VOLUNTARY PRIVATE PENSION REFORM IN GEORGIA: OPPORTUNITIES FOR EMPLOYEE PENSIONS DEVELOPMENT

Tamila Nutsubidze and Khatuna Nutsubidze

CRR WP 2024-6
June 2024

Center for Retirement Research at Boston College
Haley House
140 Commonwealth Avenue
Chestnut Hill, MA 02467
Tel: 617-552-1762 Fax: 617-552-0191
https://crr.bc.edu

Tamila Nutsubidze and Khatuna Nutsubidze are pension reform and capital markets development experts. The opinions and conclusions expressed are solely those of the authors and do not represent the views of Boston College. The authors would like to thank Alicia H. Munnell for help.

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Abstract

Georgia, like many other Eastern European countries characterized by an aging population and limited public financial resources, offers virtually complete non-contributory public pension coverage aiming at reducing poverty and inequality. However, like many other countries in the region, Georgia's pension spending and budget deficits are projected to increase and remain at high levels for decades to come. To improve fiscal sustainability, Georgia's government has put forth systemic reforms in the form of a compulsory pension insurance and the implementation of voluntary private pension schemes that will more closely align contributions and benefits particularly for younger cohorts of the labor force. While the new defined contribution pension schemes, both the occupational mandatory ones and the voluntary private ones, can theoretically complement the public pension program and can support pension adequacy, more measures and policy efforts should be introduced to enhance the participation of workers in private pension programs. This paper presents policy recommendations, which suggest that the ease of access to voluntary pensions is a key for the successful implementation of the reform. Although the paper focuses on the Georgian pension reforms, it might hold value for some low- and middle-income countries that are considering expanding their pension coverage.

Introduction

In Georgia, as in many other Eastern European and Central Asian countries, pay-as-you-go pension schemes will be unable to provide adequate replacement rates in the future. Most of the Central Asian and Eastern European countries implemented a multi-pillar pension reform based on the World Bank methodological model (that emphasized the role of privately-managed individual retirement accounts) during the first fifteen years of transition.[1] But the outbreak of the global financial crisis and unprecedented demographic changes triggered the need for further comprehensive changes in the pension systems particularly in Europe.[2] It is worth mentioning that almost all European Union member states (except for Finland) currently bank on voluntary participation in privately funded schemes offered by employers to supplement public pensions or compensate for less generous benefits from public schemes (Hinrichs, 2021).

Georgia is characterized by an aging population and limited public financial resources. The country offers virtually complete non-contributory state pension coverage aimed at reducing high rates of poverty. Given its predicted demographic changes, Georgia will need to revise its pension commitments to future generations. While the ability to pay future tax-financed non-contributory basic state pensions under the current rules is still theoretically possible, it will come at a cost of significant reductions in other expenditures, including health and education.

Georgia has undertaken the transition to the multi-pillar pension structure but only recently. In addition to the non-contributory tax-financed basic old-age pension, the government adopted a new multi-pillar pension system, introducing an occupational mandatory defined contribution pension program in 2019. The state old-age pension and the mandatory pension scheme combined are projected to replace approximately 37 percent of pre-retirement wages for an average

[1] The World Bank provided a technical support to many of the Eastern European and Central Asian countries and influenced the processes related to the design and implementation of pension reforms in the region. Additionally, the Bank has published a comprehensive toolkit that is based on continuously updated information from countries that have introduced reforms emphasizing the role of privately-managed individual retirement accounts (World Bank, 2005).

[2] Pension systems in Europe and Central Asia are facing unprecedented demographic change. Schwarz et al., (2014) emphasize that the changes needed include the reforms to the pension systems, labor markets, saving mechanisms. Fouejieu et al. (2021) further suggests that policymakers were predominantly concerned with the complimentary role of private pensions or multi-pillar pension systems and with structural or parametric reforms, policymakers attempted to simultaneously alter the incentive structure and through longer careers or complementary policies contain the spending growth. Nevertheless, at the eve of the global financial crisis, pension spending in Europe was expected to increase on average by 2½ percent of GDP between 2007 and 2060, exceeding 13 percent of GDP in 15 countries and reaching as high as 24 percent in 2 countries.

wage earner, a formal employee, having at least a 35-year employment record. Since 2023, the Georgian government has brought up a systemic reform proposal – the reform plan for the voluntary private pension insurance to supplement the state non-contributory old-age and mandatory contributory defined contribution pension schemes. The new Georgia Law on Voluntary Private Pensions was enacted in 2023 by Parliament and put in force in January 2024 to replace the old legislation on non-state pension insurance. On the one hand, the pension reform could potentially reduce the risks of inadequate old-age income over time, allowing many workers to have a chance to receive decent retirement income. Alternatively, the occupational mandatory and voluntary private pension reforms promise to ensure the government's fiscal burden remains reasonable, while maintaining the basic pension system's long-term adequacy and flexibility to adapt to the evolving demographic environment and helping to mitigate significant demographic fiscal risk.

This paper describes and analyzes the government pension reform initiatives and discusses available regulatory options; evidence suggests that individual voluntary pension schemes are unlikely to have adequate coverage and consequently it is important to analyze the role of employers. Hence, the opportunities for employee pensions development in Georgia should be considered.

This paper is organized as follows. The next section provides an overview of retirement income in Georgia. It describes the state pay-as-you-go non-contributory pension system and its fiscal risks as well as the mandatory occupational defined contribution pensions. Section 3 presents a general overview of the existing voluntary pensions schemes in the country. Section 4 describes the current reform process in Georgia and offers policy recommendations regarding the options of the voluntary pensions development. The last section provides concluding remarks and summarizes some policy recommendations.

Retirement Income in Georgia

Currently, the Georgian retirement income landscape includes income from the state non-contributory old-age pension, state compensation (pensions for civil service), mandatory and voluntary defined-contribution pension schemes, and other forms of retirement income support such as healthcare and household support. However, the state old-age pension is the largest system of public support for the elderly and is fundamental in terms of its coverage, spending, and contribution to elderly funding. State compensation, which is a non-contributory pension for civil service, has low coverage (less than 5 percent of retirees).

Mandatory defined contribution pensions have low coverage, and voluntary pensions are not yet developed (see Table 1).

The State Non-contributory Old-age Pension

In terms of coverage, spending, and poverty reduction, the state non-contributory old-age pension is the pillar of the Georgian pension system and the largest source of public support for the elderly. It provides universal coverage for the elderly and is virtually complete. This state pension is a pay-as-you-go, universal, flat-rate pension, financed by general budget revenues. Currently, the old-age pension is provided to all those reaching retirement age: age 65 for men and 60 for women. It is worth mentioning that women represent about 70 percent of the state old-age pension beneficiaries. The universal pension plays a significant role in redistribution and poverty reduction and preventive, particularly for children and women.

However, high spending on this pension (about 5 percent of GDP) creates the challenge of having less fiscal flexibility in the future. Georgia's population is aging due to increasing longevity and below-replacement rate fertility. The old-age dependency ratio is expected to increase up to 60 percent by 2075. Projections suggest that the long-term cost of the basic pension system will increase from about 5 percent of the GDP to more than 7 percent of the GDP by 2075 (see Figure 1). (Some scenarios show even a doubling of pension expenditures.) The increase in state pension expenditures, which are in line with an increase in the old age dependency ratio, indicates that the basic pension system over the long term will turn into the unsustainable scheme. Exclusive reliance on the universal state pension scheme will result not just in a significant expenditure increase but also will amount to about a third of state budget expenditures (Asian Development Bank, 2022; Nutsubidze and Nutsubidze,2017). (See Figure 1.)

Therefore, the key challenges facing Georgia are how to ensure:

- Reasonable funding burdens while maintaining long-term adequacy and sustainability of the state pension system; and
- Sufficient flexibility in the system to adapt to the evolving demographic environment.

To maintain the state old-age non-contributory pension system's sustainability it is important to introduce other reforms: systemic and parametric ones.

Occupational Mandatory Defined Contribution Pension

In 2018, the Georgia Parliament adopted the new Georgia Law on Funded Pensions. In January 2019, the government introduced the new mandatory occupational defined contribution plan and established the Pension Agency, a legal entity under the law. High levels of participation have been observed up until now. As of 2024, 1.5 million beneficiaries have become registered participants in the pension system (about 90 percent of all employees). This pension system is equitable in nature and accrued pensions depend on an individual's lifetime earnings and the contributions made into the Pension Fund. Contribution rates are shared between the employer, the employee and the government, with each contributing 2 percent monthly into the employee's personal account for a total of a 6 percent, targeting full compliance on contributions by all formal employers. The system is a triple-E type system: contributions, investment returns, and payouts at retirement are exempt from taxation. This system is designed to incentivize workers to save for retirement amid a low national savings rate (Asian Development Bank, 2022). The Pension Fund reaching 4.8 billion GEL (almost USD 1.8 billion) (Pension Agency, 2023).

Voluntary Private Pension Reform

Voluntary private pension schemes were first implemented in 2007 under the Georgia Law on Non-State Pension Insurance and Provision (1998). In May 2023, Parliament adopted the draft law on Voluntary Private Pensions. This new law became effective in January 2024, and the Law on Non-State Pension Insurance and Provision passed in 1998 will be abandoned in 2026. Once the regulatory framework related to the voluntary private pension law is implemented, the new pension schemes will start in 2025. The adoption of the Georgia Law on Voluntary Private Pensions will allow all Georgia citizens, regardless their employment status, to join voluntary private pension schemes. Most importantly, starting in January 2025, employers will be allowed to offer only defined contribution private pension plans to employees and will transfer pension assets to specialized depository and invest pension contributions through an asset management company. The scheme provides tax benefits on pension contributions alongside other tax incentives (e.g., no taxes on dividend income or capital gains). The new law creates guarantees that put private pension schemes on a voluntary basis for both employers and employees.

The existing private pension schemes in place in Georgia for about two decades have been insignificant. These pension schemes were implemented mostly by insurance companies and in most cases were offered as individual voluntary defined-contribution schemes. As of 2023, four private pension schemes were registered in the State Insurance Supervision Service of Georgia, three of the four private pension schemes were represented by insurance companies. The remaining one was the legal entity, Sakaeronavigatsia LLC, administered by the largest air navigation service provider in Georgia, which offers pension plans to its employees. These voluntary private pension schemes have resulted in relatively small participation, are dominated by high-income individuals, are characterized by relatively high fees, and have a very negligible effect on net savings. As of 2023, the number of participants of all four private pension schemes amounted to 15,672 (about 0.8 percent of the labor force). In 2023, these schemes had accumulated assets equal to only 0.06 percent of GDP. The number of recipients of pension benefits – 29 retirees – is very small. Along with this, the pension reserves total approximately 42 million GEL (about USD 15.6 million), which means that the total volume of pension reserves has grown almost fourfold in the last 10 years. Table 2 describes the dynamics of the development of voluntary private pension schemes from 2012 to 2023.

It should be noted that during the last decade both the founders of pension schemes and their number, as well as the number of participants of pension schemes, have changed, which is characterized by a clear tendency to decrease in the last five years, starting from 2019. The decreasing trend of the individual voluntary private pension schemes is caused by the introduction of a mandatory defined contribution pension plan in 2018. Even more, due to the proposed regulatory changes related to the implementation of the *new* voluntary private pension schemes, the existing voluntary pension plans offered by the insurance companies has begun to disappear starting in 2024.

The Future of Voluntary Private Pensions Schemes in Georgia:
Policy Recommendations for Employee Pension Development

A significant body of research suggests that voluntary pension schemes play important role in emerging and more developed economies. The factors affecting the development of voluntary pension schemes may vary across regions and countries. Multiple studies describe challenges related to pension coverage even in the most advanced economies. For instance, Munnell, Fraenkel, and Hurwitz (2012) found that more than one-third of households in the United States have never been covered by private pensions, and the lack of pension coverage is concentrated heavily among lower-income citizens. Munnell et al. (2016) emphasize the current trend of a reduction in employer-provided defined benefit pensions. Not surprisingly, in the case of individual voluntary pension schemes introduced in

Eastern European countries, high income levels are often associated with greater participation. Additionally, tax incentives to savings, education and financial literacy play crucial roles in increasing pension scheme participation (Draženović et al. 2021; Marcinkiewiczn 2017).

International studies suggest that individual voluntary private pensions may not be successful in emerging countries and that the preference should be for the development of a collective, group pension scheme. Additionally, Rudolph (2016), while emphasizing the saving needs of the Eastern European and Central Asian economies, states that in an environment of imperfect rationality, participation in voluntary pension schemes in emerging countries needs to have some drivers that can motivate workers to participate. Indeed, stimulating participation in the pension system through private accumulation based on the strict voluntary principle is problematic even for developed countries. In Georgia, where workers' incomes are often low and people remember that the Soviet-era savings were wiped out by the hyperinflation of the early 1990s,[3] a purely voluntary approach will not be enough to join the system of a large part of employed citizens and will require some soft form of compulsory participation that also gives workers the option to pull out.

While Georgia's voluntary private pension schemes will be available to all individuum regardless their employment status, including self-employed and other independent workers, the new regulatory framework should emphasize the role of employers and should allow stimulus for the development of collective, group schemes provide opportunities for the employee pensions development in Georgia.

Rudolph (2016), based on the rigorous experiences of multiple emerging and developed economies (the United States, Canada, New Zealand, Italy, Chile, etc.) and on empirical and behavioral research,[4] categorizes the main drivers of participation in funded schemes into the following three considerations: supply-driven factors, soft compulsion, and positive peer-pressure schemes.

3 The transition of the Soviet Union to the foundations of a market economy was complemented with the monetary reforms that led to the financial losses – the Soviet-era savings were literally wiped out by the hyper-inflation of the early 1990s.

[4] Rudolph (2016 and 2019) emphasizes that his research solutions are strongly supported with the findings made by behavioral economists such as Richard H Thaler and Raj Chetty and others (Schlomo Benartzi and Richard Thaler (2004, 2007, 2013); Chetty et.al., 2012).

Supply-side factors

Supply driven factors such as the selling capacity and marketing strategies of the pension fund providers have already played some role, but only a negligible one. Enrollment in the old voluntary pension schemes provided by a few insurance companies in Georgia has been very low. Thus, the regulatory framework of the voluntary private pensions should not be based on solely employing a salesforce since it is not effective enough in reaching the coverage levels desired for the **new** voluntary pension scheme.

Soft Compulsion and Positive Peer-pressure

Soft compulsion and positive peer-pressure are the factors that should be thoroughly considered by the regulators and pension schemes providers in Georgia. The behavioral studies and other pension literature show that pension schemes stimulate participation in private schemes and that the role of employers should be taken into consideration when designing regulatory incentives both for employers and employee.

The recent retirement research studies conducted by Rudolph (2016; 2019) find that the advantages of soft compulsion mechanisms should be employed by governments in emerging European countries. Automatic enrollment is a successful model for a soft-compulsion mechanism. In automatic enrollment, the potential contributors are enrolled by the employer in the pensions scheme but retain the right to leave the scheme. This mechanism has been shown encourages participation because employees who are automatically enrolled in employer-sponsored pension plans have to *explicitly* object to their participation (possibly forgoing matching contributions from the employer as in the United States, for example, and from the government, as in Europe). Hinrichs (2021) states that while mandatory funded individual accounts no longer rank high on the pension reform agenda in the European Union (EU), the member states bank on "voluntary participation in private funded schemes that supplement public pensions or compensate for less generous benefits from public schemes. However, the author also emphasizes that automatic enrollment is an important feature of the EU's voluntary private schemes.

Automatic enrolment has been implemented in multiple countries including the United Kingdom, Italy, Poland, Turkey, and Russia (Hinrichs, 2021). For instance, automatic enrollment became mandatory in 2020 for medium and larger-sized Polish firms of 50-250 employees (Draženović et. al., 2021). It is usually admitted that an automatic enrollment may operate in schemes where all employers may voluntarily decide to offer pension plans to their employees. The United States presents the most obvious examples of the successful implementation of such schemes, which include 401(k) plans administered by employers and Individual Retirement Accounts (IRA) plans available to individual workers. The account and portfolio management for these voluntary defined contribution pension schemes are outsourced to specialized companies. Rudolph (2016) suggests that these schemes, when implemented in emerging countries, should be able to operate with low costs in large and even smaller companies.

In Georgia, the new law on voluntary private pensions allows employers to choose whether to create automatic enrollment plans or not. However, the plans de jure are opt-out; but employers are required to ask each employee if he/she is comfortable with the default option, and each employee needs to sign an agreement. In this way, the new system might resemble the automatic enrollment plans in the United States However, the period of opting-out in Georgia is limited to 15 days only, which makes the system more rigid than the U.S. model and less stimulative. In the United States, Canada, the United Kingdom, Italy, and New Zealand, for example, the opting-out period lasts from on average from 30 days to 180 days. It is obvious that regulations in Georgia should allow more than 15 days for individuals to reflect on the consequences of participating or not and to get information and a basic education on benefits of participating in the voluntary pension scheme. Having been given more time to make a final decision, employees may accept the idea and stick with the voluntary pension schemes their employers offer.

In addition to the soft compulsion, positive peer-pressure can be considered as a follow-up strategy to stimulate participation in employee pensions in Georgia. This strategy can be appropriate and might be regulated. But Rudolph (2016) suggests that such strategies work only if the co-workers who put pressure on a potential participant receive a direct benefit from engaging their co-workers.

Default Contribution Rates Should Be an Important Feature of Employee Pensions Plans

Since soft compulsion along with positive peer-pressure might be suggested as the most effective way to develop employee pensions in Georgia, default features should also be developed as an essential component of employee pension plans. So far, the default options would still need to be regulated in Georgia before the new pension pillar begins to operate in 2025. Rudolph (2016) suggests that multiple default options that should be considered and may include a default pension fund manager, a default investment portfolio, and a default contribution rate.

The contribution rates of voluntary private pension schemes vary across Eastern Europe and Central Asia. In Eastern European and Central Asia, rates can vary widely depending on the specific pension program and individual circumstances. At the same time, it should be noted that, depending on the type of a voluntary pension scheme, the contribution may be paid by an employee, an employer or by both parties. In general, contribution rates for voluntary pensions in the Eastern European and Central Asian region typically range from 2 percent to 10 percent of an individual's gross salary. Some countries offer incentives for higher contributions, such as tax benefits or employer matching contributions, and employers typically contribute around 2 percent to 5 percent of an employee's salary to voluntary pension schemes. For example, in the Czech Republic Poland and Hungary, employees contribute around 2 percent to 3 percent of their salary. In Russia, employers can contribute up to 5 percent to a voluntary pension fund, with employees also having the option of making additional contributions. In Kazakhstan, employers are required to contribute 2 percent of an employee's salary to a mandatory pension fund, while employees can choose to make additional contributions to a voluntary pension scheme. In Croatia and Lithuania, the threshold of total contributions is set up to 5.5 percent, while in Latvia it can be higher.[5]

Overall, the level of employer contributions to voluntary pension schemes in Eastern Europe and Central Asia tend to be relatively low compared to other regions. Contribution rates for voluntary pensions in developed countries vary greatly depending on the type of pension scheme and the individual's circumstances. However, a common benchmark for contributions to voluntary pensions is around 10 percent to 15 percent of an individual's salary. Some countries, such as the Netherlands and Australia, have compulsory employer contribution rates set by law, which can range from 2 percent to 9 percent of an employee's salary. In the United Kingdom and New Zealand, the amount of the contributions specified in the regulations are quite modest, ranging from 1 percent to 3 percent with some automatic escalation in rates or other, higher-rate options permitted. Overall, voluntary pension contribution rates in developed countries tend to be higher than in emerging or developing countries, reflecting the higher levels of income and access to retirement savings options in these countries.

Rudolph (2016; 2019) suggests that default contribution rates are critical in automatic enrollment schemes. He argues that in the absence of appropriate default contribution rates, individuals may end up saving too little or too much for retirement. The author emphasizes

[5] OECD Library

that the contribution rates of a few percentage points of salary are better than nothing, but in most cases may not lead to adequate pension replacement rates, and give a false signal to workers that they will have adequate income in retirement. The author proposes important recommendations for emerging economies in Eastern Europe and Central Asia. The following are some that could be appropriately adopted in Georgia:

- *Employer contribution rate*. This rate could be fixed or associated to a matching fund contribution with a cap.
- *Employee contribution rate*. This rate should start at low levels and may rely mostly on automatic escalation (this escalation provisions should leave room for real increases in wages and minimize the impact on the wages of employees.

Obviously, in Georgia, contribution rates should be relatively low to be acceptable for employees and employers and to make them stick with voluntary pension schemes. Automatic escalation could be problematic due to high inflationary expectations, however. Hence, these particular issues should be taken very seriously by policymakers.

Reform of the voluntary pension system should result in an improvement in pension adequacy in Georgia particularly for higher-income workers employed in large firms, which are likely to be the most willing to offer pension plans to their employees. Research suggests that voluntary pensions along with basic pension and occupational mandatory pensions help to replace approximately from 60 to 100 percent of pre-retirement wages for workers (with lower and higher-incomes, respectively) in many European countries such as the United Kingdom, Czech Republic, Germany, Belgium, Irland (Rochlitz, 2015). Most importantly, studies suggest that in the European Union member states, voluntary employer pensions play an important role but are considered as a tool that enhances replacement rates, while the other pension programs (state basic old-age and occupational mandatory pensions) are fundamental in ensuring the pension adequacy (Lannoo, 2014.). In Georgia, the adequacy of voluntary employee pensions plans will depend on the number of participants in these schemes, on the contribution rates set and saving amounts, pension assets management risks and policies, investment returns, etc. While the existing state old-age pensions and occupational mandatory pension plans will be able to replace about 40 percent of the preretirement income of average earners (Table 3), the voluntary pensions will allow the enhancement of savings and incomes of workers in their old ages.

Large companies with more than 250 employees that might be the most willing to offer private pension plans to their employees in Georgia make up less than 1 percent of all

Georgian employers. Since small and medium-sized firms with fewer than 100 employees constitute over 99 percent of the economy and employ the largest portion of the labor force, participation by these employees will remain an important challenge for the development of the Georgia's voluntary pension system.

It would be politically feasible in Georgia to stimulate smaller firms' participation. The voluntary pension schemes that operate as defined contribution schemes, where the account and portfolio management is outsourced to specialized companies, have the potential to operate with low costs in smaller companies. Both employers and employees should be given tax incentives to participate in the voluntary pension schemes. Research findings suggests that ineffective tax incentives in the central European countries are identified as one of the main factors behind insufficient participation in voluntary pension schemes. Draženović et al. (2021) emphasize that stronger tax incentives encourage greater coverage of voluntary plans among the working-age population in the Czech Republic, Slovakia, Hungary, and Poland. Additionally, it should be noted that while Rudolph (2016; 2019) strongly criticizes early withdrawals, he also suggests implementation of some liquidity options including linking employees' pension savings to special needs (such as medical care or financial hardship) and other goals (such as housing) that can also be attractive and encourage enrollment in emerging countries.

Conclusion

With the expected demographic changes in Georgia, pay-as-you-go state pensions will be unable to provide adequate replacement rates in the future. The implementation of voluntary defined contribution schemes together with existing mandatory occupational defined contribution pensions will help to supplement future retirement income particularly for higher-earning workers in a formal employment situation. Vulnerable groups such as lower-income workers and independent workers will be less likely to contribute to the individual and group collective voluntary private pension schemes at this stage. The adoption of pensions by large firms, however, will help to develop employee pension and enhance the role of the state non-contributory pension program aimed at avoiding old-age poverty as well as the role of the occupational mandatory schemes aimed at increasing replacement rates. In Georgia, like many other European countries, more decisive reforms will be needed to ensure a robust fiscal position.[6] Pension reforms should be accompanied by structural reforms for more dynamic labor market conditions, greater protection against poverty risks, particularly at younger ages, investment in education and training, and formalization of employment patterns. Moreover, the country would need to introduce measures to enable or encourage individuals to work longer to improve their long-term financial security in retirement. Developing private pension schemes and encouraging workers to save would support retirement incomes as well as diversify income sources.

The key opportunities and challenges related to Georgia's voluntary private pension reform include the development of employee pensions and related incentives for both employers and employees to actively contribute to voluntary pension schemes. In addition to the considering implementation of some default pension features such as contribution rates and investment portfolio, soft compulsion, peer-pressure, and tax incentives should be implemented to encourage the active participation of workers in private voluntary pension schemes offered by employers. Appropriate non-tax incentive measures might also be considered. Such measures usually include the development of proper communication and financial planning campaigns for workers to reduce the tendency toward myopia, inertia, and procrastination.[7] While the state old-age non-contributory pension program has received strong political support during the last decade in Georgia, workers should be aware of possible future risks related to the adequacy of the system's pension replacement rates. Despite the importance of communication and education strategies, such strategies may be criticized by low-income workers and even average earners in Georgia at the current stage of contributory pensions reforms in the country. Workers have hardly accepted the importance of participation in the occupational mandatory pension program and heavily rely on the state

[6] The paper prepared by an IMF staff team consisting of Armand Fouejieu, Alvar Kangur, Samuel Romero Martinez, and Mauricio Soto, *Pension Reforms in Europe. How Far Have We Cone and Gone* (2021), suggests that despite multiple systemic and parametric reforms that were already implemented in the European countries, additional structural reforms and efforts are needed to ensure the long-term sustainability of public pension systems. To improve sustainability, reforms in most European countries have more closely aligned contributions and benefits for younger cohorts who will not be treated as favorably as older ones. Compared to current retirees, future generations will access public pensions later in life and receive relatively lower benefits. Such differences in treatment across generations might disincentivize younger generations to participate in pensions systems and heighten risks for reform reversals, ultimately adding pressure on long-term sustainability. The IMF staff suggest that tackling the risks ahead requires frontloaded reforms to ensure sustainability and fairness across generations.

[7] For example, Rudolph (2019) compares communication strategies and educational campaigns implemented in the UK and Turkey in the time of the implementation of the voluntary pension schemes. While in the United Kingdom, agencies had years to prepare for the strategy, in Turkey, from the moment that the law was approved, until the moment that the larger companies had to register their employees, less than five months passed. The author advocates for the need of setting clear communication strategies and financial education campaigns.

old-age social pensions. Hence, strategic communication and educational campaigns for larger portion of workers may not be politically feasible at this point.

Measures to provide incentives to increase participation of self-employed and other independent workers in collective voluntary private schemes should also be thoroughly considered. Recent studies emphasize specific challenges in the United States due to the weak connections between employers and atypically employed workers such as independent contractors and temporary workers. For instance, Munnell at el. (2018) suggest that compulsory retirement coverage for self-employed persons and other workers who do not have traditional employer-employee relationship can close the gap in the U.S. social insurance system. Rudolph (2019) underlines the successful experience of Chile, where a temporary automatic enrollment system with an opt out option was implemented for self-employed persons. Additionally, taking into account the acute demographic trends, the issues of providing women with access to pension income should be paid special attention. It is necessary to implement policy measures to ensure intensive involvement of women in the labor force and support the state with social guarantees for women-workers. These policy directions will contribute to the development of voluntary private pension schemes in Georgia.

In conclusion, despite all the challenges discussed above, the current reforms of the pension system are important prerequisites for improving financial security of workers and for the development of the country's workforce in the long run. It is clear that the private voluntary pension reform in Georgia should have a positive impact on economic growth in the long term. In addition to enhancing the adequacy of pension income of workers who reach retirement age, the accumulation of long-term savings is equally important and, at the same time, represents one of the best opportunities for investing savings in the capital markets within the country.

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Tables and Figures

Table 1. *The Georgian Pension System (Latest Available Data)*

Pensions criteria and parameters	Non-contributory pensions and contributory DC pensions		
	Tax-financed old-age pension	Mandatory DC pensions	Voluntary DC pensions
Percent / number receiving pension (approximately) (of men 65+ and women 60+)	100%	8,958	29
Pension program participants- beneficiaries	845,299	1,503,000	15,672
Participation	Universal coverage	All employers and all employed (voluntary for self-employed)	Voluntary
Replacement rate, %	23%	Depends on contributions and investment returns	Based on individual contributions and interest earned
Budget (percent of GDP)	About 5% of GDP	0% Approximately 300 Mln GEL (State budget) (2022-2025)	0%

Source: Authors' calculations.[8]

[8] The Ministry of Economy and Sustainable Development; Ministry of Finance of Georgia; National Statistics Office of Georgia; Social Agency of Georgia; Pension Agency; 2023 წ.; Insurance Supervision Agency of Georgia.

Table 2. *Voluntary Private Pension Schemes in Georgia, 2012-2023*

Year	Pension contributions (in GEL)	Number of participants in pension schemes	Number of receivers of pensions	Pension received (in GEL)	Amount withdrawn (in GEL)	Net asset value (in GEL)	Accrued interest (in GEL)
2012	2,407,256	18,397	0	0	990,468	11,289,694	1,006,177
2013	2,779,415	18,909	0	0	1,866,308	12,924 893	1,117,963
2014	3,542,068	19,632	0	0	1,897,170	15,289,649	1,144,803
2015	4,730,599	20,653	0	0	2,056,660	18,831,828	1,369,511
2016	4,065,667	21,822	0	0	1,936,559	22,221 102	1,863,236
2017	6,385,211	23,077	0	0	3,209,294	26,740,038	1,997,782
2018	6,652,797	21,924	0	0	7,710,593	27,604 907	2,472,167
2019	4,182,393	15,957	0	0	16,405,783	16,724 785	1,616,883
2020	4,906,168	15,842	0	0	1,430,863	21,948,831	2,002,585
2021	5,333,850	15,790	0	0	1,557,108	27,236 786	2,355,782
2022	6,059,665	15,723	18	197,260	740,315	33 723,584	2,831,804
2023	5,137,036	15,672	29	439,804	1,460,185	42,021 499	3,957 873

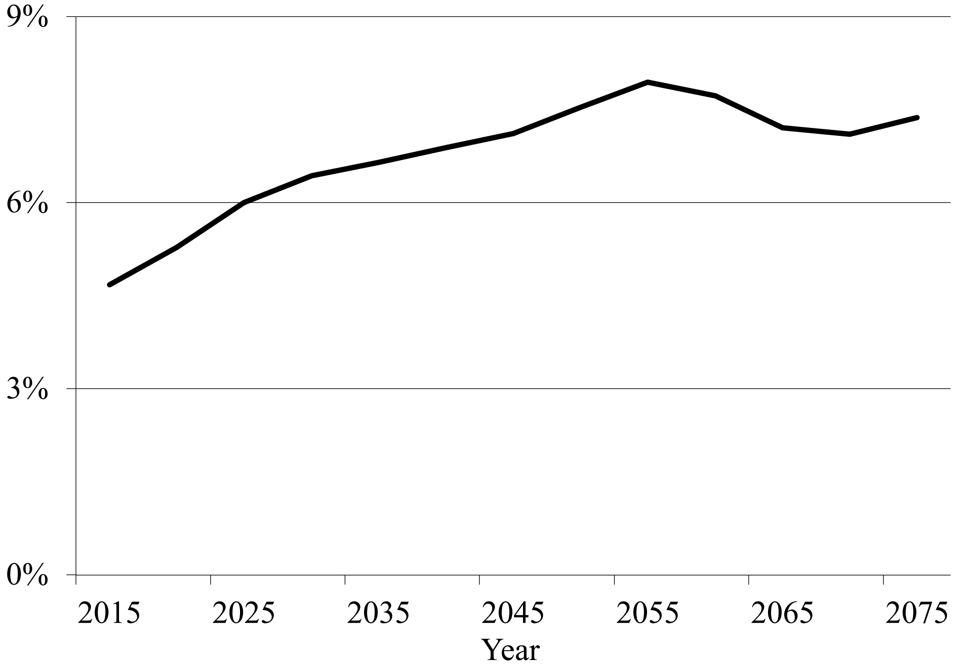
Source: The Insurance Supervisory Agency of Georgia (2023).

Table 3. *Pension Adequacy, Including State Old-age Non-contributory and Occupational Mandatory Defined Contribution Pensions (Under Current Rules)*

Employees	30 years	40 years
Low-income earners (500-1000 in GEL, monthly salary)	14.5%	19.5%
Medium-income earners (1000-2000 in GEL, monthly salary)	29%	39%
Higher-income earners (2000-2500 in GEL, monthly salary)	44%	58.5%

Source: Ministry of the Economy and Sustainable Development of Georgia (2016).

Figure 1. *Pension Projection: State Non-contributory Pension Spending as a Percent of GDP, 2015-2075*



Source: Authors' calculations.

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