

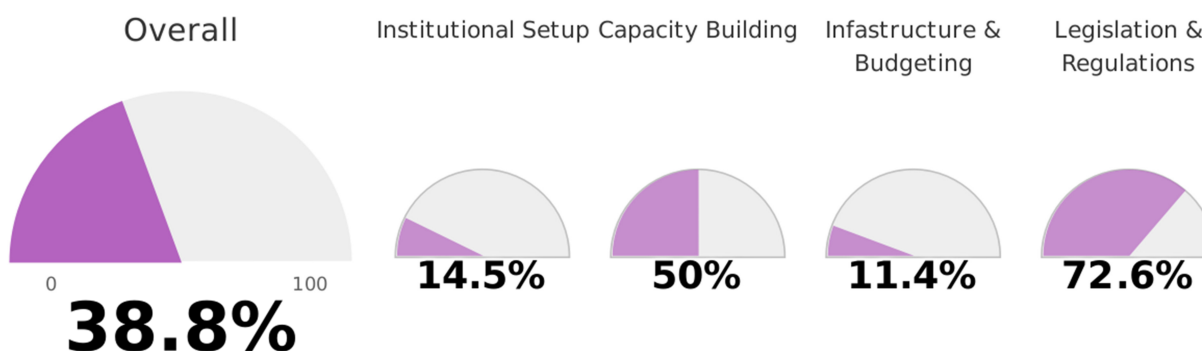
Pension Reform

Phase 1

The first reform assessment was conducted on September 27, 2017. Based on the Government Survey, 38.8% of the reform is already implemented. At this stage, the reform concept is elaborated and approved by the Government. In October, the draft law will be publicly available. The pension fund functions and obligations are formulated. The regulatory body is defined. Pension system operating rules are designed.

Reform: Pension Reform

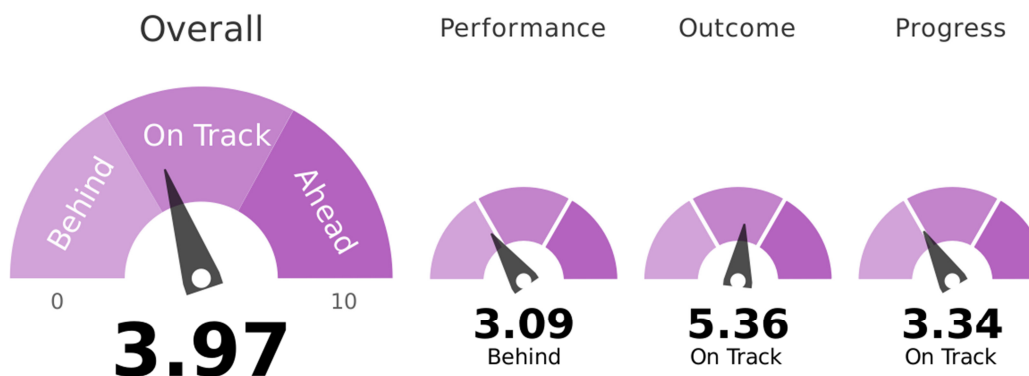
Government, 2017 Phase 1



The reform was evaluated by the Stakeholder Group with a score of 3.97 out of 10.

Reform: Pension Reform

Stakeholders, 2017 Phase 1



It is important to highlight the most important issues mentioned by the stakeholders. It was underlined that the reform concept was changed many times, and the last version is not still available. The stakeholders were not aware of the final concept of the private pension savings (II Pillar) system, as well the indexation mechanisms of social pensions. According to the Ministry of Economy, the draft law on private pension savings will be published the first week of October.

The stakeholders also mentioned the following important concerns:

- § The Trade Union representative underscored the importance of social pensions as a tool for poverty reduction, since access to the saving scheme will not be provided to a large portion of the population, due to the high level of informal employment. They welcome the plan to introduce mechanisms of social pension indexation, and state that it should be linked not only to inflation, but also to other parameters. Otherwise, the pension replacement rate (currently at 18%) will decrease in the future and main goal – poverty reduction – will not be achieved.
- § It was also mentioned that social pensions are linked to the subsistence minimum, but the methodology for its calculation is outdated. It is necessary to review the methodology and to calculate inflation separately for retired people.
- § The postponement of reform implementation, and the many changes in the reform concept, are another cause of concerns. It is necessary to accelerate the reform process.
- § The level of communication between the government and stakeholders is not at the desired level, according to the asset management companies. They expect adequate and timely information on all changes from the reform implementation body. If the time given to prepare for the competition is not sufficient, they are afraid they will miss the opportunity to participate.
- § It was also underlined that the existing law and the presented reform concept restricts investment of pension assets in securities issued by its affiliated entity. Such restrictions while undeveloped and small capital market are problem for asset management companies. Instead of prohibiting investment, they propose regulating such investments by setting thresholds and high standards of transparency.



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დღის წესრიგი

1. პროექტის აღწერა
2. რეფორმის მიმოხილვა
3. სამთავრობო კვლევა
4. ინდიკატორები
5. დისკუსია
6. შეფასება (ხმის მიცემა)

Agenda

1. Project description
2. Reform overview
3. Government survey
4. Indicators
5. Discussion
6. Assessment (scoring)

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- Generate economic reform progress analysis
- Promote informed debate
- Improve accountability and help build trust between the government, private sector and public

STEERING COMMITTEE

MANDATE:

- Select reforms and guide the management team
- Allocate weights to each reform
- Nominate the best government agencies and the best reform
- Nominate members of stakeholder groups and moderate their meetings

Prominent individuals representing: academia, civil society, private sector, international community

Voting Members of Steering Committee

- Bruno Balvanera
- Maia Melikidze
- Jean-Frederic Paulsen
- Mariam Megvinetukhutsesi
- Aleksi Aleksishvili
- Sarah Williamson

Ex-officio members

- Eric Livny
- Nato Beruashvili - G4G

REFORMS

1. Innovation/SME Development

2. DCFTA/Agriculture

3. Capital Market

4. Pension Reform

5. Vocational Education

6. Tourism Development

STEP 1

GOVERNMENT SURVEY

Measures progress in the implementation of selected reforms based on questionnaire agreed upon with the implementing agencies

STEP 2

OUTCOME INDICATORS ANALYSIS

Measures the outcomes of each reform Collected and analyzed by the Project Team

STEP 3

STAKEHOLDERS ASSESSMENT

Anonymous quantitative assessment of the reform (0...10). The total score is calculated as a simple average of individual assessments

STEP 4

PR ACTIVITIES

Website/ Social media
Public presentations
Award ceremonies
Reports, Discussions, Training
Media coverage, Printed materials





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Reform Overview

Pension Reform

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**Strategy
2016**

Action Plan

2 years

Georgian Pension Reform

Modification of existing social
pension system and
implementation of introduction
pension scheme

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Need of Reform

- Georgia's demographic composition has significantly changed
- The universal pension now meets the poverty alleviation goal but needs to maintain in line with price inflation in order to continue to meet this objective
- Pension expenditures have increased considerably – 2060: 10% of GDP
- Additional savings mechanisms are needed for the working population to achieve adequate income, proportional to their earnings, in retirement
- Introduction of long-term individual pension savings can assist economic growth through capital market development



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Reform Objectives

- Retain and increase the purchasing power of the social pension
- Improve the ration of pension income with respect to earned salary
- Ensure the financial sustainability of the social pension model

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Reform concept

1. Social pension
2. Supplementary pension scheme

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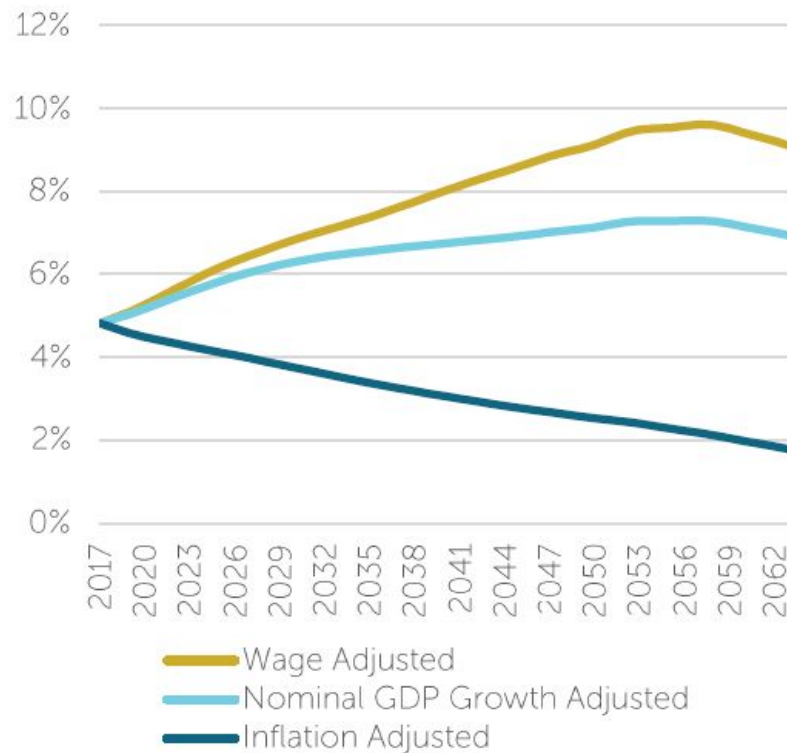
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Social pension indexation

Public Pension Expenditures (% of GDP and % of Budget Expenditures)



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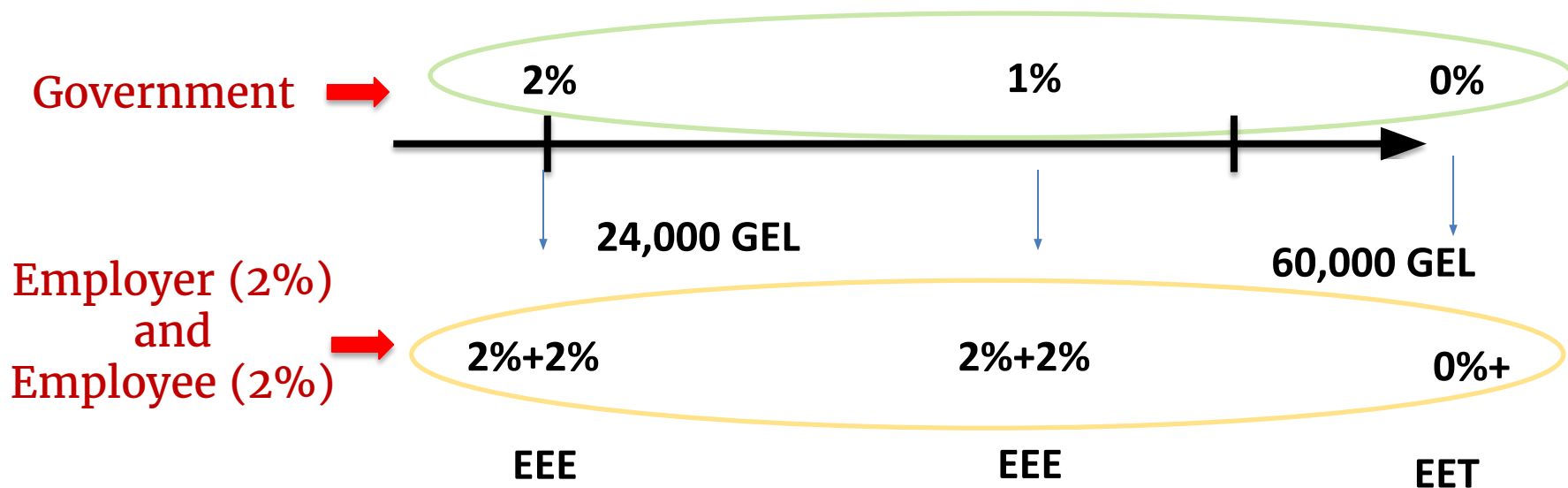
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Supplementary pension scheme



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Contributions

- Obligation extends:

Employer – from the gross wage of each enrolled employee, that not to exceed sixty thousand (60,000) Lari per year;

Employee – from the gross wage paid by employer, that not to exceed sixty thousand (60,000) Lari per year;

Government – from the gross wage of each enrolled participant, that not to exceed sixty thousand (60,000) Lari per year;



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Management

- **LEPL Pension Agency**
 - Director of the Agency
 - Supervisory Board
 - Investment Board
 - Chief Investment Officer
 - National Bank as a regulatory body

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Investment Instruments

- International Asset Classes
- Local Asset Classes:
 - Monetary funds
 - Government Securities
 - Securities of Georgian enterprises

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Investment Instruments

Restrictions:

- Securities instruments that are either unlisted or not publicly traded;
- Securities instruments, options, futures, forward and other agreements with respect to securities and other financial assets, except that derivatives may be used as a hedging strategy to reduce risk, provided that the Pension Agency will have no uncovered selling position;
- Real estate or physical assets;
- Any property of the Asset Manager or Custodian or member of the Investment Board or Supervisory Board of the Pension Agency;
- Securities issued by:
 1. The Asset Manager, or its Affiliated Entity;
 2. The Custodian of assets, or its Affiliated Entity;



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Payment of Pensions at Pension Age

I. Scheduled Withdrawal

II. Annuity

III. Lump-Sum Payment, if:

- participant reaches Pension Age any time within five (5) years from the date his/her pension contributions commenced;
- person is granted a status of disability
- Persons renounced Georgian citizenship
- The total volume of the assets of the participant does not exceed the upper limit established by the pension agency



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Government Survey

Pension Reform

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What is Government Survey?

The Government Survey – measures progress in the implementation of reform based on questionnaire agreed upon with the government

The questionnaire covers the following 4 dimensions

Reform Dimension	Description	Example Input Indicator	Example Output Indicator
1. Institutional Setup	<ul style="list-style-type: none">▪ Governance systems▪ Roles and responsibilities▪ Strategy and Action Plans	Strategy	Number of actions in line with the timeline
2. Capacity Building	Mobilization and development of adequate human capital	Operationality of the implementation agency	Trainings
3. Infrastructure & Budgeting	<ul style="list-style-type: none">▪ Budget and physical capital▪ Building and equipment	Mobilized budget	Grants for SME
4. Legislation & Regulations	Legislative and regulatory framework	Analysis of intellectual property rights	New law on intellectual property rights



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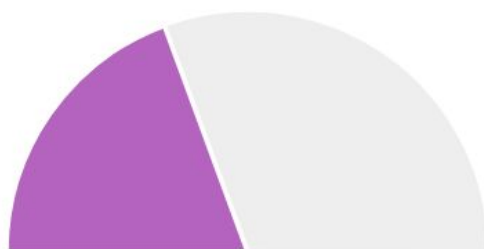
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According to the Government

Overall



38.8%

Institutional
Setup



14.5%

Capacity Building



50%

Infrastructure &
Budgeting



11.4%

Legislation &
Regulations



72.6%

0% - absence of a policy approach

100% - good policy practices are fully implemented, monitored
and evaluated

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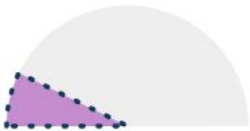
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Institutional Setup

Institutional
Setup



14.5%

- Reform Concept elaborated by:
 - Ministry of Economy;
 - Ministry of Finance;
 - National Bank (Regulator)
- Inter-ministerial meetings on regular basis
- Designing pension system operating rules and development strategy is in process

- Pension fund not established
- Custodian Bank not selected
- Asset managers not selected

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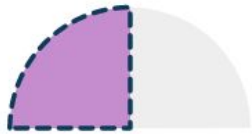
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Capacity Building

Capacity Building



50%

- Understand public perceptions - done
- Develop detailed communication strategy - done
- Prepare materials and content in process
- Implement education and awareness campaign in process

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Infrastructure & Budgeting

Infrastructure &
Budgeting



11.4%

- Additional 90 mln GEL annually after reform enforcement
- Source of finance: state budget and donors
- Funds for implementation of action plan is fully mobilized

- Infrastructure does not exist yet: IT system, webpage etc.

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Legislation & Regulations

Legislation &
Regulations



72.6%

- Reform concept approved by the Government
- Formulation of pension fund functions and obligations finished
- Pension system operating rules designed
- Private pension system and non-profit pension fund legislation drafted
- Regulatory body defined
- Requirements & RFP for asset managers designed

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Legislation & Regulations

Legislation &
Regulations



72.6%

- Regulatory requirements and rules not defined
- Investment parameters and risk management regulation not formulated
- Identification and drafting of other relevant legislative changes in process
- Social Pension Indexation in process

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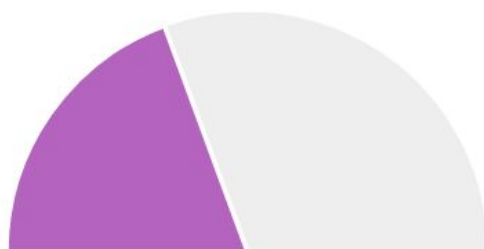
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According to the Government

Overall



38.8%

Institutional
Setup



14.5%

Capacity Building



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Reform Indicators

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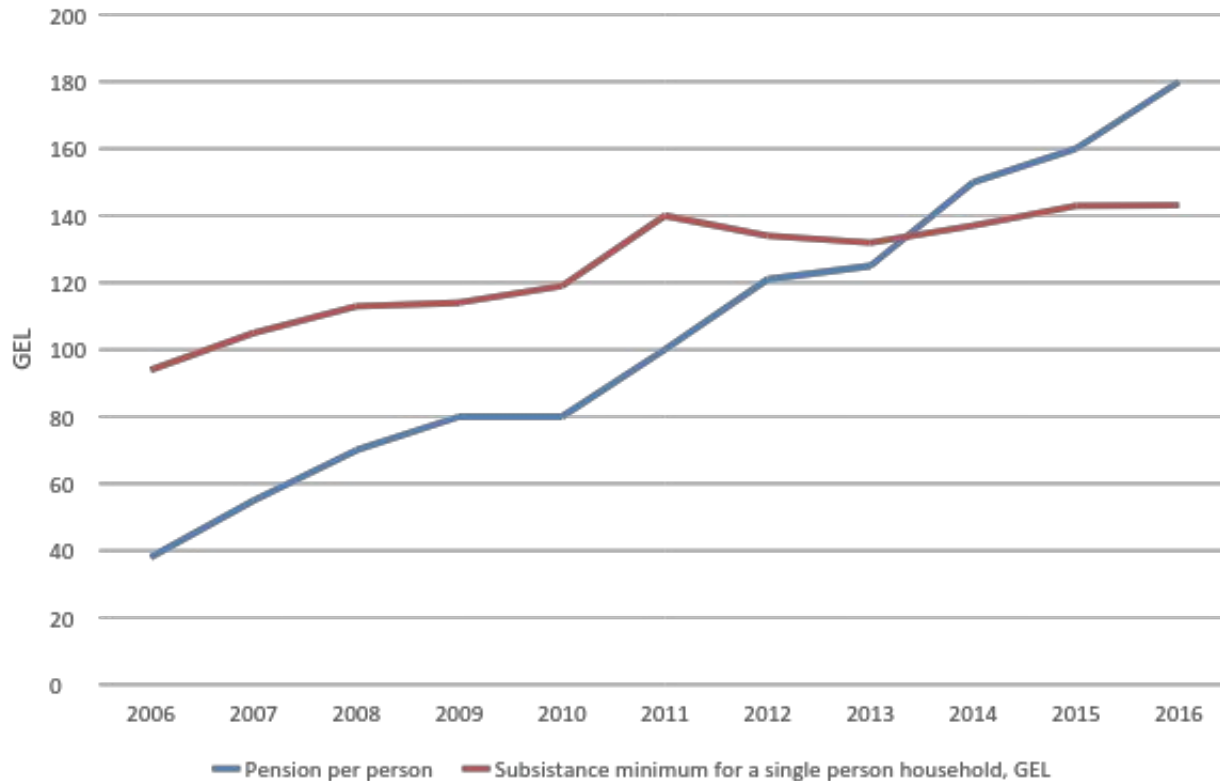
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1. Evolution of Basic Pension and Subsistence Minimum (in GEL): 2006-2015



Source: SSA and
GeoStat

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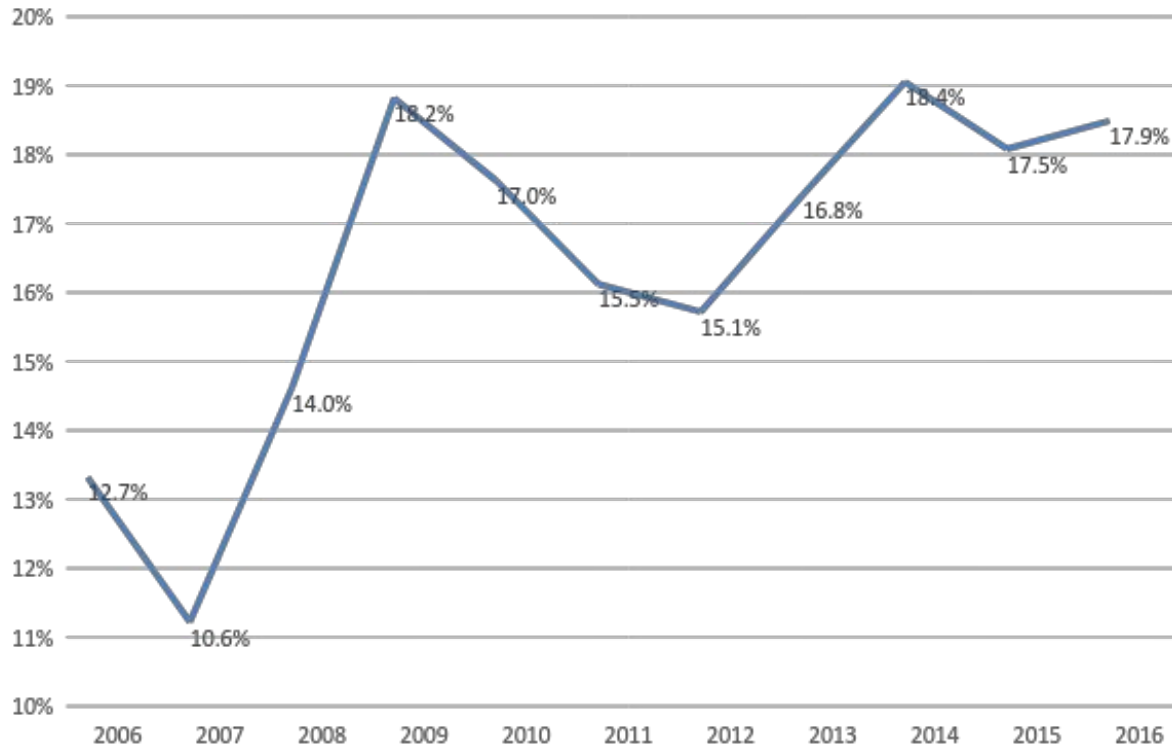
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2. Pension Expenditure as a share of Total Tax Revenue



Source: MoF

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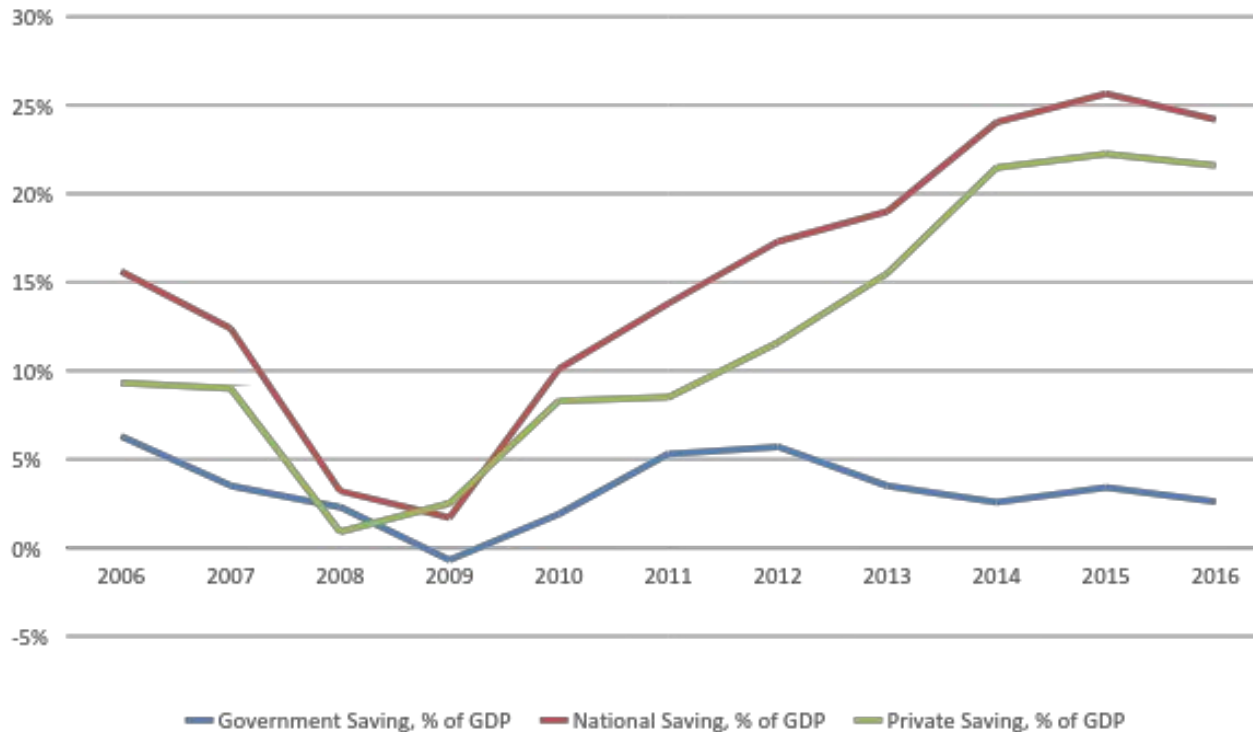
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3. Aggregate Savings as a Share of GDP 2006-2015



Source: MoF, GeoStat,
NBG

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4. Share of working age individuals having access to the second pillar + participation rate

5. Nominal weighted average Interest rate pension assets

6. Pension Fund management costs/ Total assets

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Thank you!

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