the employee and / or the amount of self-employed income exceeds 60,000 GEL. "(2, Article 3.6)

By analyzing proposed mechanism for accumulative pension system and the

effective social impact can be considered positive and negative nuances of the proposed package:

**Drawing №1.**

**Positive and negative aspects of accumulated pension system**

| <b>Positive Aspects</b>  | <b>Negative Aspects</b>   |
|--|---|
| The possibility of creating an alternative low-cost credit resource, which is based on the accumulated amount in the pension fund, in small risky assets | Compulsory engagement (system sustainability - , the system needs to have a sustainable stable income, which limits the possibility of individual voluntary decision.)  |
| A decent old age at the pension age, which increases the amount of accumulated pension on a fixed pension  | In case of subjective evaluation of the Investment Board, it will result in loss of the amount mobilized in the pension fund.   |
| Poverty Reduction  | Long-term forecasts of pension money are vague  |
| Creating of a large investment capital market, which can be achieved through the cheapest resources of the pension fund                                  | 2% -paid by employer is actually an additional tax burden, which is impossible for the company to be illegitimate without a referendum by the constitution.   |
| Development of local capital market  | The amount goes to the state fund, which is not budgetary (budgetary fund), which is unlawful, as it is mobilized by these funds that must be managed by this fund, which is obligatory to have a budget resource type. |
| Extra stimulus to accelerate economic growth that is achieved by increasing access to additional resources and accelerating production capacity.         | The Fund may not be a guarantee that it will be ter able to invest amount of money better than the employer has employed rather than self-employed.   |
| New jobs. Access to substantial financial resources increases production and economic activity which in turn generates jobs and high social impacts.     | Since 2013, the inflation rate is 16%. Furthermore, the National Bank is not responsible for the stability of the exchange rate in the long term, the purchasing power of money is unclear.                             |
| Increased income   | 2% contribution which is paid by the state is the amount paid by the taxpayer.  |

Finally, as a result of the above-described positive and negative aspects analysis, we can conclude that the retirement savings system is a positive social impact on the best way to achieve, but it is necessary to improve the mechanism to correct the problem and the most important nuances of the pension system should be based on the outcome of the country's existing economic policy efficiency and financial sustainability of the country, based on which the following should be taken important decisions, only in such cases can be achieved by a positive social effect on the retirement savings of the pension system mechanism.

**Used Literature:**

1. „Social-Economic Development Strategy of Georgia - 2020," Tb. 2014
2. „Georgian Law on Accumulated Pensions", Tb. 2018;
3. „, Georgian Law on the State Budget of 2018," Tb. 2018;
4. „,Georgian Law on the State Budget of 2019," Tb. 2019;
- 5.[http://www.economy.ge/uploads/ecopolitic/sapensio/Government\\_Report\\_on\\_pensions\\_Final\\_GEO.pdf](http://www.economy.ge/uploads/ecopolitic/sapensio/Government_Report_on_pensions_Final_GEO.pdf) - Georgia Pension Reform, Report, Tb. 2016;
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