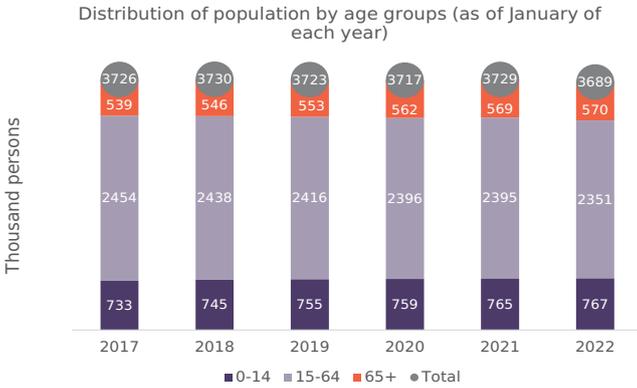


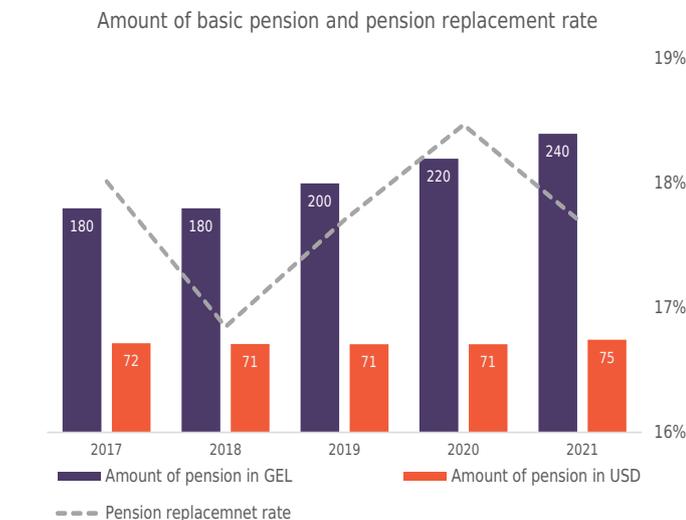
As Georgia struggles to overcome various social and economic problems, pensions remain among the country's central issues. For many years, Georgia's pension system had comprised only a state pension based on a solidarity principle<sup>1</sup>. However, the state pension had not been sufficient to allow retired persons to maintain acceptable living standards. Therefore, pension system reform was a topic of hot discussion for a long time in Georgia and pertinently, in 2018, a funded pension scheme<sup>2</sup> was integrated into the pension system<sup>3</sup>. The following bulletin will review the key changes that have taken place in the pension system over the last five years.



Source: Geostat

From 2017 to 2022, with the decrease in the working-age population and the increase in the population 65 and above, the labor force shrank, and the number of people receiving a pension increased. Specifically, from 2017 to 2021, the labor force dropped by 7% and amounted to 1,534 thousand. In contrast, over the analyzed period, the number of people receiving a pension increased by 8% and amounted to 794 thousand. In the first quarter of 2022, the labor force decreased and the number of people receiving a pension increased slightly. It is worth noting here that over the analyzed period among people receiving a pension, 71% were women. The main reason for the gender difference is the fact that in Georgia the official retirement age for women is 60, and for men it is 65.

Moreover, the projections of the Ministry of Finance of Georgia<sup>4</sup> suggest that the labor force will continue to decline, and that the number of persons receiving a pension will increase. According to the forecast, by 2030, the number of people receiving a pension is expected to increase to 950 thousand, and the labor force is expected to shrink to 1,430 thousand.

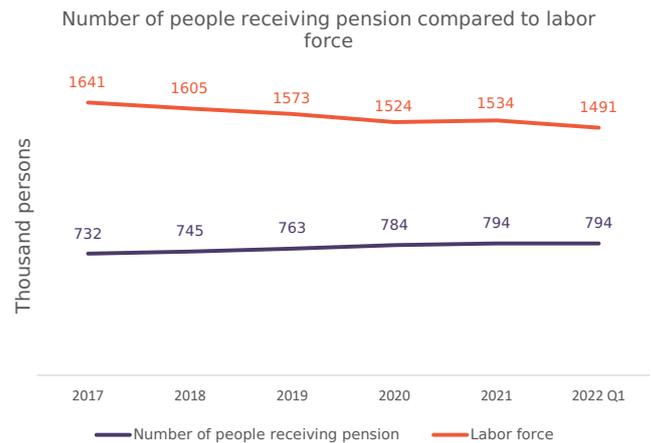


Source: Social Service Agency, Geostat

The pension system is strongly related to social demographics. Therefore, we start the analysis with an overview of demographic changes. Notably, from 2017 to 2022, the population of Georgia decreased by 38 thousand and amounted to 3,689 thousand.

Over the analyzed period, changes in the distribution of the population by age group illustrate that the population up to 14 years increased by 34 thousand and amounted to 767 thousand. Furthermore, the population aged 65 or above increased by 31 thousand, which amounted to 570 thousand. In contrast, the working-age population (15-64 years) decreased by 101 thousand and amounted to 2,351 thousand.

Over the analyzed period, the share of the population 65 and above increased from 14.5% to 15.5%. Contrastingly, from 2017 to 2022, the share of working-age persons among the population decreased from 65.9% to 63.7%.



Source: Geostat

To analyze the pension system in Georgia, it is essential to review the basic social pension amount. From 2017 to 2021, the basic pension amount in GEL increased by 33% and amounted to 240 GEL<sup>5</sup>. However, due to the depreciation of the GEL, an increase was not noticeable in USD as the basic pension in USD fluctuated between 72 USD and 75 USD.

In addition to observing the pension amount, it is also important to analyze its comparability with average wages. The pension replacement rate compares pensions to the average salary in the country and illustrates how a person is able to maintain acceptable living standards after retirement. Over the analyzed period, the pension replacement rate fluctuated between 16.5% and 18.5%. To compare other countries in 2020, the pension replacement rate in Georgia was 18.5%, while the same indicator amounted to 23% in Armenia<sup>6</sup> and 43% in Azerbaijan<sup>7</sup>. In OECD countries, the average figure was 62%<sup>8</sup>.

Considering the low basic pension and replacement rate, the Government of Georgia introduced a law on pension indexation in 2020. Accordingly, for pensioners under 70, the pension will increase in line with annual inflation (and by at least 20 GEL) annually, while pensions for those aged 70 and older will increase by 80% above inflation (by a minimum of 25 GEL)<sup>9</sup>.

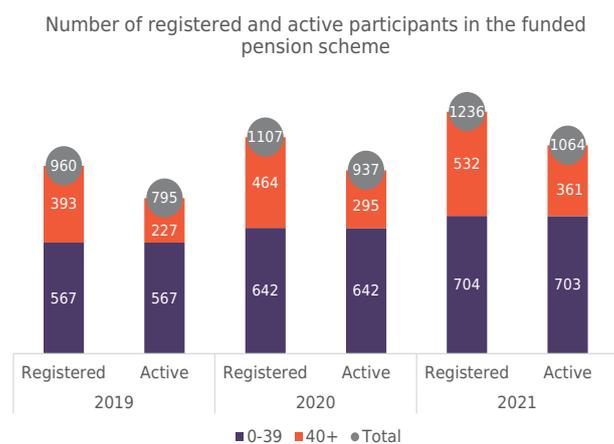
1. Solidarity pension system is generally defined as state provided non-contributory regular cash transfers to retired citizens, given at specific ages in different countries.  
 2. The structure of the fund based pension system is based on the methods and models of determining the parameters during the period of accumulation of resources after the retirement of the participant. (https://mbg.gov.ge/en/page/funded-pension-scheme).  
 3. https://matone.gov.ge/en/document/view/4280137/publication-6.  
 4. https://www.mof.ge/images/Files/economical-analysis/indexation-2020.pdf.  
 5. People from different groups have a different amount of pension. In 2021 amount of pension for people more than 70 year amounted to 275 GEL, pensioners permanently living in highland settlements received 288 GEL, for pensioners 70 years above living in highland settlements 330 GEL.  
 6. Armstat, PMC RC calculation.  
 7. Azerstat, PMC RC calculation.  
 8. https://data.oecd.org/pension/het-pension-replacement-rates.htm#indicator-chart.

Over the last five years, state allocations on social security programs has gradually increased (from GEL 3.3 billion to GEL 6 billion). As a result, the share of social security program allocations in total budget allocations also increased from 35% to 42% over the analyzed period.

With the increase in the number of the persons receiving a pension and the increase in the total pension amount, state allocations on pensions also increased. During the analyzed period, pension allocations rose markedly from GEL 1.69 billion to GEL 2.57 billion GEL, indicating an average annual rise of 11%.

It is worth noting here that allocations on state pension makes up a significant share of total social security allocations. Specifically, the average share amounted to 47% over the analyzed period. However, it should be noted that the share has been declining. For instance, from 2017 to 2021 a decline of 8 percentage points was noted.

Considering the increasing proportion of the 65 years and more population in Georgia, the low basic pension amount and pension replacement rate, and increased state expenditure on pensions, it became clear that the pension system based on the solidarity component would be ineffective and could not ensure the maintenance of acceptable living standards for pensioners. Therefore, in 2018, the Government of Georgia integrated a funded pension scheme into the pension system<sup>10</sup>.



Source: Pension Agency

From 2019 to 2021, with the increase in the number of active participants in the funded pension system, the amount of pension fund assets also increased from 500 million GEL in 2019 to 2 billion GEL in 2021.

The share of contribution in pension fund asset differs by age group. For instance, in 2019, the share of persons aged 40 years and older in total fund asset contribution amounted to 29%. However, the figure had increased by 2021 to 36%.

Considering that 42% of persons aged 40 years and older left the scheme when the reform was first launched and the overall contribution of this age group to pension fund asset is not significant, there is only a slight chance that the integration of a funded pension scheme will have some notable effects on the living standards of pensioners in the near future.

Overall, from 2017 to 2022, the number of persons receiving a pension has increased. Consequently, allocations on state pensions is growing. Meanwhile, the basic pension amount and the pension replacement rate remain low. It should be noted that over the analyzed period, the basic pension amount has increased in GEL but due to the latter's depreciation, it has remained steady in USD. Therefore, to maintain the current state pension purchase power and the pension replacement rate, the Government of Georgia introduced a law on pension indexation. Moreover, to ensure the steadiness of the pension system, in 2018 a funded pension component was introduced. However, considering that 42% of persons aged 40 years and older withdrew from the system at the initial stage, the funded pension component might not have notable effects on pensioners' living standards any time soon.

9. <https://matns.gov.ge/en/document/view/27946?publication=26>.

10. According to a law the system works on a 2%+2%+2% scheme. Each employee, employer, and the government will contribute 2% of the gross volume of the employee's salary to an individual retirement account. The self-employed will deposit 4% of their income, and the state will match another 2%. The accumulated amount of money is transferred to pension fund and is invested in capital markets. (<https://mbg.gov.ge/en/page/funded-pension-scheme>).

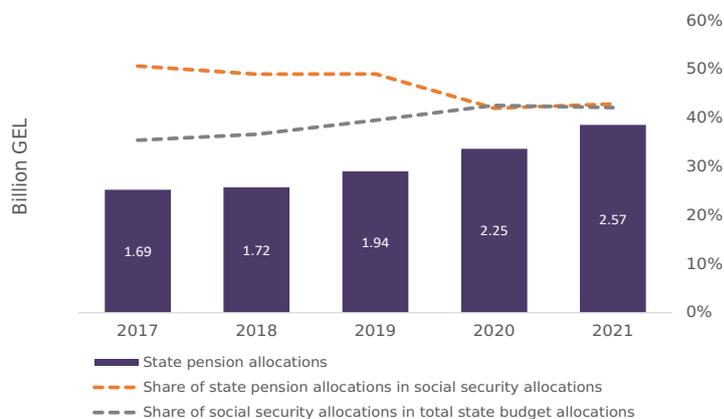
11. Every person who receives salary is automatically registered in pension fund.

12. A person who contributes to the pension fund is counted as active person.

Basic Economic Indicators	2018	2019	2020	2021	2022 Q1
Nominal GDP (mIn USD)	17 596.6*	17 470.7*	15 888.1*	18 700.1*	-
GDP per Capita (USD)	4 722.0*	4 696.2*	4 274.6*	5 015.3*	-
GDP Real Growth (%)	4.8%	5.0%	-6.2%*	10.4*	-
Inflation	2.6%	4.9%	5.2%	11.8%	13.2%
FDI (mIn USD)	1 317.1	1 335.8*	572.0	1 152.8*	-
Unemployment Rate (%)	19.2%	17.6%	18.5%	20.6%	20.6%
External Debt (mIn USD)	5 434	5 741	7 535	7 956	-
Poverty Rate (relative)	20.5%	20.1%	19.7%	18.9	19.4

\*Preliminary data

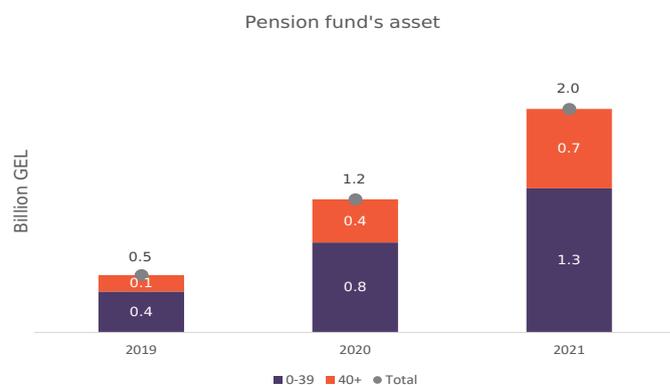
State Pension allocations



Source: Ministry of Finance of Georgia

From 2019 to 2021, the number of registered<sup>11</sup> and active<sup>12</sup> participants in the funded pension scheme increased. For instance, over the analyzed period, the number of registered participants increased from 960 thousand to 1,236 thousand, and the number of active participants increased from 795 thousand to 1,064 thousand. It should be noted that the gap between registered and active participants has been decreasing. For instance, in 2019, active participants made up 82% of registered participants, while in 2021 this increased to 86%.

The difference in the number of registered and active participants is largely determined by the fact that people aged 40 years and older were allowed to withdraw from the system when the reform was first launched. Thereafter, 165 thousand persons 40 years and older (42% of those aged 40 years and older) left the scheme. Therefore, in 2019, the share of active participants aged 40 years and older amounted to 29%. However, in 2020 and 2021, this increased and amounted to 31% and 34%, respectively.



Source: Pension Agency



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